



QNB (Suisse) SA
Basel III
Pillar 3 Disclosures
As per FINMA circular 2016-1
“Disclosure - Banks”
as at 31 December 2023

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BASEL III PILAR 3 DISCLOSURES AS PER CIRCULAR 2016/1 “DISCLOSURE - BANKS”

1. Introduction

QNB (Suisse) SA (‘the Bank’) is regulated by the Swiss Financial Market Supervisory Authority (FINMA), which requires banks to comply with the Basel III Pillar 3 disclosures framework. This report was prepared, based on the FINMA circular 2016/1 ‘Disclosure – Banks’, as at 31 December 2023.

The objective of the report is to provide information with regard to risk management to the Bank’s stakeholders and the general public.

2. Capital adequacy and liquidity

The Bank’s objectives when managing capital and liquidity are to comply with the requirements set by regulators and to safeguard its ability to continue as a going concern. The Bank reports regulatory capital according to the Swiss Capital Adequacy Ordinance (‘CAO’), thereby complying with the FINMA requirements.

As at 31 December 2023, the total capital ratio was 41.2%, well above FINMA’s target of 10.5% for category 5 banks and the specific requirement of 12.5% applicable to the Bank.

The leverage ratio was 18.5%. This ratio is also significantly above the regulatory requirement of 3%.

The Bank’s liquidity coverage ratio (LCR) was 1486.5% at 31 December 2023, significantly above the minimum regulatory requirement of 100%.

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3. KM1: Key regulatory metrics

In CHF 1'000

	31.12.2023	31.12.2022
Eligible regulatory capital		
Common Equity Tier 1 (CET1)	154,139	148,090
Tier 1 (T1)	154,139	148,090
Total eligible regulatory capital	174,139	173,090
Risk-weighted assets		
Total Risk-weighted assets (RWA)	422,699	454,074
Minimum capital requirement	33,816	36,326
Risk-based capital ratios as percentage of RWA		
CET1 ratio (%)	36.5%	32.6%
Tier 1 ratio (%)	36.5%	32.6%
Total regulatory capital ratio (%)	41.2%	38.1%
Additional CET1 buffer requirements as a percentage of RWA		
Capital conservation buffer requirement (%)	2.5%	2.5%
Countercyclical buffer requirement (%)	0.0%	0.0%
Total of bank CET1 specific buffer requirements (%)	2.5%	2.5%
CET1 available after meeting the bank's minimum capital requirements (%)	30.5%	28.1%
Conservation buffer according to CAO annex 8 (%)	2.5%	2.5%
Countercyclical buffer requirement (%) (art. 44 and 44a CAO)	0.0%	0.0%
CET1 target ratio (%) as per Annex 8 of the CAO plus the countercyclical capital buffer	7.0%	7.0%
T1 target ratio (%) as per Annex 8 of the CAO plus the countercyclical capital buffer	8.5%	8.5%
Total capital target ratio (%) as per Annex 8 of the CAO plus the counter-cyclical capital buffer	10.5%	10.5%
Additional CET1 capital requirement according to Circular 11/2 in case of a specific FINMA decree*	2.0%	2.0%
Basel III leverage ratio		
Total Basel III leverage ratio exposure	831,579	938,347
Tier 1 capital	154,139	148,090
Basel III leverage ratio	18.5%	15.8%

*This is an additional requirement from FINMA based on the Bank's business model and risk profile.

