Risk management

VZ Group's good reputation among clients, investors, lenders, public authorities, business partners and the public is its most valuable asset. Effective risk management makes a significant contribution towards protecting this reputation. For this reason, the correct assessment and monitoring of all key risks is a decisive factor when it comes to the company's sustained success. Risk taking is inevitable in all business activities, and financial services, which are active in asset and liability management, are exposed to particularly high risks. VZ Group avoids business areas with an unfavourable risk/return ratio. It only operates in business areas for which it has sufficient human and technical resources to manage the associated risks.

Organisation of risk management

Board of Directors

VZ Group's Board of Directors is responsible for the overall management, supervision and control of risk management. It sets out the general guidelines for the entire group, approves the framework for institution-wide risk management, including the risk policy, risk tolerances and limits, and issues the organisational, business and competence regulations. These principles are reviewed and if necessary updated in the event of changes to legal and regulatory requirements or to general framework conditions. For its own support and relief, the Board of Directors has created the Risk and Audit Committee that consists of at least two independent, qualified members of the Board of Directors and regularly reports on its activities to the entire board.

Executive Board

The Executive Board of VZ Group is responsible for implementing the risk provisions stated by the Board of Directors and for managing and continuously monitoring incoming risks. Its most important goals are to uphold the long-term interests of VZ Group and to maintain a balanced risk/return ratio in its business activities. Within the framework of directives and regulations, VZ Group's management specifies the identification, measurement, monitoring and reporting of risks for all significant risk categories.

Risk Office,
Legal & Compliance

The Risk Office is responsible for implementing risk control by independently checking and monitoring all risks assumed. The Legal & Compliance department is responsible for legal and regulatory risks. The Risk Office compiles a semi-annual risk report and Legal & Compliance an annual activity report for the attention of the Risk & Audit Committee.

For banking and bank-related services VZ Group defines the following risk categories:
- Default/credit risk
- Market risk (including interest rate risks)
- Liquidity and refinancing risk

For insurance services:
- Risks from insurance contracts

Plus generally applicable risk categories:
- Operational risk
- Regulatory and legal risk
- Reputational risk

Risks are assessed for their probability of occurrence and their financial impact. Risks borne by the company itself are consistently monitored, ensuring in particular that they are assessed and correctly recorded in the financial statements.

The framework for institution-wide risk management defines the principles and objectives as well as the global framework of risk management in VZ Group. It is part of the internal control system and serves as the central guideline and basis for all other directives and regulations in the area of risk management. The Risk and Audit Committee reviews the concept annually.

The framework contains key principles such as:

- Clear responsibilities and competencies
- Matching of risk profile and risk capacity
- Independent control functions and adequate human and technical resources
- Adequate internal control systems
- Transparency regarding the risks taken

Quantifiable risks are limited by risk tolerances and limits, and compliance with these is monitored as part of the ordinary risk control process.

The risks resulting from VZ VermögensZentrum Bank Ltd's business are not material in relation to VZ Group's overall risks; in particular those of VZ Depository Bank Ltd, Zug. Therefore, the assessment of the bank risks does not differentiate between the two countries, and the risks are summarised as VZ Depository banks risks. Wherever a differentiation is appropriate, it is specified accordingly.

Default, market, liquidity and refinancing risks

The default, credit, market, liquidity and refinancing risks of the VZ Group largely result from the interest margin business of VZ Depository banks. On the asset side of the balance sheet these include receivables from banks, public bodies and clients as well as its financial assets. On the liabilities side, such risks arise from liabilities to banks and clients as well as from long-term financial liabilities.

The following sections describe these risks and the internal processes used to measure, monitor and control them.

Default and credit risk

Default/credit risks reflect losses that may arise if a counterparty fails to service or repay loans as agreed. Counterparties are, for example, banks, public corporations, companies and customers. The maximum default risk generally corresponds to the carrying amounts reported. The maximum default risk corresponds in principle to the reported carrying amounts of the receivables.

