Basel III - Pillar 3 Market Discipline

2017 Report

UBP

Union Bancaire Privée

Purpose and scope of this report

Disclosure principles

The purpose of this report is to publish in-depth information about risk management at the Union Bancaire Privée, UBP SA group (hereinafter the “Group” or the “Bank”. This document explains how the Bank aligns its risk management to the level of its share capital.

It has been produced in compliance with the Swiss Financial Market Supervisory Authority’s (FINMA) requirements regarding disclosure as set out in its Circular 2016/1 titled “Disclosure – banks”.

The report is published once a year within the four months following the date of closure of the consolidated accounts (31 December). It is available on the Group’s website, www.ubp.com.

The information in this report refers to the UBP Group’s annual consolidated accounts closed on 31 December 2017.

Scope of consolidation

The scope of consolidation relating to capital requirements is based on the scope that applies to the annual consolidated accounts (see “Consolidated holdings” on page 12 of the 2017 Financial Report). The main investments and changes compared to the previous year are taken into account in the calculation of the capital requirement (see page 24 of Financial Report).

There is no indication of any internal or external restrictions preventing money or capital transfers within the Group.

Table 1: Composition of eligible capital/reconciliation

Balance sheet

(in CHF thousands)	Based on close of accounts and relating to the consolidated Group
	31/12/2017
Assets	
Cash & cash equivalents	8,881,983
Due from banks	1,878,195
Due from securities financing transactions	292,545
Due from clients	7,736,181
Mortgages	1,475,424
Trading portfolio assets	23,087
Positive replacement values of derivative financial instruments	315,773
Other financial instruments at fair value	669,061
Financial investments	9,978,352
Accrued income and prepaid expenses	136,963
Non-consolidated participations	9,069
Tangible fixed assets	260,636
Intangible assets	347,791
included goodwill	347,791
Other assets	31,305
Total assets	**32,036,365**

(in CHF thousands)	Based on close of accounts and relating to the consolidated Group
	31/12/2017
Liabilities	
Due to banks	541,959
Liabilities from securities financing transactions	5,938,741
Due in respect of client deposits	21,835,427
Liabilities from trading portfolios	3
Negative replacement values of derivative financial instruments	284,186
Liabilities from other financial instruments at fair value	722,215
Accrued expenses and deferred income	375,139
Other liabilities	74,609
Provisions	28,819
Total liabilities	**29,801,098**
Capital	
Reserves for general banking risks	215,375
Share capital	300,000
of which, recognised as CET1	300,000
Legal reserves / profits carried forward / financial year profit	1,719,892
Total capital	**2,235,267**

Table 2: Presentation of eligible regulatory capital

(in CHF thousands)

	31/12/2017
Common equity (CET1)	
Issued and paid-in capital, fully eligible	300,000
Retained earnings reserves, including reserves for general banking risks/profit (loss) carry forwards and profit (loss) for the period	932,931
Capital reserves	867,336
= Common Equity Tier 1 capital before regulatory adjustments	**2,100,267**
CET1: regulatory adjustments	
Goodwill (net of related tax liability)	(347,791)
Qualified participations where a controlling influence is exercised together with other owners (CET1 instruments)	(2,954)
Participations to be consolidated (CET1 instruments)	(6,648)
= Total regulatory adjustments to CETOne	**(357,393)**
= Common Equity Tier 1 capital (net CET1)	**1,742,874**
Tier 2 capital (T2)	
Valuation adjustments; provisions and depreciation for prudential reasons; compulsory reserves on financial investments	4,000
= Tier 2 capital before regulatory adjustments	**4,000**
= Tier 2 capital (net T2)	**4,000**
= Regulatory capital (net T1 & T2)	**1,746,874**
Total risk-weighted assets	**6,347,375**

Capital ratios	
CET1 ratio (as a percentage of risk-weighted assets)	27.5%
T1 ratio (as a percentage of risk weighted assets)	27.5%
Regulatory capital ratio (as a percentage of risk weighted assets)	27.5%
CET1 requirements in accordance with CAO transitional arrangements (minimum requirements + capital buffer + countercyclical buffer) plus the capital buffer for systemically important institutions in accordance with the Basel requirements (as a percentage of risk-weighted assets)	5.8%
of which, capital buffer in accordance with CAO (as a percentage of risk-weighted assets)	1.3%
of which, countercyclical buffer in (as a percentage of risk-weighted assets)	0.02%
CET1 available to meet minimum and buffer requirements, after deduction of the AT1 and T2 requirements met by CET1 (as a percentage of risk-weighted assets)	24.0%
CET1 target in accordance with FINMA Circular 11/2 plus the countercyclical buffer (as a percentage of risk-weighted assets)	7.8%
CET1 available (as a percentage of risk-weighted assets)	23.3%
T1 target in accordance with FINMA Circular 11/2 plus the countercyclical buffer (as a percentage of risk-weighted assets)	9.6%
T1 available (as a percentage of risk-weighted assets)	25.1%
Target for regulatory capital ratio in accordance with FINMA Circular 11/2 plus the countercyclical buffer (as a percentage of risk-weighted assets)	12.0%
Regulatory capital available (as a percentage of risk-weighted assets)	27.5%

Table 3: Bank risk management approach

Global risk management – General principles

The risk management mandate defined by the Board of Directors and the Executive Committee is set out in internal directives and procedures. The aim is to ensure that risks associated with the Group's activities are identified, assessed and managed, for the benefit of both clients and shareholders. The Group therefore places great importance on having high-quality human resources and IT systems and infrastructure, and promotes an internal risk management culture. This integrated, rigorous approach ensures a reliable risk management process.

