FINMA CIRCULAR 2016/1

Publication of Capital Adequacy and Liquidity as at 31.12.2023

Zarattini & Co | Bank

Capital adequacy and liquidity disclosure requirements in accordance with FINMA Circular 2016/1 (amounts in CHF 1’000)

KM1: Key regulatory figures

	31.12.2023	31.12.2022
Eligible capital		
Common Equity Tier 1 (CET 1)	69'592	70'557
Tier 1 capital (Tier 1)	69'592	70'557
Total capital	69'592	70'557
Risk-weighted assets (RWA)		
RWA	189'870	227'711
Required capital	15'190	18'217
Ratio of risk-based capital (in % of RWA)		
Ratio CET1	36.65%	30.99%
Tier 1 capital ratio	36.65%	30.99%
Total capital ratio	36.65%	30.99%
Requirements for CET1 buffer (in % of RWA)		
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	0
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	28.65%	22.99%
Minimum required capital on the basis of Annex 8 CAO (in % of RWA)		
Capital buffer on the basis of Annex 8 CAO	2.50%	2.50%
Countercyclical buffer (art. 44 and 44a CAO)	0.065%	0.047%
Target CET1 rate on the basis of Annex 8 (CAO) plus the countercyclical buffer on the basis of art. 44 and 44a CAO	7.07%	7.05%
Target T1 rate on the basis of Annex 8 (CAO) plus the countercyclical buffer on the basis of art. 44 and 44a CAO	8.57%	8.55%
Target total capital on the basis of Annex 8 (CAO) plus the countercyclical buffer on the basis of art. 44 and 44a CAO	10.57%	10.55%
Leverage ratio Basel III		
Financial leverage	294'652	456'530
Basel III financial leverage (common equity as a % of total exposure)	23.62%	15.46%

Liquidity coverage ratio (LCR)	Weighted values (monthly averages) 1st quarter 2023	Weighted values (monthly averages) 2nd quarter 2023	Weighted values (monthly averages) 3rd quarter 2023	Weighted values (monthly averages) 4th quarter 2023	Weighted values (monthly averages) 4th quarter 2022
LCR numerator: total of high quality assets	56'443	56'232	37'873	35'467	75'834
LCR denominator: total net cash outflows	33'566	28'692	25'815	21'811	40'498
Liquidity coverage ratio (LCR)	168.16%	195.98%	146.71%	162.61%	187.25%

Net Stable Funding Ratio (NSFR)	**31.12.2023**	**31.12.2022**
Total available stable funding	192'867	298'442
Total required stable funding	119'799	172'730
NSFR Ratio	160.99%	173.00%

OV1: Overview of risk-weighted assets

	31.12.2023 RWA	31.12.2022 RWA	31.12.2023 Minimum capital requirements
Credit risk (standardised international approach)[1]	128'032	182'449	10'243
Market risk (standardised approach for currency and precious metals risks and de minimis approach for the Bank's portfolio)	23'145	7'722	1'852
Operational risks (basic indicator approach)	38'693	37'540	3'095
Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	
Total	189'870	227'711	15'190

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

	31.12.2023			
	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)	696	256'436	696	256'436
Debt securities	-	33'087	-	33'087
Off-balance-sheet exposures	-	15'701	-	15'701
Total	**696**	**305'224**	**696**	**305'224**

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]	183'597	105'926	-
Off-balance-sheet exposures	12'175	3'526	-
Total	**195'772**	**109'452**	-
of which in default	-	-	-

ORA: Operational risks - general guidelines

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 and settlement risks.

[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 (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 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
Determined repricing period							
Amounts due from banks	-	-	-	-	-		
Amounts due from customers	2'638	448	2'190	0.74	1.96		
Variable-rate mortage loans	-	-	-	-	-		
Fixed-rate mortage loans	13'590	13'590	-	0.51	0.51		
Financial investments	34'175	22'102	12'073	1.67	2.02		
Undetermined repricing period							
Amounts due from banks	60'962	830	49'995	0.08	0.08		
Amounts due from customers	122'910	7'468	113'939	0.22	0.22		
Variable-rate mortage loans	-	-	-	-	-		
Other assets	-	-	-	-	-		
Amounts due in respectof customer deposits	205'735	18'917	173'505	0.22	0.22		
Other liabilities	713	38	667	0.05	0.08		
Liabilities from client deposits, callable but not transferable (savings)	-	-	-	-	-		
Total as at 31.12.2023	440'723	63'393	352'369	0.33	0.92		

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 rate)	
	31.12.2023	31.12.2022	**31.12.2023**	31.12.2022
Parallel up	-745	-1'751	265	-650
Parallel down	780	1'851	-260	641
Steepener[1]	15	47		
Flattener[2]	-148	-378		
Shirt rate up	-377	-944		
Short rate down	385	974		
Maximum[3]	-745	-1'751	-260	-650
	31.12.2023	31.12.2022		
Tier 1 Capital	69'592	70'557		

[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.