Pillar 3 disclosure requirements

(pursuant to FINMA Circular 2008/22)

31 December 2011

BANQUE PRIVÉE
EDMOND DE ROTHSCHILD

CONTENTS

1. OBJECTIVE AND SCOPE OF THIS REPORT

1.1. Financial reporting guidelines

The purpose of this report is to inform the public on the capital adequacy of the Banque Privée Edmond de Rothschild SA Group (hereinafter the "BPER Group") in relation to the risks inherent in its businesses and the risk-management procedures that have been implemented.

This report was drawn up pursuant to article 35 of the Capital Adequacy Ordinance (hereinafter the "CAO") that deals with the Pillar 3 requirements on disclosure and technical execution contained in Circular 2008/22 issued by the Swiss Financial Market Supervisory Authority (hereinafter "FINMA").

A report of this type is published once a year within four months of the closing of the Group's consolidated financial statements at 31 December. It is available on the website of Banque Privée Edmond de Rothschild SA, Geneva (www.edmond-de-rothschild.ch).

The information in this report refers to the annual closing of the BPER Group's consolidated accounts at 31 December 2011.

1.2. Scope of consolidation

The parent company of the BPER Group is Banque Privée Edmond de Rothschild SA, Geneva (hereinafter the "Bank"). The scope of consolidation for calculating capital adequacy requirements is the scope applicable to the consolidated financial statements.

Group companies

The BPER Group companies in which the parent company holds a controlling interest directly or indirectly are fully consolidated. These companies, which are located both abroad and in Switzerland and include banks as well as firms specialising in financial services and real estate, are listed in the BPER Group's 2011 annual report.

Holdings accounted for using the equity method

Companies controlled 20% to 50% by the BPER Group are reported and valued in the consolidated balance sheet as per the equity method. At 31 December 2011 they were:

- La Compagnie Benjamin de Rothschild SA, Geneva;
- ACH Management SA, Luxembourg;
- LCF EdR Nikko Cordial, Tokyo;
- LCH Investment NV, Netherlands Antilles.

These holdings are deducted from the eligible capital and at 31 December 2011 were valued in the balance sheet at CHF 45.6 million.

The other non-consolidated holdings are stated at their acquisition value, less any depreciation, and are weighted according to risk.

There is no restriction that could prevent transfers of money or capital within the BPER Group.

2. CAPITAL ADEQUACY

2.1. Eligible capital

		31.12.2011 (in CHF '000)	31.12.2010 (in CHF '000)
Gross Tier 1 capital (after deducting equity capital)		1,302,724	1,255,577
- of which minority interests		*29,292*	*28,565*
- of which "innovative" instruments		*0*	*0*
Deductions from Tier 1 capital		-129,564	-130,165
(-) regulatory deductions		*0*	*-5,737*
(-) other items		*-129,564*	*-124,428*
Eligible Tier 1 capital	**Tier 1**	**1,173,160**	**1,125,412**
Additional capital		0	0
Other deductions from capital		0	0
Eligible capital	**Total**	**1,173,160**	**1,125,412**

Eligible capital is determined in accordance with the CAO requirements and includes the following items:

- Tier 1 capital (paid-in capital, disclosed reserves and minority interests in fully consolidated Group companies);
- deductions such as goodwill and non-consolidated holdings in financial services companies.

2.2. Required capital and adequacy ratio

Required capital is determined with a view to covering the credit risk, risks unrelated to counterparties, the market risk and operational risks. It depends on the regulatory approach chosen by the Group that addresses each type of risk individually:

Type of risk	Regulatory approach
Credit risk	International standardised approach (BIS SA)
Counterparty risk	International standardised approach (BIS SA)
Market risk	Standardised approach
Operational risk	Standardised approach

In terms of credit risk mitigation measures the Group takes into account collateral by using the overall approach.

A risk unrelated to a counterparty is a risk of loss arising from changes in values or asset liquidation that are unrelated to counterparties, such as on property and other fixed assets.