The process is based on comprehensive and detailed guidelines and effective information management systems for monitoring, controlling and reporting all significant risks. To ensure that risk is taken in a cautious, measured way in keeping with our commercial strategy, we apply a risk management framework when planning and conducting our business activities. In terms of organisational structure, the Group has three levels of risk management/risk controlling responsibilities:

- Overall strategic guidance and supervision, performed by the Committee of the Board of Directors, which is responsible for determining general risk policy and risk management strategy (risk vision, risk appetite and risk control standards);
- Management and operational supervision by the Executive Committee and the Risk Committee (formulation and implementation of risk management strategies);
- Risk control, primarily by the independent Group Risk Management unit, as well as the Compliance Desk and the Credit Risk Department.

Risk monitoring is carried out in the Group's various business divisions – Treasury & Trading, Private Banking, and Asset Management – as follows:

- Independent risk oversight, risk alert systems and crisis scenarios;
- Governance and risk vision;
- "Daily Risk Snapshot" – identification, measurement and reporting of market, liquidity, credit and operational risk – for members of the Risk Committee;
- Private Banking & Asset Management investment process control, performance measurement/portfolio analytics assessment, and operational risk assessment;
- Risk management system selection/design and maintenance;
- Risk measurement relating to derivatives/structured products and new products and activities being developed.

Table 4: Overview of risk-weighted assets

(in CHF thousands)	RWA 13.12.2017	RWA 31.12.2016	Minimum capital requirements 31.12.2016
Credit risk (excluding CCR – counterparty credit risk)	**4,244,120**	**4,702,161**	**339,530**
of which standardised approach (SA)	4,244,120	4,702,161	339,530
Counterparty credit risk	**248,925**	**173,012**	**19,914**
of which standardised approach (SA)	248,925	173,012	19,914
Investments in managed collective assets – mandate-based approach	**54,812**		**4,385**
Settlement risk	**904**	**777**	**72**
Market risk	**226,190**	**152,775**	**18,095**
of which standardised approach (SA)	226,190	152,775	18,095
Operational risk	**1,572,424**	**1,520,350**	**125,794**
of which standardised approach (SA)	1,572,424	1,520,350	125,794
Total	6,347,375	6,549,075	507,790

Table 5: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

(in CHF thousands)		Carrying values of items			
	Carrying values under the scope of accounting and regulatory consolidation 31/12/2017	Subject to credit risk framework 31/12/2017	Subject to counterparty credit risk framework 31/12/2017	Subject to market risk framework 31/12/2017	Not subject to capital requirements or subject to deduction from capital 31/12/2017
Assets					
Liquid assets	8,881,983	8,881,983			-
Amounts due from banks	1,878,195	1,826,259	51,936		-
Amounts due from securities financing transactions	292,545		292,545		-
Liabilities from client deposits	7,736,181	7,674,518	58,709		2,954
Mortgage loans	1,475,424	1,475,424			-
Trading portfolio assets	23,087	733		22,354	-
Positive replacement values of derivative financial instruments	315,773	140,009	175,764		-
Other financial instruments at fair value	669,061			669,061	-
Financial investments	9,978,352	9,349,088			629,264
Accrued income and prepaid expenses	136,963	136,963			-
Participations	9,069	2,421			6,648
Tangible fixed assets	260,636	260,636			-
Intangible assets	347,791				347,791
Other assets	31,305	31,305			-
Total assets	**32,036,365**	**29,779,339**	**578,954**	**691,415**	**986,657**

(in CHF thousands)

	Carrying values under the scope of accounting and regulatory consolidation 31/12/2017	Carrying values of items			
		Subject to credit risk framework 31/12/2017	Subject to counterparty credit risk framework 31/12/2017	Subject to market risk framework 31/12/2017	Not subject to capital requirements or subject to deduction from capital 31/12/2017
Liabilities					
Amounts due to banks	541,959		125,269		416,690
Liabilities from securities financing transactions	5,938,741				5,938,741
Liabilities from client deposits	21,835,427	1,309,561	2,742		20,523,124
Trading portfolio liabilities	3			3	-
Negative replacement values of derivative financial instruments	284,186	132,453	151,733		-
Liabilities from other financial instruments at fair value	722,215			722,215	-
Accrued expenses and deferred income	375,139				375,139
Other liabilities	74,609				74,609
Provisions	28,819				28,819
Total liabilities	**29,801,098**	**1,442,014**	**279,744**	**722,218**	**27,357,122**

Carrying values under the scope of accounting consolidation and those under the scope of regulatory consolidation are identical.

Table 6: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

(in CHF thousands)

	Total	Positions subject to		
		Credit risk framework	Counterparty credit risk framework	Market risk framework
Asset carrying value amount under regulatory scope of consolidation	31,049,708	29,779,339	578,954	691,415
Liabilities carrying value amount under regulatory scope of consolidation	2,443,976	1,442,014	279,744	722,218
Total net amount under regulatory scope of consolidation	**28,605,732**	**28,337,325**	**299,210**	**(30,803)**
Off-balance-sheet amounts	741,605	308,519		
Differences in valuations				
Differences due to different netting rules				
Differences due to consideration of value adjustments and provisions	10	10		
Differences due to prudential filters				
Exposure amounts considered for regulatory purposes	29,347,347	28,645,854	299,210	(30,803)

Table 7: Explanations of differences between accounting and regulatory exposure amounts

Carrying values under the scope of accounting consolidation and those under the scope of regulatory consolidation are identical

Table 8: Credit risk – general information

Credit risk

Credit risk concerns the risk of loss should a counterparty fail to honour its contractual obligations to repay a loan or fulfil any other predetermined financial obligation.

