

# FINMA CIRCULAR 2016/1

Publication of  
Capital Adequacy  
and Liquidity  
as at 31.12.2020

**Capital adequacy and liquidity disclosure requirements in accordance with FINMA Circular 2016/1**

(in CHF 1,000)

**KM1: Key regulatory figures**

	<b>31.12.2020</b>	<b>31.12.2019</b>			
<b>Eligible capital</b>					
Common Equity Tier 1 (CET 1)	70,195	69,570			
Tier 1 capital (Tier 1)	70,195	69,570			
Total capital	70,195	69,570			
<b>Risk-weighted assets (RWA)</b>					
RWA	277,986	267,918			
Required capital	22,239	21,433			
<b>Ratio of risk-based capital (in % of RWA)</b>					
Ratio CET1	25.25%	25.97%			
Tier 1 capital ratio	25.25%	25.97%			
Total capital ratio	25.25%	25.97%			
<b>Requirements for CET1 buffer (in % of RWA)</b>					
Capital buffer on the basis of Basel framework	2.50%	2.50%			
Countercyclical buffer on the basis of Basel framework	0.00%	0.00%			
Supplemental capital buffer in consideration of systemic international and national risks	0.00%	0.00%			
Total capital buffer on the basis of CET1 Basel framework	2.50%	2.50%			
CET1 available to meet minimum and buffer requirements, after deduction of the AT1 and T2 requirements met by CET1	17.25%	17.97%			
<b>Minimum required capital on the basis of Annex 8 CAO (in % of RWA)</b>					
Capital buffer on the basis of Annex 8 CAO	2.50%	2.50%			
Countercyclical buffer (art. 44 and 44a CAO)	0.00%	0.03%			
Target CET1 rate on the basis of Annex 8 (CAO) plus the countercyclical buffer on the basis of art. 44 and 44a CAO	7.00%	7.03%			
Target T1 rate on the basis of Annex 8 (CAO) plus the countercyclical buffer on the basis of art. 44 and 44a CAO	8.50%	8.53%			
Target total capital on the basis of Annex 8 (CAO) plus the countercyclical buffer on the basis of art. 44 and 44a CAO	10.50%	10.53%			
<b>Leverage ratio Basile III</b>					
Financial leverage	498,277	520,382			
Basel III financial leverage (common equity as a % of total exposure)	14.09%	13.37%			
	Weighted values (monthly averages)	Weighted values (monthly averages)	Weighted values (monthly averages)	Weighted values (monthly averages)	Weighted values (monthly averages)
<b>Liquidity coverage ratio (LCR)</b>	1st quarter 2020	2nd quarter 2020	3rd quarter 2020	4th quarter 2020	4th quarter 2019
LCR numerator:					
total of high quality assets	52,547	54,205	60,189	60,432	57,054
LCR denominator:					
total net cash outflows	38,932	35,933	42,274	42,876	37,657
Liquidity coverage ratio (LCR)	134.97%	150.85%	142.38%	140.95%	151.51%

**OV1: Overview of risk-weighted assets**

	31.12.2020 RWA	31.12.2019 RWA	31.12.2020 Fondi proprii minimi
Credit risk (standardised international approach)(1)	208,473	204,018	16,678
Market risk (standardised approach for currency and precious metals risks and de minimis approach for the Bank's portfolio)	28,660	22,842	2,293
Operational risks (basic indicator approach)	40,853	41,058	3,268
Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	
<b>Total</b>	<b>277,986</b>	<b>267,918</b>	<b>22,239</b>

**LIQA: Liquidity risk management**

The management of liquidity risk is described in point two of the notes to the annual financial statements.

**CR1: Credit risk – credit quality of assets**

	a	b	c	d
	Gross carrying values of Defaulted exposures	Gross carrying values of Non-defaulted exposures	Valuation adjustments / impairments	Net values (a+b-c)
Loans (excluding debt securities)	761	486,850	761	486,850
Debt securities	-	43,352	-	43,352
Off-balance-sheet exposures	-	30,363	-	30,363
<b>Total</b>	<b>761</b>	<b>560,565</b>	<b>761</b>	<b>560,565</b>

**CR3: Overview of credit risk mitigation techniques**

	a	c	e & g
	Exposures unsecured / carrying values	Exposures secured by collateral: secured amount	Exposures secured by financial guarantees or credit derivatives: secured amount
Loans (including debt securities)	(2)	389,424	140,778
Off-balance-sheet exposures		27,567	2,796
<b>Total</b>		<b>416,991</b>	<b>143,574</b>
<b>of which in default</b>		-	-

**ORA: Rischi operativi - indicazioni generali**

The strategies, procedures and organisation relating to the management of operational risks are described in section 2 of the notes to the annual financial statements.

(1) Including non-counterparty related risks from 2019.

(2) Unsecured positions also include in particular liquidity, loans to banks and securities in the Bank's portfolio.

## Interest rate risk: objectives and rules for managing the interest rate risk of the Bank's portfolio (IRRBB 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 necessarily 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.

Zarattini & Co. Bank 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.

**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	Total	of which CHF
<b>Determined repricing period</b>							
Amounts due from banks	95,338	-	95,338	0.75	0.00		
Amounts due from customers	3,557	1,056	2,501	1.86	5.08		
Variable-rate mortgage loans	-	-	-	-	-		
Fixed-rate mortgage loans	8,655	8,655	-	1.00	1.00		
Financial investments	42,528	5,888	36,640	6.41	5.78		
<b>Undetermined repricing period</b>							
Amounts due from banks	147,681	2,070	137,550	0.08	0.08		
Amounts due from customers	155,107	1,820	153,159	0.22	0.22		
Variable-rate mortgage loans	-	-	-	-	-		
Other assets	-	-	-	-	-		
Amounts due in respect of customer deposits	461,749	23,619	430,134	0.22	0.22		
Other liabilities	1,716	30	1,677	0.01	0.08		
Liabilities from client deposits, callable but not transferable (savings)	-	-	-	-	-		
<b>Total as at 31.12.2020</b>	<b>916,331</b>	<b>43,138</b>	<b>856,999</b>	<b>0.57</b>	<b>1.25</b>		

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

(in 1,000 CHF)	Δ EVE (Change of economic value of equity)		Δ NII (Change of net interest income)	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Parallel up	-1,739	-2,666	-662	-23
Parallel down	1,857	2,893	651	26
Steeper (1)	7	370		
Flattener (2)	-337	-862		
Short rate up	-903	-1,675		
Short rate down	940	1,764		
Maximum (3)	-1,739	-2,666	-662	-23
	<b>31.12.2020</b>	<b>31.12.2019</b>		
<b>Tier 1 capital</b>	70,195	69,570		

(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.