

**disclosures of
capital adequacy
and liquidity
valiant holding ag
30 june 2019**

Valiant Holding AG

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capital adequacy
and liquidity

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KM1: Key regulatory figures

	a	c	e
	T	T-1	T-2
Eligible capital (in CHF thousands)			
1 Common Equity Tier1 capital (CET1)	2,175,979	2,181,738	2,130,383
2 Tier1 capital	2,175,979	2,181,738	2,130,383
3 Total capital	2,175,979	2,181,738	2,130,383
Risk-weighted assets (RWA) (in CHF thousands)			
4 RWA	13,397,058	13,221,662	13,256,002
4a Minimum equity	1,071,765	1,057,733	1,060,480
Risk-based capital ratios (as a % of RWA)			
5 CET1 ratio	16.24	16.50	16.07
6 Core capital ratio	16.24	16.50	16.07
7 Total capital ratio	16.24	16.50	16.07
CET1 buffer requirements (as a % of RWA)			
8 Capital buffer in accordance with the Basel minimum requirements (2.5% from 2019)	2.50	1.88	1.88
9 Countercyclical buffer (Art. 44a CAO) in accordance with the Basel minimum requirements	0.00	0.00	0.00
11 Overall buffer in accordance with the Basel minimum CET1 requirements	2.50	1.88	1.88
12 CET1 available after meeting the Basel minimum requirements (after deduction of CET1 to cover the minimum requirements and, where necessary, to cover the TLAC requirements)	8.24	8.50	8.07
Target capital ratios in accordance with Annex 8 of CAO (as a % of RWA)			
12a Capital buffer in accordance with Annex 8 of CAO	4.00	4.00	4.00
12b Countercyclical buffer (Art. 44 and 44a CAO)	1.12	1.11	1.09
12c CET1 minimum requirement in accordance with Annex 8 of CAO plus the countercyclical capital buffer in accordance with Art. 44 and 44a CAO	8.92	8.91	8.89
12d T1 minimum requirement in accordance with Annex 8 of CAO plus the countercyclical capital buffer in accordance with Art. 44 and 44a CAO	10.72	10.71	10.69
12e Total capital minimum requirement in accordance with Annex 8 of CAO plus the countercyclical capital buffer in accordance with Art. 44 and 44a CAO	13.12	13.11	13.09
Basel III leverage ratio			
13 Total exposure (in CHF thousands)	29,956,858	29,039,106	29,584,810
14 Basel III leverage ratio (core capital as a % of the total exposure)	7.26	7.51	7.20

T = Half year

	a	b	c	d	e
	T	T-1	T-2	T-3	T-4
Liquidity coverage ratio (LCR)					
15 LCR numerator: Total high-quality liquid assets (in CHF thousands)	3,044,605	3,032,720	2,805,404	2,822,076	3,065,022
16 LCR denominator: Total net cash outflow (in CHF thousands)	2,655,888	2,594,379	2,598,571	2,489,379	2,684,126
17 Liquidity coverage ratio (LCR) (as a %)	115	117	108	113	114

T = Quarter

OV1: Overview of risk-weighted assets

	a	b	c
	RWA 30/06/2019 in CHF thousands	RWA 31/12/2018 in CHF thousands	Minimum capital requirements 30/06/2019 in CHF thousands
Required group equity			
1 Credit risk (excluding CCR – counterparty credit risk)	12,436,345	12,267,029	994,908
2 of which standardised approach (SA)	12,436,345	12,267,029	994,908
6 Counterparty credit risk	83,559	90,894	6,685
7 of which standardised approach (SA-CCR)	67,069	74,626	5,366
7b of which determined using the market value method	16,490	16,268	1,319
10 Value adjustment risk of derivatives (CVA)	42,388	39,600	3,391
20 Market risk	13,304	17,154	1,064
21 of which standardised approach	13,304	17,154	1,064
24 Operational risk	800,163	786,223	64,013
25 Amounts below the thresholds for deduction (subject to 250% risk weight)	21,300	20,762	1,704
27 Minimum capital requirements	13,397,059	13,221,662	1,071,765