The Group has a clearly defined system for managing counterparty, settlement and country risk, based on various directives and procedures.

Credit risks concerning individual clients

In principle, loans granted to private banking clients are secured by pledged collateral (Lombard loans). Credit risks include current account loans and advances, and risks arising from guarantees and transactions on derivatives, on forex, on securities, and on any other financial instruments.

The pledged portfolios are appraised individually by the Credit Risk Control unit and a loan rate assigned to each position, based on the type of instrument, its credit rating where applicable and its liquidity, together with the diversification of the investments. The assets are valued daily at the spot price. Supervision and daily management of loan rates are based on predefined safety thresholds (additional margin calls and realisation of pledged assets).

The Group's wealth and estate planning business may entail granting mortgages or loans that are partially or fully secured on pledged real estate. This type of loan is granted only on the basis of appraisal of the pledged property by an independent appraiser and the fixing of an adequate loan rate.

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

In light of the margins applied to Lombard loans and the safety thresholds in place, there is little risk of default in this credit category. In respect of unsecured loans and those secured by less liquid assets, a loan shall be considered non-performing when a due date (for payment of interest and/or all or part of the principal) is exceeded by more than 90 days. If the borrower seems unlikely to be able to meet its commitments, the loan becomes a doubtful loan. In such an event, special provisions shall be set aside on a case-by-case basis, as determined by Executive Management and/or the Credit Committee and taking into account a detailed appraisal of any pledged assets. The interest shall be considered at risk when the credit limit granted is exceeded for longer than 90 days. As of that time, the interest is no longer credited to the statement of income.

Credit risks concerning professional counterparties and country risk

Exposure to professional counterparty risk is assumed only with counterparties that have very high credit ratings. Risk is limited by the use of an adequate, flexible system of limits adapted to each category of product and counterparty and to the settlement period. Operational limits on counterparty credit risk exposure are based on a dynamic model using CDS spreads and ratings.

For all our products, the Group's exposure to country risk is calculated on the basis of the credit-rating equivalent. Levels of provisioning for specific country risk exposure reflect ratings by Moody's, Standard & Poor's and Fitch.

The ongoing monitoring and controlling of counterparty and country risk for market and Treasury activities is managed centrally using a real-time system.

Table 9: Credit risk – credit quality of assets

(in CHF thousands)

	Gross carrying values of		Value adjustments/ impairments	Net values
	Defaulted exposures	Non-defaulted exposures		
Loans (excluding debt securities)	38,463	10,943,659	5,921	10,976,201
Debt securities		9,310,544		9,310,544
Off-balance-sheet exposures		741,605		741,605
Total	**38,463**	**20,995,808**	**5,921**	**21,028,350**

Table 10: Credit risk – changes in stock of defaulted loans and debt securities

(in CHF thousands)

Defaulted loans and debt securities as at 31.12.2016	42,419
Loans and debt securities that have defaulted	9,609
Returned to non-defaulted status	(11,655)
Amounts written off	(2,000)
Other changes (+/-)	90
Defaulted loans and debt securities as at 31.12.2017	**38,463**

Table 11: Credit risk by geographical area

(in CHF millions)	Switzerland	Oceania	North America	Latin America	Europe	Caribbean	Asia	Africa	**Total**
Loan commitments									
Balance sheet / loans									
Due from banks	1,017	10	54		663	1	133		**1,878**
Due from securities financing transactions					293				**293**
Due from clients	898	88	545	118	2,809	1,620	1,575	83	**7,736**
Mortgages	185		19	1	781	243	231	15	**1,475**
Positive replacement values of derivative financial instruments	15	7	24		121	7	27	1	**202**
Financial investments / debt securities	920	243	4,249	32	3,097	15	733	25	**9,314**
Other assets	29				1		1		**31**
Balance sheet total as at 31/12/2017	**3,064**	**348**	**4,891**	**151**	**7,765**	**1,886**	**2,700**	**124**	**20,929**
Balance sheet total as at 31/12/2016	**2,917**	**486**	**4,581**	**247**	**8,097**	**1,869**	**2,524**	**119**	**20,840**
Off-balance sheet transactions									
Contingent liabilities	24	1	5	3	23	34	29	2	**121**
Liabilities under deferred payments									**-**
Irrevocable commitments	4		1		9	2			**16**
Liabilities to pay in full and to make additional payments	11	3	7	5	67	38	35	5	**171**
Add-ons	57	6	40	2	270	30	16	1	**422**
Off-balance sheet total as at 31/12/2017	**96**	**10**	**53**	**10**	**369**	**104**	**80**	**8**	**730**
Off-balance sheet total as at 31/12/2016	**109**	**6**	**43**	**9**	**366**	**141**	**61**	**9**	**744**
Past-due loans									
Past-due loans									
of which past-due loans that are not impaired									
of which loans past due for over 90 days that are not impaired									
Impaired loans	22					16			**38**
Value corrections for compromised positions	5					1			**6**
Positions written off in the year									