The default risks relevant to VZ Group's banking business arise primarily from business with professional counterparties, in particular with other banks and public-law entities, as well as from bonds and mortgage loans with good credit ratings. VZ Group does not engage in commercial lending business.

The expected credit losses at the balance sheet date were determined using the expected credit loss model (see pages 68 to 70).

Impact of COVID-19

In order to estimate the expected credit losses as at 31 December 2021, the economic impact of the pandemic on receivables from clients and counterparties of financial assets was analysed. In the model applied to calculate the expected credit losses, the economic situation based on the economic forecasts of the Federal Expert Group for the years 2021 and 2022 was taken into account. No significantly increased default risks are expected, neither for client receivables nor for VZ Group's financial assets. All calculations for expected credit defaults under the general approach are therefore based, unchanged from the previous year, on a period of 12 months, which corresponds to stage 1. Therefore, a transfer of financial instruments from stage 1 to stage 2 or 3 was not necessary.

For the assessment of mortgage loans, a price development index for residential real estate was used, from which no indicators for an increase in expected credit losses arise as at 31 December 2021.

Mortgages

Mortgage loans are the most substantial item in VZ Group's balance sheet. They are spread over a large number of mortgage borrowers and secured by mortgages. As a result, the risk of default is very low and there have been no defaults to date. For credit losses expected, see page 88. As part of the growth in total assets, mortgage loans were further expanded in 2021 to ensure a well diversified balance sheet structure.

Lombard loans

The lombard loans reported in the balance sheet are secured by collaterals or credit balances, so that the default risk is low. The expected credit losses are listed on page 88.

Bonds and loans to banks and public-law corporations

Loans by VZ Depository Banks to other banks and public-law corporations as well as investments in bonds entail default risks. Although the global economy has recovered, it is not yet possible to assess conclusively how the Corona pandemic will affect the creditworthiness of banks in the medium term. In particular, the recovery of the global economy was accompanied by a strong rise in inflation in the USA and Europe. Many banks were able to grow in 2021 and benefit from the rising markets. This is especially true for banks active in the trading and commission business. However, problems in building up additional equity, low interest rates and consolidation pressure in many countries continue to weigh on the banking industry. These factors increase the counterparty risk for bonds and loans to banks.

Rating table financial instruments

CHF '000

	State guarantee[1]	AAA	AA	A	BBB	No rating	Total
Cash and cash equivalents							
Sight deposits	1'749'734		11'846	35'922	1'562	22	1'799'086
Short term investments							
Time deposits (over 3 months)	17'993						17'993
Mortgage pre-financing						1'872	1'872
Lombard credits						69'418	69'418
Marketable securities at fair value							
Marketable securities at fair value						114	114
Derivative financial instruments	2'338			8		504	2'850
Due to customers						3'119	**3'119**
Other receivables						13'834	**13'834**
Financial assets							
Time deposits (over 1 year)	312'245				4'558		316'803
Mortgages						2'902'954	2'902'954
Bonds	186'748	69'167	84'135	19'874			359'924
Other financial assets						26'924	26'924
Total as at 31.12.2021	**2'269'058**	**69'167**	**95'981**	**55'804**	**6'120**	**3'018'761**	**5'514'891**
Total as at 31.12.2020	**2'097'533**	**51'669**	**74'805**	**51'673**	**5'801**	**2'471'633**	**4'753'114**

1 Financial instruments with state guarantee comprise counterparties with implicit or explicit government guarantee such as the Swiss National Bank, Cantonal banks, Swiss public bodies as well as Deutsche Bundesbank.