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4. KM1: Key regulatory metrics (continued)

	2023	2022
Liquidity Coverage Ratio		
Q4 (31 December)		
Total high-quality liquid assets (HQLA)	60,630	44,338
Total net cash outflow	4,079	6,232
LCR ratio (%)	1486.5%	711.4%
Q3 (30 September)		
Total high-quality liquid assets (HQLA)	58,689	44,373
Total net cash outflow	4,726	8,113
LCR ratio (%)	1241.7%	546.9%
Q2 (30 June)		
Total high-quality liquid assets (HQLA)	70,486	59,386
Total net cash outflow	4,708	11,216
LCR ratio (%)	1497.1%	529.5%
Q1 (31 March)		
Total high-quality liquid assets (HQLA)	56,759	60,829
Total net cash outflow	6,135	12,277
LCR ratio (%)	925.17%	495.5%

	2023	2022
Net Stable Funding Ratio		
Available stable funding (ASF)	497,127	810,526
Required stable funding (RSF)	441,290	563,616
NSFR ratio (%)	112.7%	143.2%

5. OV1: Risk weighted assets

The below table summarizes the composition of the risk weighted assets, and the minimum requirement based on capital requirements for FINMA category 5 banks.

In CHF 1'000

	RWA		Minimum capital requirement
	2023	2022	2023
Credit risk	386,880	417,720	30,950
Of which credit risk - counterparty risk	386,880	417,720	30,950
Non-counterparty related risk	444	1,266	35
Market risk	475	1,354	38
Operational risk	34,900	33,733	2,792
Total	422,699	454,073	33,816

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6. LIQA: liquidity risk management

Liquidity risk is defined as the Bank’s ability to meet its obligations as they fall due at any time.

The Bank considers a sound management of its liquidity as essential for the success of the business.

The Bank manages liquidity risk by making sure that ample liquid assets are available to meet commitments to customers at all times. The overall liquidity management strategy is set by the Board of Directors, which sets the Bank’s overall risk appetite. The Risk department, and the Treasury team under the supervision and control of the Bank’s Assets and Liabilities Management Committee (‘ALCO’) manage the day-to-day control of the Bank’s liquidity risk.

From an Asset and Liability Management (ALM) point of view, most of the Bank’s assets are match funded.

The liquidity management process includes:

- Day-to-day monitoring of cash flows to ensure that regulatory and internal limits are not breached;
- management of available liquidity (Cash, Central bank deposits, and the Bank’s nostro accounts);
- maintaining a portfolio of highly marketable securities that can be quickly converted into cash (HQLA portfolio); and
- monitoring balance sheet liquidity ratios to ensure compliance with internal and regulatory requirements.

7. CR1: Credit risk - credit quality of assets

In CHF 1'000	31.12.2023			
	a	b	c	d
	Gross carrying values of		Value adjustments/ impairments	Net values (a + b - c)
Defaulted exposures	Non-defaulted exposures			
1 Loans (excluding debt securities) *	-	804,291	-	804,291
2 Debt securities**	-	10,971	-	10,971
3 Off-balance-sheet exposures	-	25,866	-	25,866
4 TOTAL	-	841,128	-	841,128

*The Loans balance includes: balances held at central banks, amounts due from banks, amounts due from customers, mortgage loans, and accrued interest on all of the aforementioned.

**The debt securities balance includes accrued interest.

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8. CR3: Credit risk mitigation techniques – overview

In CHF 1'000

	31.12.2023			
	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees
1 Claims (including debt securities)*	210,391	604,872	604,872	543,057
2 Off-balance-sheet transactions	-	25,866	25,782	25,782
3 TOTAL	210,391	630,738	630,654	568,839
4 of which defaulted	-	-	-	-

*The claims balance includes: balances held at central banks, amounts due from banks, amounts due from customers, mortgage loans, and accrued interest on all of the aforementioned. The debt securities balance includes accrued interest.

9. CRB: Credit risk - additional disclosure related to the credit quality of assets

a. Past due exposures

A loan exposure is considered past due if there is any outstanding unpaid principal, interest, fees, or commissions on the day following the relevant contractual payment date. Any exposure that is past due for more than 90 days is classified as a non-performing loan ('NPL'). Unauthorized overdrafts are treated in the same manner.