Table 11: Credit risk by industry

(in CHF millions)	Central governments and central banks	Banks and brokers	Public bodies	Corporates	Retail	Shares and similar securities and rights	Other exposures	**Total**
Loan commitments (at year end)								
Balance sheet / loans								
Due from banks		1,737		141				**1,878**
Due from securities financing transactions		176		117				**293**
Due from clients			240	3,676	3,820			**7,736**
Mortgages				477	998			**1,475**
Positive replacement values of derivative financial instruments		102		60	40			**202**
Financial investments / debt securities	3,808	2,802	1,028	1,674		2		**9,314**
Other assets				4	27			**31**
Balance sheet total as at 31/12/2017	**3,808**	**4,817**	**1,268**	**6,149**	**4,885**	**2**	**-**	**20,929**
Balance sheet total as at 31/12/2016	**3,380**	**5,426**	**1,420**	**5,857**	**4,736**	**21**	**-**	**20,840**
Off-balance sheet transactions								
Contingent liabilities		1		47	73			**121**
Liabilities under deferred payments								**-**
Irrevocable commitments				4	12			**16**
Liabilities to pay in full and to make additional payments				84	87			**171**
Add-ons	2	222	1	178	19			**422**
Off-balance sheet total as at 31/12/2017	**2**	**223**	**1**	**313**	**191**	**-**	**-**	**730**
Off-balance sheet total as at 31/12/2016	**-**	**217**	**1**	**337**	**189**	**-**	**-**	**744**

Table 11: Credit risk by residual maturity

(in CHF millions)	At sight	Cancellable	Due					Total
			Up to 3 months	3 to 12 months	12 months to 5 years	More than 5 years	No maturity	
Balance sheet / loans								
Due from banks	655		686	537				**1,878**
Due from securities financing transactions			117	176				**293**
Due from clients		1,084	5,172	1,163	227	90		**7,736**
Mortgages			568	180	722	5		**1,475**
Positive replacement values of derivative financial instruments	202							**202**
Financial investments / debt securities	2		1,584	1,275	4,494	1,957	2	**9,314**
Other assets	31							**31**
Balance sheet total as at 31/12/2017	**890**	**1,084**	**8,127**	**3,331**	**5,443**	**2,052**	**2**	**20,929**
Balance sheet total as at 31/12/2016	**2,014**	**902**	**6,704**	**3,435**	**7,408**	**946**	**-**	**21,409**
Off-balance sheet transactions								
Contingent liabilities		36	81	4				**121**
Liabilities under deferred payments								**-**
Irrevocable commitments			4	11		1		**16**
Liabilities to pay in full and to make additional payments			135			36		**171**
Add-ons	1		299	38	56	28		**422**
Off-balance sheet total as at 31/12/2017	**1**	**36**	**519**	**53**	**56**	**65**	**-**	**730**
Off-balance sheet total as at 31/12/2016	**-**	**-**	**217**	**1**	**337**	**189**	**-**	**744**

Table 12 (CRC): Credit risk: qualitative disclosure requirements related to mitigation techniques

Credit exposures are presented after netting according to capital requirements. Collateral is taken into account using the comprehensive approach.

Table 13: Credit risk – overview of mitigation techniques

(in CHF thousands)	Exposures unsecured/ carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
Loans (excluding debt securities)	415,012	8,796,593	8,796,593				
Debt securities	9,310,544						
Off-balance-sheet transactions		741,605	741,605				
Total FY 2017	**9,725,556**	**9,538,198**	**9,538,198**	-	-	-	-

Unsecured client loans include CHF 240 million in loans granted to Swiss public entities (Canton, City).

Table 14: Credit risk – qualitative disclosures of the Bank's use of external credit ratings under the standardised approach

The Bank uses external credit assessments for calculating the risk weighting of nearly all the counterparties to which it applies the international standardised approach and that have been rated by Standard & Poor's and/or Moody's. These are mainly large companies and bonds in the financial investment portfolio. For companies that have no external credit rating, the weighting is set at 100% (unrated classes).

Table 15: Credit risk – exposure and credit risk mitigation (CRM) effects under the standardised approach

(in CHF thousands)

Exposure class	Exposures before CCF and CRM		Exposures after CCF and CRM			
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Central governments and central banks	3,828,085		3,828,085		100,981	2.6%
Banks and securities firms	4,662,372	218,972	4,527,202	197,875	1,160,060	24.6%
Other public sector entities and multilateral development banks	1,273,591	505	1,271,083		144,077	11.3%
Corporates	6,055,794	447,070	2,856,677	103,173	1,631,939	55.1%
Retail	4,991,241	497,147	1,535,903	60,945	926,072	58.0%
Equity	3,220	6,242	3,220	6,242	14,193	150.0%
Other exposures	9,148,777		9,148,777		266,798	2.9%
Total FY 2017	**29,963,080**	**1,169,936**	**23,170,947**	**368,235**	**4,244,120**	**18.0%**

Table 16: Credit risk – exposures by exposure category and risk weights under the standardised approach

(in CHF thousands)