Banque Privée Edmond de Rothschild,
Rue de Hesse.

The following table provides a breakdown of consolidated capital requirements at 31 December 2011 by risk type and the ratio at which it is covered by BPER Group eligible capital:

		31.12.2011 (in CHF '000)	31.12.2010 (in CHF '000)
Eligible capital		**1,173,160**	**1,125,412**
- of which Tier 1 capital		*1,173,160*	*1,125,412*
Required capital			
Credit risk		99,971	141,705
- of which price risks relating to equity securities in the Bank's portfolio		4,156	4,345
Risks unrelated to counterparties		20,755	15,014
Market risk		50,839	51,051
- of which on interest-rate instruments (general market and specific risks)		2,973	2,230
- of which on equity securities		4,236	4,124
- of which on currencies and precious metals		37,951	35,525
- of which on commodities		5,061	9,168
- of which sur options (delta-plus)		618	4
Operational risk		92,430	103,133
	Subtotal	***263,995***	***310,903***
BIS-SA: additional Swiss capital adequacy requirements (multipliers)		57,327	50,282
	Total	**321,322**	**361,185**
FINMA capital adequacy ratio (eligible capital divided by required capital under Swiss law)		**365%**	**312%**
FINMA Tier 1 ratio (eligible Tier 1 capital)		**29.2%**	**24.9%**
FINMA total ratio (eligible capital)		**29.2%**	**24.9%**

Capital adequacy objective

Under article 34 of the CAO, banks have to maintain additional (Pillar 2) capital to cover risks that are not taken into account (or not significantly) in the Pillar 1 category as defined in the Basel II accords.

Since 1 July 2011 Swiss banks have been subject to a capital adequacy "objective" that depends on the categories of risk they face, so that they can deal with risks not taken into account by the minimum 8% requirement. The target is also intended to ensure compliance with these standards in the event of adverse developments:

Category	Capital adequacy objective	Criteria[1] (in CHF bn)	
Category 2	13.6 – 14.4%	Balance sheet total Assets under management Preferred deposits Required capital	≥100 ≥500 ≥20 ≥2
Category 3	12%	Balance sheet total Assets under management Preferred deposits Required capital	≥15 ≥20 ≥0.5 ≥0.25
Category 4	11.2%	Balance sheet total Assets under management Preferred deposits Required capital	≥1 ≥2 ≥0.1 ≥0.05
Category 5	10.5%	Balance sheet total Assets under management Preferred deposits Required capital	<1 <2 <0.1 <0.05

The **BPER Group** is in **category 3**, which means its **capital adequacy objective**[2] **is 12%**. **Not only did we amply fulfil the legal requirement at 31 December 2011** with **total eligible capital amounting to 29.2% of risk-weighted assets** (2010: 24.9%), **but we also have a large capital surplus to face the risks inherent in our businesses and their growth**.

[1] To be classified in this category, a company has to fulfil at least three of the four criteria.

[2] The capital adequacy objective is the ratio of eligible capital to risk-weighted assets.

3. RISK MANAGEMENT OBJECTIVES AND GOVERNANCE

3.1. Risk policy

Banque Privée Edmond de Rothschild SA, Geneva is responsible for monitoring, administering and controlling the Banque Privée Edmond de Rothschild Group, of which it is the parent company.

A joint risk policy set by the Bank and approved by the Board of Directors lays down the general guidelines to which the BPER Group entities are subject. Within this framework and in compliance with local regulations, each affiliate implements its own risk management objectives and governance with a view to identifying, mitigating and controlling the risks it is exposed to.

Aided by its longstanding experience in this area, the Bank maintains a risk management department with sufficient quantitative and qualitative resources in terms of staff and equipment.