Off-balance sheet contingencies and commitments

CHF '000

	Mortgage collaterals	Other collaterals	Without collaterals	Total
Contingencies		1'116		1'116
Irrevocable residential mortgages granted, promised payments, ÖRK, banks	16'469	6'450		22'919
Payment obligation regarding depositor protection measures			14'838	14'838
Total unconditional commitments/ payment obligations	**16'469**	**7'566**	**14'838**	**38'873**
Additional funding obligation			1'006	1'006
Total as at 31.12.2021	**16'469**	**7'566**	**15'844**	**39'879**
Total as at 31.12.2020	**21'525**	**5'394**	**13'490**	**40'409**

Domestic and foreign financial instruments

CHF '000

	Domestic	Foreign countries	Total
Cash and cash equivalents			
Sight deposits	1'744'141	54'945	1'799'086
Short term investments			
Time deposits (over 3 months)	17'993		17'993
Mortgage pre-financing	1'872		1'872
Lombard credits	54'234	15'184	69'418
Marketable securities at fair value			
Marketable securities at fair value	82	32	114
Derivative financial instruments	2'850		2'850
Financial assets			
Time deposits (over 1 year)	312'245	4'558	316'803
Mortgages	2'902'954		2'902'954
Bonds	252'823	107'101	359'924
Other financial assets	26'924		26'924
Total as at 31.12.2021	**5'316'118**	**181'820**	**5'497'938**
Total as at 31.12.2020	**4'602'923**	**128'808**	**4'731'731**

Loans to customers (mortgages and lombard loans)

CHF '000

	Mortgage collaterals	Other collaterals	Without collaterals	Total
Lombard loans		69'418		69'418
Mortgages	2'888'137	14'817	0	2'902'954
Pre-financing	1'872			1'872
Total loans as at 31.12.2021	**2'890'009**	**84'235**	**0**	**2'974'244**
Total loans as at 31.12.2020	**2'358'022**	**72'641**	**0**	**2'430'663**

In order to limit these credit risks, strict creditworthiness criteria apply to loans to banks and public-sector entities as well as to investments in bonds. As a matter of principle, only loans to borrowers with high credit standing and an international or national rating are approved. The creditworthiness of Swiss banks is somewhat easier to assess and monitor than the creditworthiness of foreign banks. Therefore, loans to Swiss banks without a rating are permitted in exceptional cases. Loans to public-sector entities are restricted to Switzerland.

Investments in bonds focus on first-class and highly liquid securities from debtors with excellent credit ratings, which are listed as «High Quality Liquid Assets 1 and 2» at the time of purchase.

In addition, the Board of Directors limits lending to individual counterparties by setting limits per counterparty which also include lending by other VZ companies. Country limits ensure that regional cluster risks are capped. These measures comply with the provisions of banking law on risk distribution with regard to concentration risks (Art. 95 et seq. CAO). The expected credit losses are listed on page 88.

Derivative financial instruments

Additional counterparty risks arise from currency and interest rate derivatives: if the counterparty to such transactions defaults, losses may be incurred. These default risks are greatly reduced by margin accounts.

Other default risks

Other default risks arise in connection with receivables from clients. These are mainly short-term account overdrafts with low amounts as well as sureties or guarantees which are issued against account or securities cover. These positions are monitored on an ongoing basis.

The Risk Office regularly monitors compliance with the credit criteria and limits. It immediately notifies the Executive Board and Board of Directors of violations and proposes appropriate measures for reducing the risk.

Development of expected credit losses in accordance with IFRS 9

CHF '000

	Impairment according to IFRS 9 as at 1.1.2021	IFRS 9 measurement effect in the income statement	Impairment according to IFRS 9 as at 31.12.2021
Assets			
Cash and cash equivalents (A)	(8)	2	(6)
Short-term investments (A)	(7)	(2)	(9)
Trade receivables (V)	(11)	(1)	(12)
Other current assets (V)	(6)	2	(4)
Financial assets (A)	(73)	2	(71)
Total	**(105)**	**3**	**(102)**

	Impairment according to IFRS 9 as at 1.1.2020	IFRS 9 measurement effect in the income statement	Impairment according to IFRS 9 as at 31.12.2020
Assets			
Cash and cash equivalents (A)	(8)	0	(8)
Short-term investments (A)	(8)	1	(7)
Trade receivables (V)	(8)	(3)	(11)
Other current assets (V)	(14)	8	(6)
Financial assets (A)	(56)	(17)	(73)
Total	**(94)**	**(11)**	**(105)**

1 (A) = Calculation according to the general approach
2 (V) = Calculation according to a simplified approach

Market risks

Market risks refer to the losses incurred due to adverse changes in market variables such as interest rates, equity prices, exchange rates, precious metal or commodity prices.