Exposure class/ risk weight	0%	10%	20%	35%	50%	75%	100%	150%	Other	Total credit exposures amount (post-CCF and post-CRM)
Central governments and central banks	3,448,352		296,288		83,445					3,828,085
Banks and securities firms			4,004,113		706,738		5,404	8,822		4,725,077
Non-central government public sector entities and multilateral development banks	723,685		432,074		115,324					1,271,083
Corporates			945,544	367,568	745,033	2,638	894,041	5,026		2,959,850
Retail			528	956,139	45,252	104,947	489,982			1,596,848
Equity								9,462		9,462
Other exposures	8,881,983		476		677		265,641			9,148,777
Total FY 2017	**13,054,020**	**-**	**5,679,023**	**1,323,707**	**1,696,469**	**107,585**	**1,655,068**	**23,310**	**-**	**23,539,182**
of which, covered by mortgages				1,323,707		27,481	148,230			1,499,418
of which, past-due loans				4,660		798	463			5,921

Table 23: Counterparty credit risk – qualitative disclosure

For OTC derivatives transactions, credit and counterparty risks are managed and related risk limits monitored by applying the market-value method, using regulatory add-on factors; for such transactions, corresponding bilateral agreements (ISDA, CSAs with daily margining) are in place with the counterparties. Risk is limited by the use of an adequate, flexible system of limits adapted to each category of product and counterparty and to the settlement period. Operational limits on counterparty credit risk exposure is based on a dynamic model using CDS spreads and ratings – a matrix approach combining the least favourable 5-year CDS spreads and the counterparty's LT rating and comparing them to the counterparty's capital, with the limit fluctuating according to corresponding CDS spread movements. The Bank uses the standardised approach to calculate capital requirements to cover counterparty credit exposures.

Table 24: Counterparty credit risk – analysis by approach

(in CHF thousands)	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD after CRM	RWA
SA-CCR (for derivatives)	175,764	141,450			272,755	90,414
IMM (for derivatives and SFTs)						
Simple approach for risk mitigation (for SFTs)						
Comprehensive approach for risk mitigation (for SFTs)					99,872	29,638
VaR for SFTs						
Total	**175,764**	**141,450**	**-**		**372,627**	**120,052**

Table 25: Counterparty credit risk – credit valuation adjustment (CVA) capital charge

(in CHF thousands)	EAD after CRM	RWA
Total portfolios subject to the Advanced CVA capital charge		
VaR component (including the 3×multiplier)		
Stressed VaR component (including the 3×multiplier)		
Total subject to the standardised CVA capital charge	429,642	119,832
Total	**429,642**	**119,832**

Table 26: Counterparty credit risk – standardised approach to CCR exposures by exposure category and risk weights

(in CHF thousands) **Exposure category/risk weight**	0%	10%	20%	50%	75%	100%	150%	Other	Total credit exposure
Central governments and central banks									-
Banks and securities firms			84,269	94,898					179,167
Other public sector entities and multilateral development banks									-
Corporates			25	827		71,240			72,092
Retail									-
Equity							6,242		6,242
Other exposures									
Financial year 2017	**-**	**-**	**84,294**	**95,725**	**-**	**71,240**	**6,242**	**-**	**257,501**

Table 28: Counterparty credit risk – composition of collateral for CCR exposure

(in CHF thousands)	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 (1)	Unsegregated	Segregated (1)	Unsegregated		
Cash – CHF	44,785		21,190			
Cash – other currencies	79,769		124,863			
Swiss Confederation sovereign debt						
Other sovereign debt			136,768		29,283	2,430,291
Government agency debt					15,893	41,750
Corporate bonds					259,483	3,407,792
Equity securities						
Other collateral						
Total	**124,554**	**-**	**282,821**	**-**	**304,659**	**5,879,833**

Table 29: Counterparty credit risk – credit derivatives exposures

(in CHF thousands)	Protection bought	Protection sold
Notionals		
Single-name CDSs		
Index CDSs		
Total return swaps		
Credit options		
Other credit derivatives		
Total	**-**	**-**
Fair value		
Positive replacement value (asset)		
Negative replacement value (liability)		

Table 31: Counterparty credit risk – exposures to central counterparties

(in CHF thousands)

	EAD (after CRM)	RWA
Exposures to QCCPs (total)		**2,057**
Exposures for trades at QCCPs (excluding initial margin and default fund contributions)		
of which, OTC derivatives	2,847	2,057
of which, exchange-traded derivatives		
of which, SFTs		
of which, netting sets where cross-product netting has been approved		
Segregated initial margin	46,807	
Non-segregated initial margin		
Pre-funded default fund contributions		
Unfunded default fund contributions		
Total exposures to non-QCCPs		**6,984**
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions)	15,168	6,984
of which, OTC derivatives	15,168	6,984
of which, exchange-traded derivatives		
of which, SFTs		
of which, netting sets where cross-prod-uct netting has been approved		
Segregated initial margin		
Non-segregated initial margin		
Pre-funded default fund contributions		
Unfunded default fund contributions		

Table 32: Securitisations – qualitative disclosure requirements related to securitisation exposures

The Group has no internal securitisation activity, but it has exposures resulting from third-party securitisations in its banking book. Those securitisations are limited to collateralised mortgage obligations invested either in Swiss prime residential mortgages with an AAA rating, or in US prime residential mortgages explicitly guaranteed by the government through its Ginnie Mae agency with an AAA rating.