The Bank's Risk and Credit Department have procedures in place to monitor those exposures on a daily basis. As at 31.12.2023, the total amount of past due was CHF 180K, mostly due to loan instalments and interest pending for less than 30 days.

b. Impaired exposure

Impairment losses are recorded when there are objective indications that a loan carrying value is higher than its recoverable value.

Indications of an impaired loan / receivable include:

- Considerable financial difficulties on the part of the debtor;
- actual breach of contract (e.g. default on or delay in interest or principal payments);
- high probability of default or the implementation of a restructuring process by the debtor;
- a significant decline in the value of loan collateral.

c. Restructured facilities

According to the Bank's policy, a restructured credit facility is any facility that has its terms changed before maturity because of a genuine business reason, e.g., to facilitate extra business capacity, because of change in a contract that the obligor has with a customer or due to the strategic relationship the Bank has with the customer. On that basis, there were no restructured credit facilities during 2023.

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10. ORA: Operational risk – Overview

Operational risk is the occurrence of a direct or an indirect loss arising from a wide variety of events linked to a failure of the Bank’s processes, personnel, technology and infrastructure, and from external factors other than credit, liquidity or market risks. Operational risk is inherent to the Bank’s activities and therefore needs to be managed properly to avoid significant financial and reputational damage.

In addition, the mitigation of operational risk is achieved with an established framework of policies and procedures, which are regularly reviewed and updated.

Periodic reviews undertaken by internal and external auditors ensure compliance with regulation and internal procedures and policies. The results of these reviews are discussed with the Executive Management and a summary is provided to the Board of Directors.

Regarding the calculation of the capital requirement to cover operational risk, the Bank applies the Basic Indicator Approach. The amount of capital to be held to cover the risk is calculated by applying 15% to the average annual positive gross income over the last three years. Figures for any year in which annual gross income is negative or zero are excluded from both the numerator and denominator when calculating the average. Gross income is defined as net interest income and net non-interest income from the Bank’s operating activities.

11. IRRBB: Risk management objective and policies

IRRBB refers to the risk to the Bank’s capital and earnings arising from movements in interest rates (reference rates) that affect the banking book positions. When interest rates change, the present value and timing of future cash flows are also modified. Therefore, it also affects the Economic Value of the Bank.

Changes in interest rates also affect earnings by altering interest rate-sensitive income and expenses, which affect net interest income (NII). Consequently, an excessive IRRBB exposure can be a significant threat to the Bank’s current capital base and/or future earnings if not managed appropriately.

Reference rates are defined as rate indices, and any combination thereof (including spreads between two reference rates), whose values result from financial market activities e.g. SOFR, SARON, etc.

a. Description of the Bank’s strategies to manage and mitigate IRRBB:

The Risk Management department monitors compliance with approved Group limits. The ALCO monitors and reviews the management of the Bank’s balance sheet. It proposes revisions to limits when it is deemed necessary in order to ensure that the overall risk appetite and risk limits are in line.

b. Periodicity in the calculation of the Bank’s IRRBB:

The Bank monitors IRRBB exposure on a monthly basis against approved limits. In addition, on a quarterly basis, the Bank applies a stress test using a set of scenarios (the six standardized interest rate shock scenarios recommended by FINMA). The results are sent to the Swiss National Bank on a quarterly basis using a standard report.

c. Measurement approach of the interest rate risk:

The interest rate risk is measured taking into account the interest rates movements’ impact on the Bank’s Economic Value (EV) according to the following criteria:

- EV sensitivity of the equity;
- sensitivity of the NII (Net Interest Income);
- for the Bank’s equity, the sensitivity of the EV is assessed based on the Market Value Delta approach (FINMA parallel up) with a shift of 200BPS along the yield curve in CHF.