LIQ1: Liquidity – information on the liquidity ratio

		Monthly average Q1 ¹		Monthly average Q2 ¹	
		Unweighted values in CHF thousands	Weighted values in CHF thousands	Unweighted values in CHF thousands	Weighted values in CHF thousands
A. High-quality liquid assets (HQLA)					
1	Sum of all eligible HQLAs		3,032,720		3,044,605
B. Outflows					
2	Retail deposits and deposits from small business customers	9,872,216	840,803	9,774,121	844,778
3	of which stable deposits	3,553,684	177,684	3,332,000	166,600
4	of which less stable deposits	6,318,532	663,119	6,442,121	678,178
5	Unsecured wholesale funding, defined as those liabilities and general obligations from customers other than natural persons and small business customers that are not collateralised	2,267,986	1,525,259	2,414,690	1,644,513
6	of which operational deposits				
7	of which non-operational deposits	2,252,450	1,509,723	2,413,016	1,642,839
8	of which unsecured debt including all notes, bonds and other debt securities	15,536	15,536	1,674	1,674
9	Secured wholesale funding, defined as all collateralised liabilities and general obligations				
10	Additional requirements	670,042	463,964	627,783	416,761
11	of which outflows related to derivative exposures and other collateral requirements	350,176	350,176	315,046	315,046
12	of which outflows of central mortgage institution loans	32,333	32,333	20,000	20,000
13	of which credit and liquidity facilities, including drawdowns on committed or conditionally revocable credit and liquidity facilities	287,533	81,455	292,737	81,715
14	Other contractual funding obligations to extend funds	182,658	182,658	180,664	180,664
15	Other contingent funding obligations	1,616,053	10,918	1,591,658	10,783
16	Total cash outflows	14,608,955	3,023,602	14,588,916	3,097,499
C. Inflows					
17	Secured lending			333	
18	Inflows from fully performing exposures	235,062	29,946	264,439	48,703
19	Other cash inflows	399,277	399,277	392,908	392,908
20	Total cash inflows	634,339	429,223	657,680	441,611
LCR calculation					
21	Total HQLAs		3,032,720		3,044,605
22	Total net cash outflows		2,594,379		2,655,888
23	LCR (as %)		117		115

¹ Average month-end values.

Liquidity coverage ratio (LCR)

Pursuant to the Ordinance on Bank Liquidity (Liquidity Ordinance, LiqO) and FINMA Circular 2015/2, Valiant Bank AG is required to maintain an adequate quantity of unencumbered high-quality liquid assets (HQLAs). These assets are used to cover liquidity requirements in the event of a major liquidity stress scenario, defined by the supervisory authority, over a time horizon of 30 calendar days. The LCR is the ratio of the stock of HQLAs (numerator) to the total net cash outflows expected over a 30-day horizon (denominator) based on the stress scenario. For the reporting year, the bank is deemed to have met the LCR requirement if the ratio, as stipulated in Article 13 LiqO, is at least 100%.

Valiant calculates and publishes all LCR values for Valiant Bank AG. Other legal entities play only a minor role in liquidity management. FINMA has therefore ruled that they do not have to be included for LCR purposes.

Influencing factors

Valiant funds its activities primarily via the deposits of private clients and small and medium-sized firms. Amounts due to clients other than natural persons and small businesses are far lower. However, due to the higher liquidity requirements, they constitute the largest block of weighted outflows. The remaining outflows are made up of irrevocable commitments, contingent liabilities and derivatives. Liquidity inflows come primarily from non-impaired receivables (loans to clients and banks that fall due, and interest payments) and from derivatives. Liquidity inflows from non-impaired receivables consist largely of operational deposits with other banks, which, in light of their low weighting factor, translate into a comparatively small weighted liquidity inflow. HQLAs were relatively stable in H1 2019. The covered bond issue carried out by Valiant in January 2019 resulted in a larger inflow of payments in that month, which had a positive impact on the LCR.