Table 33: Securitisations – exposures in the banking book

(in CHF thousands)	Bank acts as originator			Bank acts as sponsor			Banks acts as investor		
	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
Retail (total) – of which							201,043		201,043
residential mortgage							201,043		201,043
credit card									
other retail exposures									
re-securitisation									
Wholesale (total) – of which									
loans to corporates									
commercial mortgages									
lease and receivables									
other wholesale									
re-securitisation									

Table 37: Market risk – qualitative disclosure requirements

Market risk

Market risks arising through the Group's treasury and trading activities are managed within the framework defined in the internal "Market Risk Manual", and according to a system of integrated limits, established at various levels and consisting of the following:

- Position limits (market value / intraday valuation);
- Sensitivity limits (duration, delta, gamma, vega);
- Value at risk (VaR);
- Maximum loss (stop losses); and
- Primary market exposure, issuer and country limits.

That management is supplemented by stress scenario simulations, risk-adjusted performance measurement (RAPM) and VaR backtesting.

Daily consolidated reports regarding market risk exposure, stress VaR, and RAPM are generated by Group Risk Management for the Risk Committee and the departments concerned, as well as the Bank's management bodies.

In addition, a consolidated stress-scenario analysis is carried out, and submitted to the Committee of the Board of Directors, the Executive Committee, the Risk Committee, and to the departments concerned. This analysis is based on full revaluation (for linear and non-linear positions) and covers the worst historical events and the resulting liquidity situations (e.g. 1987 equity crash, 1992 ERM crisis, 1994 bond-market crisis, 2008 crisis), as defined in the stress-scenario manual for market risk.

The Bank uses the standardised approach to assess the capital required to hedge market risk in the trading book.

As regards asset-liability management (ALM), the Bank uses a centralised approach based on three levels:

1) The Committee of the Board of Directors and the Executive Committee;
2) The Asset & Liability Committee (ALCO); and
3) The Treasury Desk.

The ALCO is in charge of final ALM decision-making within the policy and framework established by the Committee of the Board of Directors and the Executive Committee, and meets once a month or more frequently if necessary. The role of the ALCO is mainly strategic, taking a medium- to long-term view of the Bank's overall risk position, whilst the Treasury Desk focuses on day-to-day ALM.

ALM is conducted in compliance with the framework, directives and procedures set down in the internal "ALM Risk Policy & Procedures Manual" and "Liquidity Risk Manual", and according to the following system of integrated limits:

- "High-crisis stress scenario" liquidity;
- Value and income effects arising from sensitivity to interest-rate shifts (+/-100bp);
- Value at risk (VaR);
- Maximum loss (stop losses); and
- Issuer and counterparty risk exposure.

These limits are supplemented by monthly ALM stress scenario analyses and impact simulations on net interest income (e.g. through shifts in the interest rate of +/-100bp, +/-200bp, or modelled on the global tightening of 1994). Specific reports regarding market risk exposure are generated daily, and monthly on a consolidated basis.

Group Risk Management generates specific daily and consolidated monthly reports regarding interest rate risk on the balance sheet (ALM) and stress liquidity risk exposure for analysis and decision-making by the Group's top management. A consolidated ALM risk and stress liquidity risk report is submitted to the Board of Directors, the Executive Committee, the Risk Committee and the departments concerned each month.

On 31 December 2017, interest rate risk (ALM risk) exposure on the balance sheet based on a 100bp increase in interest rates was CHF +30 million in terms of the Bank's assets and CHF -7.3 million in terms of its income.

Table 39: Market risk – minimum capital requirements under standardised approach

(in CHF thousands)

	RWA
Outright products	
Interest-rate risk (general and specific)	132,238
Equity risk (general and specific)	48,131
Foreign exchange risk	29,483
Commodity risk	10,525
Options	
Simplified approach	
Delta-plus method	5,813
Scenario approach	
Total	**226,190**

Table 43: Qualitative disclosure requirements related to operational risks

Operational risk

To manage and supervise operational risk, the Bank has set up a dedicated framework and system that it applies consistently throughout its operational entities and activities. The operational risk system is based on the following principles and key components, as specified in the Operational Risk Manual and supplemented by various appendices including “New Business/ Product Risk Assessment” and “Change Risk Assessment”:

- Clear formulation of the policy, strategies and active supervision required to manage operational risk, as developed by the Committee of the Board of Directors and implemented by the Executive Committee;
- A common definition of operational risk, applied throughout the Group and encompassing all types of operational risk or incident liable to have a significant impact on the Group’s activities;
- Clear lines of operational risk responsibilities from the Committee of the Board and the Executive Committee down to the Heads of Operating Units and the Risk Control Units (Group Risk Management, Compliance);
- Detailed definition of the methodologies used to identify, assess, monitor and control or reduce operational risk (risk event management, risk self-assessment, scenario analysis, change risk assessment, issue management and tracking, key risk indicators);
- Definition of the procedures for regular, efficient monitoring and reporting of operational risk profiles (use of risk mapping and risk indicators) for the Bank’s entities and activities, for communication to the Group’s top management, Executive Committee, Committee of the Board and Audit Committee;
- Definition of emergency and business-continuity plans, to ensure that the Bank’s activities may proceed uninterrupted;
- A clear procedure for assessing the operational risk inherent in the launch or use of new products, business activities, processes or systems; and
- Promotion of a sound internal operational-risk culture.

To ensure dynamic management and effective supervision of operational risk and to define proactive risk-reduction measures, the Bank has introduced a multi-tiered organisational structure:

- Audit Committee of the Board of Directors;
- Risk Committee;
- Independent Control Units (Group Risk Management, Compliance, Legal departments);
- Internal Audit; and
- Business Unit management teams.