Risk management is set up as follows:

- the Board of Directors decides the Group's risk-taking strategy and what components risk management should comprise;
- the Audit Committee monitors risk management and evaluates how it is functioning. It controls risks periodically by studying reports drawn up regularly or at its request by the Risk Control and Management Dept;
- the Executive Committee is in charge of implementing procedures designed to identify, evaluate, analyse and control all risks taken by the Bank and the Group. With help from the Risk Committee it ensures that the risk policy set by the Board of Directors is applied and that all important information on the risk situation of the Bank and Group is gathered, processed and reported to its governing body;
- department heads are responsible for anticipating, preventing and managing the main developments that could affect the realisation of the objectives inherent in their business segments and the underlying operational processes;
- the head of Risk Management ensures that risk management guidelines and methods are transposed into decision-making and operational processes. He monitors risk exposure and compliance with the relevant limits and reports on the risk situation of the Bank and Group. Each entity has a risk control and management desk that reports regularly on the entity's business to the head of Risk Management at the Bank, the Group's parent company.

All the Group's staff are concerned by risk management, which is meant to cover all the businesses, processes and assets of the Bank and Group entities. It should anticipate risks instead of submitting to them, thereby helping to preserve the Group's value and reputation.

3.2. Credit risk

*The **credit risk** is the risk that a client or counterparty bank might not be able to honour an obligation towards the Bank and/or the Group's affiliated companies.*

The credit risk arises from lending to clients and from interbank transactions / positions:

Clients

Credit business forms a secondary segment of the services and products that the Bank and Group entities offer to clients. The Group's small appetite for the credit risk is reflected in the nature and scope of this business, which is limited to satisfying clients' applications for short-term financing, guarantees and other commitments on forward and/or derivative instruments.

All credit facilities must be secured by financial assets that in order to be eligible must fulfil rigorous criteria regarding their liquidity, valuation, quality rating, regional provenance and diversification. To a lesser extent they may be secured by personal collateral such as pledges of life insurance policies and guarantees issued by first-rate banks. In even rarer cases they may be secured by property-backed instruments such as home mortgages. Thanks to this rigorous policy, clients' liabilities are systematically and amply secured.

The Risk Control and Management Dept is in charge of analysing the quality of pledged financial assets and assigning them a collateral value. Each instrument is studied on the basis of several criteria: asset class (e.g. shares and other equity securities, bonds and other fixed-income securities, etc.). The collateral ratios applied to shares in investment funds, ETPs and related products are reviewed by a special Credit Committee.

Credit risk exposure to clients is monitored daily by a special team that reports to senior management at regular intervals or when required by business.

Bank counterparties

The Bank and Group entities have a low risk appetite when it comes to bank counterparties. These are subjected to in-depth analysis based on rigorous screening criteria.

The credit lines granted to bank counterparties are set by the Bank's Board of Directors for Group companies and mainly cover the following: i) interbank deposits; ii) reverse repos; iii) spot and forward forex transactions; iv) other derivative instruments; and v) fiduciary transactions. Credit lines are reviewed regularly, either at the Bank's initiative or at the request of a Group company, and are adapted immediately if required by circumstances.

Exposure to bank counterparties is monitored daily by a standing control desk. To minimise the credit risk inherent in bank counterparties, the Group prefers depositing cash with the Swiss National Bank and other European central banks such as the Central Bank of Luxembourg. We also prefer to use reverse repos and set-off agreements.

Credit risk by counterparty type

The table below provides a breakdown of credit risk by counterparty type at 31 December 2011 (in CHF '000)