Market price and liquidity risk

Price risks reflect the price fluctuations of tradable assets or derivative financial instruments. Tradable assets and derivative financial instruments that are not traded on a liquid market are additionally exposed to a market liquidity risk. The VZ Depository Banks do not engage in proprietary trading. In exceptional cases, it is possible that residual positions are held temporarily in connection with the settlement and allocation of securities due to client transactions. There are price risks on the derivative financial instruments held for hedging purposes, which, however, are largely compensated by the opposite development of the hedged position in the case of an effective hedge. In event of market shifts of +/–10 % price risks on securities measured at fair value impact total equity by +/– TCHF 296 (2020: +/– TCHF 1280).

The financial assets reported primarily comprise mortgage loans and bonds. They are only exposed to low market price and liquidity risks because they are held to maturity and valued at amortised cost.

Interest rate risk

Interest rates risks arise in the event of mismatches in the interest readjust dates of assets and liabilities. This primarily affects interest-bearing assets of VZ Depository banks with longer maturities (e.g. loans or bonds) that are refinanced with short-term liabilities (e.g. client deposits). If in this case the short-term interest rates rise, the margin will be lower due to the different dates.

VZ Depository Banks' business model entails the interest rate risks customary in banking. On the liabilities side, interest rates on client deposits can be adjusted to market developments at any time. Significant parts of the assets are invested on demand or with residual maturities of up to three months. The average fixed-interest period for residential mortgages is around 1.1 years (2020: 1.1 years), and around 6.3 years for bonds (2020: 5.3 years). VZ Group uses derivative financial instruments (interest rate swaps and interest rate caps) to manage interest rate risk.

VZ Depository Bank Ltd, Zug, participates in mortgage bond auctions of the Swiss mortgage bond bank (Pfandbriefbank schweizerischer Hypothekarinstitute) for the purpose of refinancing. As at the balance sheet date of 31 December 2021, the bank held loans from central mortgage institutions in the amount of CHF 350.7 million (31.12.2020: CHF 334.0 million) with an average term of 5.3 years (2020: 5.6 years). This type of refinancing was further increased in the 2021 reporting year. Interest rate risks of loans from central mortgage institutions have been hedged using hedge accounting. In order to reduce fluctuations in future interest income from money market mortgages, part of the future interest income has been hedged with interest rate caps. The scope and effectiveness of these hedges are shown on page 139.

The interest risk in the event of a rise in the interest yield curve of 1.5 % (or 150 basis points) impact total equity by minus CHF 20.2 million (2020, with 150 basis points: minus CHF 17.6 million). In the event of a lowering of the interest yield curve of 1.5 % (or minus 150 basis points) the interest risk impact on total equity by plus CHF 4.9 million (2020, with 150 basis points: plus CHF 2.5 million). The interest risk is still on a low level.

Currency risks

Currency risks refer to losses that can be incurred due to exchange rate fluctuations.

VZ Group does not have any significant foreign exchange holdings and therefore hardly bears any currency risks. Foreign currency holdings can be acquired from earnings in daily operations. For example, such earnings at VZ Depository banks are attributable to the spread on foreign exchange transactions, interest payments and transaction fees in foreign currencies. The holdings are continuously monitored and converted to the functional currency. Foreign exchange transactions for clients are normally traded through. To optimise revenues short-term foreign exchange contracts can be closed. For this reason foreign currency holdings are exchanged in the functional currency of VZ Depository Banks and hedged by forward foreign exchange contracts so that no currency risks arise.

The currency risk from net investments in foreign companies within VZ Group is not hedged.