The Bank’s priority is therefore to ensure that our risk management culture remains in place at all levels, and that our risk measurement and supervision process is independent and effective. The approach enables us to provide our departments and department heads with better information, thereby ensuring uniformity across the Bank, and to improve our risk management constantly as our business evolves.

The Bank uses the standardised approach to calculate regulatory capital requirements in relation to operational risk.

Table 44: Interest-rate risk in the banking book

Impact of an interest rate change on assets excluding capital based on the SNB's report

(in CHF thousands)	CHF	USD	EUR	Other	Total
As at end 2017					
Increase (+) / decrease (-) in interest rates					
+200 basis points	27,361	(57,466)	(3,301)	7,322	(26,084)
+100 basis points	14,180	(28,913)	(1,569)	3,856	(12,446)
-100 basis points	(15,291)	29,257	1,433	(4,284)	11,115
-200 basis points	(31,823)	58,838	2,776	(9,036)	20,755

Interest-rate risk in the Bank's portfolio is influenced mainly by the investment portfolio and by clients' current account balances. The scenarios for quantifying the impact of rises or falls in interest rates on clients' current accounts with a positive balance are a 1-day duration for 85%, a 5-year duration for 10%, and ten years for the rest. For the capital net of intangible assets and real estate, the maturity is 5 years. The Bank makes substantial use of interest-rate swaps to reduce interest rate risk in the investment portfolio. Interest rate risk and scenario impacts are determined and analysed on a monthly basis.

Table 45: Presentation of material features of regulatory capital instruments

As at 31 December 2017	Share capital
Issuer	UNION BANCAIRE PRIVÉE, UBP SA
Unique identifier (e.g. ISIN)	n/a
Governing law of the instrument	Swiss law
Regulatory treatment	
Under transitional Basel III rules	CET1
Under post-transitional Basel III rules	CET1
Eligible at single-entity, group/single-entity and group levels	Single-entity and group
Equity securities/debt securities/hybrid instruments/other instruments	Equity securities
Amount recognised in regulatory capital (as per most recent capital adequacy report)	CHF 300 million
Par value of instrument	CHF 300 million
Accounting classification	Share capital
Original date of issuance	3 July 1956
Perpetual or dated	Perpetual
Original maturity date	n/a
Issuer call (subject to prior approval from supervisory authority)	None
Optional call date/contingent call dates/redemption amount	n/a
Subsequent call dates, if applicable	n/a
Coupons/dividends	
Fixed/floating rate/initially fixed and subsequently floating rate/initially floating rate and subsequently fixed	n/a
Coupon rate and any related index	n/a
Existence of a dividend stopper	n/a
Coupon payment/dividends: fully discretionary/partially discretionary/mandatory	Discretionary dividends
Existence of step up or other incentive to redeem	None
Non-cumulative or cumulative	Non-cumulative
Convertible or non-convertible	n/a
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Unsecured creditors
Features that prevent full recognition under Basel III	None
Présence de caractéristiques empêchant une pleine reconnaissance sous le régime de Bâle III	Non

Table 46: Leverage ratio – comparison of accounting assets versus leverage ratio exposure measure

(in CHF thousands)

Total assets as per published financial statements	32,036,365
Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation (margin nos. 6 and 7 FINMA Circ. 15/3), as well as adjustment for assets deducted from Tier 1 capital (margin nos. 16 and 17 FINMA Circ. 15/3)	(357,393)
Adjustment for derivative financial instruments (margin nos. 21–51 FINMA Circ. 15/3).	317,368
Adjustment for off-balance-sheet items (i.e. conversion to credit equivalent amounts of off-balance-sheet exposures) (margin nos. 74–76 FINMA Circ. 15/3)	308,519
Other adjustments	-
Total leverage ratio exposure	**32,304,859**

Table 47: Leverage ratio – detailed presentation

(in CHF thousands)

On-balance-sheet exposures	
On-balance sheet items (excluding derivatives and SFTs, but including collateral) (margin nos. 14 and 15 FINMA Circ. 15/3)	31,428,047
(Assets that must be deducted in determining the eligible Tier 1 capital) (margin nos. 7, 16, and 17 FINMA Circ. 15/3)	(357,393)
Total on-balance sheet exposures within the leverage ratio framework (excluding derivatives and SFTs)	**31,070,654**
Derivatives	
Replacement values associated with all derivatives transactions, including those with CCPs, taking into account the margin payments received and netting agreements in accordance with margin nos. 22, 23, 34, and 35 FINMA Circ. 15/3	218,274
Add-on amounts for PFE associated with all derivatives transactions (margin nos. 22 and 25 FINMA Circ. 15/3)	414,866
Total derivative exposures	**633,140**
Securities financing transaction (SFT) exposures	
Gross SFT assets with no recognition of netting (except in the case of novation with a QCCP as per margin no. 57 FINMA Circ. 15/3) including sale accounting transactions (margin no. 69 FINMA Circ. 15/3), less the items specified in margin no. 58 FINMA Circ. 15/3)	292,545
Total securities financing transaction exposures	**292,545**
Other off-balance-sheet exposures	
Off-balance-sheet exposure at gross national amounts before application of credit conversion factors.	741,605
(Adjustments for conversion to credit equivalent amounts) (Margin nos. 75 and 76 FINMA Circ. 15/3)	(433,086)
Total off-balance-sheet items	**308,519**
Eligible capital and total exposures.	
Tier 1 capital (margin no. 5 FINMA Circ. 15/3)	1,742,874
Total exposures	32,304,858
Leverage ratio	
Leverage ratio (margin nos. 3 and 4 FINMA Circ. 15/3)	5.4%