Credit commitments	**Central governments and central banks**	**Banks and brokers**	**Due from public corporations**	**Companies**	**Retail**	**Equity securities**	**Other exposure**	**Total** (ex metals)
BALANCE SHEET								
Cash and other liquid assets	3,288,001	0	0	0	0	0	12,617	3,300,618
Due from banks	1,416,173	5,974,195	0	1,443	0	0	0	7,391,811
- of which reverse repos	*0*	*4,754,805*	*0*	*0*	*0*	*0*	*0*	*4,754,805*
Due from customers	0	0	5,705	666,602	662,158	0	5,303	1,339,768
Mortgage loans	0	0	0	529	10,685	0	0	11,214
Money market claims / Trading portfolios								
Financial investments / Holdings	71,957	85,017	14,699	101,747	0	38,260	11,686	323,367
Other assets	146	13,211	0	24,018	351	0	72,537	110,262
Positive replacement values	0	83,320	87	235,277	25,616	0	418	344,719
OFF-BALANCE SHEET TRANSACTIONS								
Contingent liabilities /								
Guarantees	0	65,488	1,841	43,453	51,994	0	134	162,911
Irrevocable liabilities	0	0	6,700	0	7,904	0	0	14,604
Liabilities on unpaid share capital and								
additional capital contributions	0	0	0	2,347	0	0	0	2,347
Add-ons	0	110,190	115	49,344	15,705	0	102	175,457
Total at 31 December 2011	**4,776,278**	**6,331,421**	**29,147**	**1,124,761**	**774,414**	**38,260**	**102,798**	**13,177,079**
Total at 31 December 2010	**955,440**	**8,950,468**	**24,824**	**953,543**	**804,066**	**40,621**	**124,283**	**11,853,245**

Mitigation of credit risk

The table below shows the measures taken to mitigate the credit risk (in CHF '000)

Credit commitments	Secured by recognised financial assets	Secured by guarantees and credit derivatives	Secured by mortgage instruments	Other collateral	Unsecured	Total (ex metals)
BALANCE SHEET						
Cash and other liquid assets	0	0	0	0	[3] 3,300,618	3,300,618
Due from banks	4,754,805	0	0	0	[4] 2,637,006	7,391,811
- of which reverse repos	*4,754,805*	*0*	*0*	*0*	*0*	*4,754,805*
Due from customers	790,329	44,737	0	33,521	471,182	1,339,768
Mortgage loans	0	0	11,207	0	7	11,214
Money market claims / Trading portfolios						
Financial investments / Holdings	0	0	0	0	323,367	323,367
Other assets	452	365	0	1	109,444	110,262
Positive replacement values	213,577	3,885	0	288	126,968	344,719
OFF-BALANCE SHEET TRANSACTIONS						
Contingent liabilities /						
Guarantees	75,429	1,854	0	764	84,864	162,911
Irrevocable liabilities	0	0	0	0	14,604	14,604
Liabilities on unpaid share capital and						
additional capital contributions	39	0	0	0	2,309	2,347
Add-ons	34,283	0	0	581	140,593	175,457
Total at 31 December 2011	**5,868,914**	**50,840**	**11,207**	**35,156**	**7,210,962**	**13,177,079**
Total at 31 December 2010	**8,668,247**	**29,374**	**14,177**	**151,523**	**2,989,924**	**11,853,245**

[3] of which KCHF 3,288,001 deposited in clearing accounts with the Swiss National Bank and the Central Bank of Luxembourg

[4] of which KCHF 1,416,173 in term deposits with the Central Bank of Luxembourg

Segmentation of credit risk

The table below shows the weighting of credit risk by asset type (in CHF '000)