Composition of HQLAs

HQLAs consist of clearing credit balances with the Swiss National Bank and financial investments in Swiss francs that are eligible for SNB repos. They also include financial investments in euros and US dollars that are eligible for SNB repos, as well as banknotes and coins.

Concentration of sources of financing

Sources of financing that make up more than 1% of total assets are carefully monitored. The single largest source of financing is the Mortgage Bond Bank of Swiss Mortgage Institutions. The loans obtained there are long term.

Derivative positions and collateral requirements

The interest-rate swaps and forward currency transactions used for asset and liability management lead to some liquidity inflows and outflows each month. These offset each other for the most part, and therefore have only a minor impact on net liquidity flows.

Currency mismatches

No foreign currencies are significant in a regulatory sense for calculating the LCR at Valiant. Accordingly, the LCR is only calculated in Swiss francs and on an overall basis for all currencies. The bank also uses the option of recognising additional HQLAs in foreign currency in order to fulfil the LCR in Swiss francs in accordance with FINMA Circular 2015/2 margin nos 299–314. The LCR in Swiss francs is thus generally slightly above the LCR for all currencies.

CCR1: Counterparty credit risk – exposure by approach

	a	b	c	d	e	f
	Replacement cost in CHF thousands	Potential future exposure in CHF thousands	EEPE in CHF thousands	Alpha used for computing regulatory EAD	EAD post-CRM in CHF thousands	RWA in CHF thousands
1 SA-CCR (for derivatives)	6,088	10,255		1.4	22,881	11,408
Market value method under SA-BIS	8,934	33,669			32,639	16,490
2 IMM (for derivatives and SFTs)						
3 Simple approach for risk mitigation (for SFTs)					334,746	55,661
4 Comprehensive approach for risk mitigation (for SFTs)						
5 VaR (for SFTs)						
6 Total						83,559

CCR2: Counterparty risk – credit valuation adjustment capital charge

	a	b
	EAD post-CRM in CHF thousands	RWA in CHF thousands
3 All portfolios subject to the standardised CVA capital charge ¹	55,520	42,388
4 Total subject to the standardised CVA capital charge	55,520	42,388

¹ Simplified standardised approach.

IRRBB: Interest-rate risk – objectives and policies for interest-rate risk in the banking book

a) IRRBB for the purpose of risk management and measurement

Interest-rate risk mainly takes the following forms, which are taken into account in asset and liability management:

- Interest-rate repricing risk results from temporal mismatches relating to the maturity date or the repricing of interest rates on assets, liabilities and off-balance-sheet items.
- Basis risk arises from changes in interest rates for instruments that have similar maturities but are measured on the basis of different interest rates.

b) Strategies for managing and mitigating IRRBB

In view of Valiant's business activities, interest-rate risk is the most significant market risk. Accordingly, interest-rate risks are actively managed, limited, measured and reported. The limits are aligned with Valiant's risk capacity and also allow for future lending growth.

The management of interest-rate risks is described in the following section of Valiant's 2018 Annual Report:

- Page 107: Risk management, section on interest-rate risks

c) Frequency and description of the specific measures used to gauge sensitivity

The interest-rate risk measures are calculated at least monthly. Δ EVE and Δ NII calculations and simulations are carried out.

d) Interest-rate shock and stress scenarios

Valiant's internal interest-rate-risk measurement system includes the following interest-rate shock and stress scenarios:

- Internally selected interest-rate shock scenarios
- Historical and hypothetical interest-rate stress scenarios
- Standard regulatory scenarios (parallel up/down, steepener/flattener, short rate up/down)
- Reverse stress tests

e) Divergent model assumptions

The model assumptions used in the bank's internal interest-rate-risk measurement system correspond to the information provided in the table (IRRBB1) for Δ EVE and Δ NII, unless other regulatory specifications are made.

f) Hedging

Hedging transactions are described in the following sections of Valiant's 2018 Annual Report:

- Page 114: Business policy on the use of derivative financial instruments and hedge accounting
- Page 100: Principles of consolidation, Hedging

g) Key modelling and parametric assumptions

1-3 Changes in economic value of equity (Δ EVE)

- Cash flows are shown exclusive of margins.
- The cash flows used to calculate Δ EVE are determined on an individual contract level.
- The cash flows excluding margins are discounted using LIBOR and swap rates. Linear interpolation is used if necessary.