Table 48: Short-term liquidity coverage ratio

(in CHF thousands)	1st quarter 2017		2nd quarter 2017	
	Unweighted values	Risk-weighted values	Unweighted values	Risk-weighted values
High-quality liquid assets (HQLAs)				
Total HQLAs	**13,452**	**13,216**	**12,462**	**12,316**
Cash outflows				
Retail deposits	11,912	1,848	12,127	1,831
of which, stable deposits				
of which, less stable deposits	11,912	1,848	12,127	1,831
Unsecured corporate and wholesale funding	11,513	5,087	10,476	4,516
of which, non-operational deposits	11,506	5,080	10,468	4,508
of which, unsecured debt issuance	7	7	8	8
Secured corporate and wholesale funding and collateral swaps	2,919	233	4,904	438
Other cash outflows	387	261	453	308
of which, those relating to derivatives and other transactions	155	155	232	232
of which, those relating to committed credit and liquidity facilities	232	106	221	76
Other contractual funding obligations	2	2	3	3
Other contingent funding commitments	581	29	610	31
Total cash outflows		**7,460**		**7,127**
Cash inflows				
Secured financing transactions	35	35		
Cash inflows from non-impaired receivables	5,104	2,360	4,841	2,293
Other cash inflows	174	174	176	176
Total cash inflows	**5,313**	**2,569**	**5,017**	**2,469**
Total high-quality liquid assets (HQLAs)		**13,216**		**12,316**
Net cash outflows		**4,891**		**4,658**
Short-term liquidity coverage ratio		**270.2%**		**264.4%**

(in CHF thousands)	3rd quarter 2017		4th quarter 2017	
	Unweighted values	Risk-weighted values	Unweighted values	Risk-weighted values
High-quality liquid assets (HQLAs)				
Total HQLAs	**11,123**	**10,869**	**11,836**	**11,575**
Cash outflows				
Retail deposits	12,796	1,816	13,048	1,876
of which, stable deposits				
of which, less stable deposits	12,796	1,816	13,048	1,876
Unsecured corporate and wholesale funding	10,240	4,616	10,418	4,537
of which, non-operational deposits	10,233	4,609	10,409	4,528
of which, unsecured debt issuance	7	7	9	9
Secured corporate and wholesale funding and collateral swaps	5,407	218	3,911	195
Other cash outflows	490	318	531	320
of which, those relating to derivatives and other transactions	256	256	260	260
of which, those relating to committed credit and liquidity facilities	234	62	271	60
Other contractual funding obligations	3	3	5	5
Other contingent funding commitments	596	30	605	28
Total cash outflows		**7,001**		**6,961**
Cash inflows				
Secured financing transactions				
Cash inflows from non-impaired receivables	4,811	2,215	5,166	2,394
Other cash inflows	263	263	209	209
Total cash inflows	**5,074**	**2,478**	**5,375**	**2,603**
Total high-quality liquid assets (HQLAs)		**10,869**		**11,575**
Net cash outflows		**4,523**		**4,358**
Short-term liquidity coverage ratio		**240.3%**		**265.6%**

Capital, liquidity coverage, and leverage ratios
Parent bank

In application of FINMA circular 2016/1, below are some regulatory ratios for the parent bank (non-consolidated).

Capital ratio

(in CHF thousands)

Minimum capital based on risk-weighted asset requirements	484,930
Eligible capital	1,027,708
of which, Common Equity Tier 1 (CET1)	748,335
of which, core capital (T1)	1,023,708
Risk-weighted assets (RWA)	6,061,622
CET1 ratio (as % of RWA)	12.3%
T1 ratio (as % of RWA)	16.9%
Total capital ratio (as % of RWA)	17.0%
Countercyclical capital buffer (as % of RWA)	0.02%
Target CET1 ratio (in %) as per appendix 8 of the CAO, plus countercyclical buffer	7.8%
Target T1 ratio (in %) as per appendix 8 of the CAO, plus countercyclical buffer	9.6%
Total capital ratio target (in %) as per appendix 8 of the CAO, plus countercyclical buffer	12.0%

Leverage ratio according to Basel III

(in CHF millions)

Leverage ratio (Basel III) (margin numbers 3 and 4, FINMA Circ. 15/3)	3.2%
Total commitments	32,035

Liquidity coverage ratio (LCR)

(in CHF millions)

Liquidity coverage ratio (LCR) (in %), 4th quarter	229.5%
LCR numerator: sum of high-quality liquid assets	11,387
LCR denominator: net sum of cash outflows	4,962
Liquidity coverage ratio (LCR) (in %), 3rd quarter	215.9%
LCR numerator: sum of high-quality liquid assets	10,736
LCR denominator: net sum of cash outflows	4,973
Liquidity coverage ratio (LCR) (in %), 2nd quarter	236.5%
LCR numerator: sum of high-quality liquid assets	12,168
LCR denominator: net sum of cash outflows	5,145
Liquidity coverage ratio (LCR) (in %), 1st quarter	239.8%
LCR numerator: sum of high-quality liquid assets	13,103
LCR denominator: net sum of cash outflows	5,464

April 2018

www.ubp.com

Union Bancaire Privée