Financial instruments: foreign exchange table

CHF '000

	CHF	EUR	USD	Others	Total
Cash and cash equivalents					
Sight deposits	1'716'239	65'965	4'322	12'560	1'799'086
Short term investments					
Time deposits (over 3 months)	17'993				17'993
Mortgage pre-financing	1'872				1'872
Lombard credits	67'409	2'000	9		69'418
Marketable securities at fair value					
Marketable securities at fair value	82	32			114
Derivative financial instruments	2'850				2'850
Financial assets					
Time deposits (over 1 year)	312'245		4'558		316'803
Mortgages	2'902'954				2'902'954
Bonds	350'197	9'727			359'924
Other financial assets	26'876			48	26'924
Due to banks	(624'480)	(68)	(294)		**(624'842)**
Due to customers	(3'563'577)	(179'685)	(122'139)	(9'020)	**(3'874'421)**
Long-term debts					
Medium-term notes	(381)				(381)
Loans from central mortgage institutions	(350'715)				(350'715)
Time deposits more than 1 year from customers	(6'000)				(6'000)
Time deposits more than 1 year from banks	(5'000)				(5'000)
Long-term leasing liabilities	(42'089)	(5'471)		(790)	(48'350)
Other non-current liabilities[1]				(20'162)	(20'162)
Total as at 31.12.2021	**806'475**	**(107'500)**	**(113'544)**	**(17'364)**	**568'067**
Foreign exchange forward contracts		117'148	113'466	3'873	234'487
Total as at 31.12.2021 (hedged)	**806'475**	**9'648**	**(78)**	**(13'491)**	**802'554**
Total as at 31.12.2020 (hedged)	**615'029**	**10'063**	**(413)**	**126**	**624'805**

1 Financial instruments included in Other non-current liabilities.

The following table shows the currency risks of financial instruments and other balance sheet items with their impact on the equity:

CHF '000

Currency	Change in value	Impact on equity 2021	Impact on equity 2020
EUR	+/–25%	+/–4'762	+/–2'516
USD	+/–25%	+/–3	+/–103
GBP	+/–25%	+/–661	n/a
Other	+/–25%	+/–19	+/–32

Liquidity and refinancing risks

Liquidity and refinancing risks arise when ongoing obligations can no longer be fulfilled or assets such as loans can no longer be refinanced at a reasonable price. The overriding objective of VZ Group's liquidity and refinancing management is to have sufficient liquidity available anytime. VZ Group's liquidity management is based on FINMA regulations, and it also applies its own models.

Responsibility and monitoring

The Board of Directors is responsible for the overall supervision of the liquidity and refinancing risks and issues risk tolerances and limits annually. The group's management ensures compliance with risk tolerances and limits and may further restrict them. The Asset Liability Committee (ALCO), which reports directly to the Group Executive Board, has been established to support the management of risks. The Risk Office monitors all specified risk tolerances and limits as well as regulatory requirements. Liquidity and refinancing management is integrated into the group-wide risk management process.

Execution

Group-wide liquidity and refinancing management is carried out by the Treasury of VZ Depository Bank Ltd, Zug, which reports directly to ALCO and the Executive Board. The reporting components include the short-term liquidity ratio (Liquidity Coverage Ratio, LCR) and the structural liquidity ratio (Net Stable Funding Ratio, NSFR). The Treasury of VZ Depository Bank Ltd, Zug, is primarily responsible for investing the Group's liquid funds.

Risik mitigation

To limit its risks, VZ Group plans its liquidity over several years and monitors a number of early warning indicators tailored to its business model. The group companies that have a significant impact on liquidity simulate a liquidity stress scenario every month. In addition, the VZ Depository Banks maintain a sufficient liquidity reserve on a sustainable basis. A contingency plan is part of the group-wide risk management and is regularly reviewed for effectiveness.

VZ Group's banks mainly refinance themselves through stable client deposits as well as well-scheduled mortgage bonds, time deposits and medium-term notes. The other group companies' borrowings are insignificant. Overall, VZ Group's refinancing risks are therefore low.