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d. Description of the stress scenario the Bank applies to assess the interest rate shocks on the EV and NII:

The Bank applies the following standardized stress scenarios recommended by FINMA (Circular 2019/2, annex 2). The objective is to calculate the impact on the present value of equity, broken down by major currencies. The six standardized interest rate shock scenarios are:

- i. Parallel upward shock;
- ii. Parallel downward shock;
- iii. Steepener shock (short-term interest rates fall and long-term interest rates rise);
- iv. Flattener shock (short-term interest rates rise and long-term interest rates fall);
- v. Upward shock of short-term interest rates; and
- vi. Downward shock of short-term interest rates.

e. General description of how the Bank covers the IRRBB as well as the relative complete treatment:

The Bank applies the principles defined by FINMA in the circular 2019/2 - Interest rate risk - Banks. The assumptions and parameters are described in section f.

f. General description of the key assumptions and key parameters of the modelling used to calculate EVE and NII in IRRBB1, taking into account the positions and currencies according to IRRBBA1:

To assess the interest rate movement impact on the Economic Value (Δ EVE), the Bank uses the contractual repricing dates of the cash flows. Each value is assigned to a standardized time bucket prescribed by FINMA in the circular 2019/2- Interest rate risks – Banks, Annex 2.

When the repricing date is unknown, for instance for NMDs (Non-Maturing Deposits), the Bank applies a specific approach (assumption-based) resulting in a replication pattern that allocates the notional cash flows across the time buckets defined by regulation.

The rate used to discount the contractual cash flows is based on the sovereign yield curve of the corresponding currency. Cash flows are assumed to be reinvested until the end of the year at a continuously compounded implied forward rate. The approach assumes the same characteristics for the position (tenor, amount) in the baseline scenario and for the FINMA shocks applied in the 6 pre-defined scenarios.

To assess the interest rate movement impact on the NII (Δ NII), the Bank uses the average repricing maturity and renewal assumptions by type of product composing the banking book. The revenues and expenses' sensitivity is set based on the current interest rates and a projection of the corresponding forward rates described in section c.

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12. IRRBBA1: Quantitative information on IRRBB

			31.12.2023			
			Volume (in CHF 1'000)		Average repricing maturity (in years)	
			Total	Of which CHF	Total	Of which CHF
Determined repricing date	Receivables	Receivables from banks	114,016	105,640	0.50	0.53
		Receivables from clients	571,558	411,881	0.07	0.01
		Money-market mortgages	13,764	1,792	0.07	0.08
		Fixed-rate mortgages	8,533	-	5.68	-
		Financial investments	10,913	3,004	3.26	3.77
	Liabilities	Liabilities to banks	588,874	408,553	0.17	0.04
		Liabilities from client deposits	-	-	-	-
		Medium-term notes	-	-	-	-
		Bonds and mortgage-backed bonds	-	-	-	-
		Other liabilities	-	-	-	-
	Liabilities from interest derivatives	-	-	-	-	
Undetermined repricing date	Receivables	Receivables from banks	33,595	1,640	0.08	0.08
		Receivables from clients	8,275	0.1	0.22	0.22
		Variable mortgage claims	-	-	-	-
		Other receivables	-	-	-	-
	Liabilities	Sight liabilities in personal and current accounts	67,206	12,208	0.22	0.22
		Liabilities to banks	1,517	-	0.08	-

13. IRRBB1: Quantitative information on IRRBB

In CHF 1'000					
		Δ EVE	Δ NII	Δ EVE	Δ NII
		31.12.2023	31.12.2023	31.12.2022	31.12.2022
Parallel upward shift		(1,126)	1,775	(1,277)	1,672
Parallel downward shift		1,196	(1,752)	1,472	(1,644)
Steeper shock		60	-	(404)	-
Flattener shock		(265)	-	161	-
Upward short-term interest rate shock		(614)	-	(338)	-
Downward short-term interest rate shock		625	-	344	-
Maximum		(1,126)	(1,752)	(1,277)	(1,644)
Period		31.12.2023	31.12.2023	31.12.2022	31.12.2022
Tier 1 capital (T1)		154,139	154,139	148,090	148,090

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