FINMA CIRCULAR 2016/1

Publication of IRRBBA, IRRBBA1 and IRRBB1 tables as at 30.06.2019

Interest rate risk: objectives and rules for managing the interest rate risk of the Bank's portfolio (IRRBBA table)

The interest rate risk of the Bank's portfolio (IRRBB – interest rate risk in banking book) represents the exposure of the Bank's economic and financial situation to changes in market interest rates. Changes in interest rates affect the economic value of a bank's assets, liabilities and off-balance sheet positions (present value approach). They also have an impact on interest income (current income approach).

Interest rate risk can take three forms.

- The risk of interest rate changes arising from the different maturity structures of balance sheet assets and liabilities due to maturity transformation; as a result of this phenomenon, future trends in interest income adapt to market rates at different speeds and to a different extent than the trends in interest expense since the sensitivity of financial assets to market rates is different from that of financial liabilities.
- Baseline risk describes the effect of interest rate changes on instruments that have similar maturities but are measured on the basis of different interest rates.
- Options risk arises from options or implicit options that allow the bank or client to change the amount and timing of payment flows (e.g. deposits with no fixed maturity, term deposits and fixed-rate loans).

Changes in interest rates may indirectly lead to changes in the solvency of the borrower (solvency effect) without triggering a default situation.

The Bank manages its exposure to interest rate risk via the ALM (Asset & Liability Management) Committee. This committee, chaired by the Executive Board, is the body responsible for decisions on the management of assets and liabilities, including decisions relating to interest rate risk. The treasury, on the other hand, is the office responsible for carrying out day-to-day operations and therefore for implementing the decisions taken by the ALM Committee.

Banca Zarattini & Co. SA uses the "delta market value absolute parallel up" method to measure and manage the interest rate risk of the Bank's portfolio (IRRBB – interest rate risk in banking book).

The sensitivity of value and margin to interest rates is calculated on a quarterly basis.

The Bank manages interest rate risk at market rates and prices. Banca Zarattini & Co. is a category 5 bank and, in view of its balance sheet structure, it applies the six stress scenarios set out in FINMA Circular 2019/2 (CM 24-25 & Annex 2), namely:

1. Parallel upwards shock;
2. Parallel downwards shock;
3. Steepener shock (short-term interest rate decline and long-term interest rate rise);
4. Flattener shock (rise in short-term interest rates and fall in long-term interest rates);
5. Short-term upwards interest rate shock;
6. Short-term downwards interest rate shock

Lending activities with maturities of less than one year do not represent a core business of the Bank; moreover, the Bank does not finance itself with remunerated passive funds. Therefore, in view of its balance sheet structure, the Bank does not use IRS derivatives to hedge its interest rate risk.

The model assumptions used by the Bank for the internal measurement of interest rate risk are based on the models set out in the publication IRRBB1.

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Interest rate risk: quantitative information on the exposure's structure and repricing date (Table IRRBBA1)

(amounts in CHF 1,000)	Volume in CHF			Average repricing maturity (in years)		Longest repricing maturity (in years) assigned to non-maturity positions	
	Total	of which CHF	of which other currencies	Total	of which CHF	Totale	of which CHF
Determined repricing period							
Amounts due from banks	31'991	1'000	30'991	0.30	0.11		
Amounts due from customers	669	-	669	0.25	-		
Variable-rate mortage loans	-	-	-	-	-		
Fixed-rate mortage loans	11'845	11'845	-	0.55	0.55		
Financial investments	33'130	1'635	31'495	3.24	2.97		
undetermined repricing period							
Amounts due from banks	174'420	8'568	165'852	0.08	0.08		
Amounts due from customers	200'423	1'250	199'173	0.22	0.22		
Variable-rate mortage loans	-	-	-	-	-		
Other assets	-	-	-	-	-		
Amounts due in respectof customer deposits	450'839	25'079	425'760	0.08	0.08		
Other liabilities	4'688	5	4'683	1.05	1.05		
Liabilities from client deposits, callable but not transferable (savings)	-	-	-	-	-		
Total as of 30.06.2019	908'005	49'382	858'623	0.25	0.30		

Interest rate risk: quantitative information on economic value of equity and net interest income (table IRRBB1)

(amounts in 1'000 CHF)	Δ EVE (Change of economic value of equity)	Δ NII (Change of net interest income)
	30.06.2019	**30.06.2019**
Parallel up	-2'695	-196
Parallel down	2'933	195
Steepener (1)	436	
Flattener (2)	-919	
Short rate up	-1'714	
Short rate down	1'802	
Maximum (3)	-2'695	-196
	30.06.2019	
Tier 1 capital	68'981	

(1) A reduction of short term rates combined with an increase of long term rates.
(2) An increase of short term rates combined with a reduction of long term rates
(3) "Maximum" indicates the most adverse interest scenario.