4 Changes in net interest income (Δ NI)

The simulation parameters are essentially consistent with the assumptions for the internal scenarios described under d) on page 8. However, in line with FINMA Circular 2016/1, a constant balance sheet structure on a portfolio basis and instantaneous interest-rate shocks are assumed. For extensions of transactions falling due, identical characteristics are assumed for volumes and repricing maturities, and current values are applied for credit-rating-dependent spread components. In terms of the net interest margin, an economically meaningful simulation is achieved by means of a floor for client interest rates.

5 Variable-rate

Variable-rate positions (i.e. positions with no set repricing maturity or “core deposit products”) are represented by a portfolio of “rolling” fixed-interest investments with different maturities. Repricing behaviour is simulated using portfolios of market interest-rate combinations based on specified optimisation criteria (replications). The simulation uses historical product and market interest rates. In addition, the calculated replication rates are critically scrutinised by the bank’s experts, and adjusted if necessary.

6 Positions with repayment options

Valiant’s products do not normally contain any behaviour-dependent repayment options.

7 Time deposits

Valiant’s products do not normally contain any behaviour-dependent withdrawal options. Any early withdrawals are at market value.

8 Automatic interest options

Valiant’s products do not normally contain any automatic interest options not dependent on behaviour (e.g. caps, floors).

9 Derivatives

Interest-rate derivatives are used to hedge and manage interest-rate risk. If required, further interest-rate derivatives are integrated into the framework of simulations and scenarios.

10 Other assumptions

The calculations in tables IRRBBA1 and IRRBB1 are based on all positions, regardless of currency. Foreign currency positions are translated into CHF and no interest-rate correlations are taken into account. Foreign currencies account for less than 10% of total assets.

IRRBB1: Interest-rate risk – quantitative information on changes in the economic value of equity and net interest income

Period	Δ EVE (change in economic value) in CHF thousands		Δ NII (change in capitalised value) in CHF thousands	
	T	T-1	T	T-1
Parallel up	-89,942	n/a	3,279	n/a
Parallel down	54,770	n/a	-6,405	n/a
Steepener ¹	10,844	n/a		
Flattener ²	-34,749	n/a		
Short rate up	-49,241	n/a		
Short rate down	51,435	n/a		
Maximum	-89,942	n/a	-6,405	n/a

Period	T	T-1
Core capital (Tier1)	2,175,979	2,181,738

¹ Decline in short-term interest rates in combination with an increase in long-term interest rates.

² Increase in short-term interest rates in combination with a decline in long-term interest rates.

T = Half year

Δ EVE shows the change in the present value of capital under the six standardised, instantaneous interest-rate shock scenarios under FINMA Circular 2019/2. The calculation of Δ EVE takes into account interest-rate-sensitive assets, liabilities and off-balance-sheet items in the banking book. The calculation is based on the internal interest-rate-risk measurement system and instantaneous interest-rate shocks, assuming that existing positions are amortised and not replaced by new interest business. The table shows the greatest change in the economic value of equity occurring under the scenario of a parallel upward shift in the yield curve.

Δ NII shows the change in net interest income over a one-year horizon, assuming a constant balance-sheet structure with an instantaneous parallel shift in the yield curve compared with the bank's internal baseline scenario. The bank's internal baseline scenario is based on its own interest-rate forecast. An instantaneous parallel upward shift would have a short-term negative impact on net interest income, but this would be more than offset by derivative hedging measures. A parallel downward shift would result in lower interest income. However, this is based on the assumption that it would still be possible to only partly pass on negative interest rates to client deposits.

As the required information is being reported for the first time, no changes versus year-earlier figures are available.

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