	Regulatory risk weightings									
Credit commitments	**0%**	**20/25%**	**35%**	**50%**	**75%**	**100%**	**125%**	**150%**	**250%**	**Total** (ex metals)
BALANCE SHEET										
Cash and other liquid assets	3,300,618	0	0	0	0	0	0	0	0	3,300,618
Due from banks	6,170,978	1,143,539	0	74,089	0	3,205	0	0	0	7,391,811
- of which reverse repos	*4,754,805*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*4,754,805*
Due from customers	753,501	44,477	0	285	88,050	453,455	0	0	0	1,339,768
Mortgage loans	2,268	0	0	0	0	8,946	0	0	0	11,214
Money market claims / Trading portfolios										
Financial investments / Holdings	69,956	130,845	0	57,855	0	37,324	0	27,387	0	323,367
Other assets	600	13,598	0	8	206	95,850	0	0	0	110,262
Positive replacement values	213,865	45,847	0	26,689	1,078	57,239	0	0	0	344,719
OFF-BALANCE SHEET TRANSACTIONS										
Contingent liabilities /										
Guarantees	77,083	4,333	0	57,822	6,325	17,349	0	0	0	162,911
Irrevocable liabilities	0	6,700	0	0	0	7,904	0	0	0	14,604
Liabilities on unpaid share capital and										
additional capital contributions	0	0	0	0	0	2,347	0	0	0	2,347
Add-ons	34,864	55,945	0	51,575	584	32,489	0	0	0	175,457
Total at 31 December 2011	**10,623,733**	**1,445,284**	**0**	**268,323**	**96,242**	**716,109**	**0**	**27,387**	**0**	**13,177,079**
Total at 31 December 2010	**7,962,927**	**2,407,441**	**0**	**480,734**	**105,294**	**869,114**	**0**	**27,735**	**0**	**11,853,245**

Credit risk by region

The table below provides a geographical breakdown of the credit risk (in CHF '000)

Credit commitments	**Switzerland**	**Europe**	**Caribbean**	**North America**	**South America**	**Asia**	**Africa**	**Oceania**	**Total** (ex metals)
BALANCE SHEET									
Cash and other liquid assets	2,479,351	821,021	0	237	8	1	0	0	3,300,618
Due from banks	215,069	6,991,289	3,220	152,213	329	27,088	102	2,500	7,391,811
- of which reverse repos	*75,152*	*4,679,653*	*0*	*0*	*0*	*0*	*0*	*0*	*4,754,805*
Due from customers	118,082	848,186	247,336	37,382	20,248	40,962	19,556	8,016	1,339,768
Mortgage loans	8,314	2,900	0	0	0	0	0	0	11,214
Money market claims / Trading portfolios									
Financial investments / Holdings	143,083	132,860	5,208	15,973	3,844	5,146	0	17,252	323,367
Other assets	27,785	68,643	12,316	425	287	796	9	1	110,262
Positive replacement values	63,923	258,077	14,573	4,342	310	949	364	2,179	344,719
OFF-BALANCE SHEET TRANSACTIONS									
Contingent liabilities / Guarantees	70,936	42,620	36,663	2,550	3,881	1,780	3,416	1,065	162,911
Irrevocable liabilities	6,700	7,904	0	0	0	0	0	0	14,604
Liabilities on unpaid share capital and additional capital contributions	2,309	39	0	0	0	0	0	0	2,347
Add-ons	57,917	105,707	8,363	1,547	397	490	258	778	175,457
Total at 31 December 2011	**3,193,470**	**9,279,247**	**327,680**	**214,669**	**29,304**	**77,213**	**23,706**	**31,791**	**13,177,079**
Total at 31 December 2010	**2,741,178**	**8,321,099**	**411,470**	**197,569**	**18,183**	**90,247**	**32,404**	**41,095**	**11,853,245**

Nonperforming loans to clients by region

The table below provides a geographical breakdown of nonperforming loans to clients (in CHF '000)

	Switzerland	Europe	Caribbean	North America	South America	Asia	Africa	Oceania	TOTAL	
									31.12.2011	31.12.2010
Nonperforming loans to clients (gross)	8,363	71	23	3	58	79	6	0	**8,603**	**10,014**
Individual value adjustments	8,363	71	23	3	58	79	6	0	**8,603**	**10,014**

3.3. Market risk

*The **market risk** lies in the vulnerability of the Group's financial situation to adverse swings in market prices and especially in the underlying value and implied volatility of currencies, equities, precious metals and interest rates.*

Trading book

The Bank and BPER Group companies:

- have little or no involvement in proprietary securities trading (cf. interest rate risk and positional risk on equities);
- operate in the forex market mainly on behalf of clients and are only allowed to build small nostro positions (cf. forex/precious metals risk);

The limits granted to traders are low, and the use of these is monitored daily with special software by separate risk management and internal control teams.