Further details and the remaining time to maturity of trade payables and other liabilities can be found on pages 112 and 113.

Financial instruments: maturity table (remaining time to maturity) as at 31.12.2021

CHF '000

	Demand	0 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
Cash and cash equivalents						
Sight deposits	1'799'086					1'799'086
Short term investments						
Time deposits (over 3 months)			17'993			17'993
Mortgage pre-financing		1'872				1'872
Lombard credits		15'286	54'132			69'418
Marketable securities at fair value						
Marketable securities at fair value	114					114
Derivative financial instruments	2'850					2'850
Financial assets						
Time deposits (over 1 year)				113'553	203'250	316'803
Mortgages		99'662	253'427	2'324'981	224'884	2'902'954
Bonds		12'648	19'171	113'136	214'969	359'924
Other financial assets		2'915		24'009		26'924
Due to banks	(98'842)	(526'000)				**(624'842)**
Due to customers	(3'861'421)	(1'000)	(12'000)			**(3'874'421)**
Long-term debts						
Medium-term notes			(226)	(155)		(381)
Loans from central mortgage institutions		(6'000)	(6'413)	(138'686)	(199'616)	(350'715)
Time deposits more than 1 year from customers				(6'000)		(6'000)
Time deposits more than 1 year from banks				(5'000)		(5'000)
Long-term leasing liabilities				(23'530)	(24'820)	(48'350)
Other non-current liabilities				(20'162)		(20'162)
Interest payments		(166)	(1'011)	(3'835)	(1'275)	**(6'287)**
Total as at 31.12.2021	**(2'158'213)**	**(400'783)**	**325'073**	**2'378'311**	**417'392**	**561'780**

Financial instruments: maturity table (remaining time to maturity) as at 31.12.2020

CHF '000

	Demand	0 to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
Cash and cash equivalents						
Sight deposits	1'624'780					1'624'780
Call deposits		4'424				4'424
Time deposits (within 3 months)		1'000				1'000
Short term investments						
Time deposits (over 3 months)		27'323	30'170			57'493
Mortgage pre-financing		977				977
Lombard credits		13'808	44'110			57'918
Marketable securities at fair value						
Marketable securities at fair value	111					111
Derivative financial instruments	12'686					12'686
Financial assets						
Time deposits (over 1 year)				113'485	144'750	258'235
Mortgages		117'527	252'300	1'783'310	218'631	2'371'768
Bonds		11'549	35'748	125'413	153'095	325'805
Other financial assets		2'795		13'739		16'534
Due to banks	(45'697)	(475'000)	(10'000)			**(530'697)**
Due to customers	(3'235'573)	(36'350)	(18'000)			**(3'289'923)**
Long-term debts						
Medium-term notes		(200)	(76)	(381)		(657)
Loans from central mortgage institutions			(17'505)	(84'812)	(231'662)	(333'979)
Time deposits more than 1 year from customers				(15'000)		(15'000)
Time deposits more than 1 year from banks				(10'000)		(10'000)
Long-term leasing liabilities				(24'155)	(25'744)	(49'899)
Interest payments		(124)	(1'142)	(4'348)	(1'792)	**(7'406)**
Total as at 31.12.2020	**(1'643'693)**	**(332'271)**	**315'605**	**1'897'251**	**257'278**	**494'170**

Risks from insurance contracts

Risks from insurance contracts contain the risk that by accident, factual error or modification the expenses incurred for claims payments differ from anticipated expenses. It includes risks for claims, premiums and reserves. Large risks are transfered to reinsurers. Defaults of reinsurance partners qualify as counterparty risks.

Underwriting risks are limited to VZ VersicherungsPool Ltd. This company offers non-life insurances only, including motor vehicle, building, household contents and personal liability insurance for private individuals. VZ VersicherungsPool Ltd's reinsurance programme is designed to be very defensive.