Banking book

The Bank and BPER Group companies may invest part of their capital and liquid assets in units of listed Group investment funds and in bonds or other fixed-income securities that are rated investment grade or feature the high eligibility applied by central banks such as the Swiss National Bank and recognised stock exchanges such as SIX Swiss Exchange.

A risk management desk or separate internal control team monitors compliance with the limits on these investment portfolios and also oversees the quality standards of the securities they contain.

The Bank and BPER Group companies also try to ensure that the maturities of investments and deposits are matched as closely as possible to avoid the adverse consequences that changes in market interest rates could have on net worth and the net interest margin (cf. interest rate risk).

In this connection, at 31 December 2011 a parallel +/- 100-basis-point move in the interest rate curve would have reduced the book value of the BPER Group's capital by 0.18% (2010: 0.31%), all currencies included.

A risk management desk or separate internal control team measures the interest rate risk and monitors the relevant limits for the Bank and Group companies concerned.

3.4. Operational risks

*The **operational risk** is the risk of loss that the Group would suffer owing to the inadequacy or failure of internal procedures, staff, IT systems or external occurrences.*

The Group entities have adopted a policy aimed at monitoring and mitigating the following operational risks inherent in their wealth management and investment fund administration businesses:

- internal and external fraud;
- negligence regarding confidentiality and/or banking secrecy protection requirements;
- flawed practices in managing client assets and collective investment schemes;
- business disruptions resulting from system failures and other extraordinary causes.

The Risk Control and Management Dept has a team focused on operational risks that suggests ways to improve our risk management and internal control facilities. Its responsibilities include:

- devising the methodology for managing operational risks (based primarily on the Basel II provisions), submitting this methodology to the Risk Committee for approval and overseeing its implementation;
- recording operational incidents, analysing them and evaluating measures designed to prevent their recurrence.

This team collaborates with another that is in charge of gauging the relevance and effectiveness of the internal control system in force. It also uses specially designed IT tools deployed throughout the Group. It reports to the Executive Committee periodically or as required by the circumstances on the status of operational risks and on incidents.

All the banks in the BPER Group use the same methodology when it comes to evaluating operational risks. The objectives are:

- to identify and gauge the operational risks inherent in business segments, organisational structures and their underlying processes;
- to use and evaluate the controls that have been put in place as means for preventing and/or detecting operational risks;
- to design and implement the action plans needed to mitigate operational risks.

The Group determines capital requirements relative to operating risks using the standardised approach (as defined in article 81 of the CAO). This consists in breaking down all the business segments of the Bank and Group companies according to FINMA's typology, calculating their average gross revenues over the past three years and assigning them a regulatory weighting (in CHF '000).

Business segment	**Weighting**	**Average gross annual revenues** (in CHF '000)	**Capital requirement** (in CHF '000)
Corporate finance	18%	25,060	4,511
Trading	18%	140,158	25,229
Private banking	12%	236,242	28,349
Commercial banking	15%	1,336	200
Payment transactions / Securities settlements	18%	1,422	256
Agency business	15%	0	0
Institutional wealth management	12%	157,591	18,911
Capital transactions	12%	124,785	14,974
		Total 31 December 2011	***92,430***
		Total 31 December 2010	***103,133***

Moreover, a business continuity and organisational plan has been drawn up to deal with possible crisis situations that the Bank has identified and that could totally or partially disrupt our operational processes. Human and technical resources including an entire infrastructure have been deployed that would enable us to provide essential services at reduced capacity and return to normal. Given our Bank's objectives in terms of business continuity following a disaster or major incident, this plan will be further developed in 2012.

Banque Privée Edmond de Rothschild SA
Rue de Hesse 18 - P.O. Box 5478 - 1211 Geneva 11 - Switzerland
T. +41 58 818 91 11 - F. +41 58 818 91 91 - www.edmond-de-rothschild.ch

BANQUE PRIVÉE
EDMOND DE ROTHSCHILD