Operational risk

Operational risks describe losses caused by external events as well as losses that can occur when business processes, controls, systems or people fail. The management of the respective subsidiary is responsible for managing and controlling operational risks. Risk management ensures that the guidelines are adhered to in all essential work processes. Organisational measures such as automation, internal control and security systems, written guidelines and general damage mitigation techniques additionally limit the operational risks.

Employees are also sensitised towards operational risks. The Risk Office analyses and discusses the risks at regular intervals with the executive boards of the individual subsidiaries. The aim of this is also to identify new risks and define their measurement and control.

Regulatory and legal risk

Legal and regulatory risk management seeks to minimise the so-called compliance risk, which refers to the legal or regulatory sanctions, financial loss or loss of reputation resulting from failure to comply with the applicable provisions. For VZ Group these particularly include financial market regulations and decrees and self-regulatory provisions in addition to its own code of conduct and provisions.

VZ Group continuously tracks these developments. It has formed the necessary committees and disposes of enough specialists in the Legal & Compliance departement to implement all requirements on time.

Reputational risk

Negative media coverage can damage the VZ Group's reputation. VZ Group minimises reputational risks by means of clear management structures, standardised work processes, detailed client documentation, a code of conduct for all employees and the centralisation of important communication tasks.

Capital management

Capital management has the objective of providing VZ Group and the individual group companies with sufficient capital at all times. To this end, a capital plan for the next three years is drawn up each year.

Banking regulatory disclosures on capital resources[1]

The VZ Group as a financial services provider is subject to supervision by the Swiss Financial Market Supervisory Authority (FINMA).

As a financial services provider in category 4, VZ Group must comply with extended supervisory disclosure requirements in accordance with FINMA Circular 2016/1 Disclosure for Banks.

The following is an excerpt from the regulatory data disclosed in full on pages 149 to 151. The extract is limited to a comparison between the existing eligible own funds and the minimum required own funds as well as the associated key figures.

Thanks to a solid capital structure, VZ Group aims to not only meet the regulatory requirements for own funds, but to finance the targeted growth.

Presentation of eligible capital

CHF '000

	31.12.2021	31.12.2020
Common equity tier 1 capital (net CET1)	**601'312**	**546'850**
Additional tier 1 capital	0	0
Total regulatory capital (net T1)	**601'312**	**546'850**
Supplementary capital (T2)	0	0
Total of eligible capital	**601'312**	**546'850**

1 Unaudited information.

Presentation of required capital

CHF '000

	Approach used	Capital adequacy requirements	
		31.12.2021	31.12.2020
Credit risk	Int. standardised approach	125'483	105'361
Non-counterparty-related risk	Int. standardised approach	10'623	10'666
Market risk	De-minimis approach	1'758	1'216
Operational risk	Basis indicator	51'383	45'657
Amounts below the deduction threshold		1'680	1'509
Total of required capital		**190'927**	**164'409**

Capital adequacy ratios according to the FINMA Circular 2016/1

	31.12.2021	31.12.2020
Common equity tier 1 capital ratio (CET1)[1]	25.2 %	26.6 %
Tier 1 capital ratio (T1)[2]	25.2 %	26.6 %
Total eligible capital ratio (T1 & T2)[3]	25.2 %	26.6 %

1 CET1 capital adequacy target as at 31.12.2021: 7.4 % (31.12.2020: 7.4)
2 Tier 1 capital adequacy target as at 31.12.2021: 9.0 % (31.12.2020: 9.0 %)
3 Overall capital adequacy target as at 31.12.2021: 11.2 % (31.12.2020: 11.2 %)

Details can be found on page 149 under «Disclosure obligations under supervisory law»

Information to the leverage ratio

CHF mio.

	31.12.2021	31.12.2020
Ratio of eligible equity and of total exposure		
Tier 1 capital	600	595
Leverage ratio exposure	**5'774**	**4'761**
Leverage ratio		
Leverage ratio	**10.4 %**	**12.5 %**