EFG Bank European Financial Group

Swiss FINMA Circ. 2016/1 Pillar 3 disclosures

30 June 2021

Introduction

Background

The main activities of EFG Bank European Financial Group SA ("the Bank") and the companies in which it holds a significant direct or indirect equity interest are private banking, asset management and related financial services.

The Swiss Financial Market Supervisory Authority ("FINMA") requires the Bank to report on a "consolidated" basis its 44.5% shareholding in EFG International AG for Swiss regulatory supervision purposes in accordance with FINMA Circ. 2016/1. This "consolidated" Pillar 3 report includes, therefore, EFG International on a consolidated basis.

Scope

The scope of this capital adequacy report is the same as that of "consolidated" financial statements prepared in accordance with the FINMA's Ordinance on the Preparation of Accounts (FINMA-OEPC) complemented by its circular 2020/1 "Accounts for Banks" in the context of regulatory supervision.

As it includes various regulated banks in different countries, each of these countries has regulations limiting the transfer of regulatory capital (and in some instances cash balances) between jurisdictions (local capital requirements).

Basis of preparation

This document was prepared in accordance with the disclosure requirements set forth in FINMA Circular 2016/1. Tables referred to in this document are numbered as per the FINMA circular.

Capital and liquidity

The main regulatory objective when managing regulatory capital is to comply with the capital requirements set by regulators of the jurisdictions in which entities operate and to safeguard their ability to continue as a going concern as well as to comply with FINMA Circular 2016/1 on a "consolidated" basis.

Capital adequacy and liquidity are continually monitored and reported periodically to the Executive Committee and Board of Directors, applying the rules defined by the Swiss Financial Market Supervisory Authority (FINMA).

Monitoring capital adequacy and liquidity is a key component of financial strategy. Potential impact on capital and liquidity ratios are carefully considered before making any major decisions about operations and business orientation.

Key ratios

FINMA's capital ratio requirement is based on Article 41 of the Swiss Capital Adequacy Ordinance (CAO). The minimum required total capital ratio is 12.0% (at 30 June 2021). The permanent requirement consists of the absolute minimum requirement for a licensed bank (8%) and the capital buffer for a Category 3 Swiss bank (4%). In addition, a countercyclical buffer is required, from time to time, by the Swiss Federal Council upon the recommendation of the Swiss National Bank, which has been temporarily suspended during the Covid-19 crisis. The "consolidated" total capital ratio was 18.8% at 30 June 2021 (31 December 2020: 18.1%) and the common equity tier 1 (CET1) ratio was 14.8% (31 December 2020: 14.6%), versus requirements of 12.0% and 7.8% respectively.

The leverage ratio was 3.7% at 30 June 2021 (31 December 2020: 4.5 % excluding cash deposits at central banks as a temporary relaxing measure up to 1/01/2021 in connection with the Covid-19 crisis). This ratio is above the regulatory requirement of 3%. The "consolidated" liquidity coverage ratio (LCR) was 204% at 30 June 2021 (31 December 2020: 190%), above the regulatory requirement of 100%.

1. KM1: Key Metrics

	a	c	e
(All figures in millions of CHF unless otherwise indicated)	**June 30, 2021**	Dec. 31, 2020	June 30, 2020
Available capital			
1 Common equity Tier 1 capital (CET1)	**1,489.6**	1,458.7	1,486.6
2 Tier 1 capital (T1)	**1,693.5**	1,562.3	1,594.9
3 Total Capital	**1,890.5**	1,812.1	1,864.4
Risk Weighted Assets (RWA)			
4 Total risk-weighted assets (RWA)	**10,058.5**	9,990.2	10,448.7
4a Minimum required capital based on risk-based requirements	**804.7**	799.2	835.9
Risk-based capital ratio as a percentage of RWA			
5 Common Equity Tier 1 ratio (%)	**14.8%**	14.6%	14.2%
6 Tier 1 ratio (%)	**16.8%**	15.6%	15.3%
7 Total capital ratio (%)	**18.8%**	18.1%	17.8%
Additional CET1 buffer requirements as a percentage of RWA			
8 Capital conservation buffer requirement (%)	**2.5%**	2.5%	2.5%
11 Total of bank CET1 specific buffer requirements (%)	**2.5%**	2.5%	2.5%
12 CET1 available after meeting the bank's minimum capital requirements (%)	**10.3%**	9.6%	9.3%
Target capital ratios according to Annex 8 of the Capital Adequacy Ordinance (CAO) (% of RWA)			
12a Capital buffer as per Annex 8 CAO	**4.0%**	4.0%	4.0%
12b National countercyclical buffer (art. 44 and 44a CAO) (%)	**0.0%**	0.0%	0.0%
12c CET1 capital target per Annex 8 CAO plus countercyclical buffer as per art. 44 and 44a CAO	**7.8%**	7.8%	7.8%
12d T1 capital target per Annex 8 CAO plus countercyclical buffer as per art. 44 and 44a CAO	**9.6%**	9.6%	9.6%
12e Total capital target per Annex 8 CAO plus countercyclical buffer as per art. 44 and 44a CAO	**12.0%**	12.0%	12.0%
Basel III Leverage ratio			
13 Total Basel III leverage ratio exposure measure	**45,296**	34,678	37,744
14 Basel III Leverage ratio (%)	**3.7%**	4.5%	4.2%
Liquidity Coverage Ratio - Average for the quarter ended			
15 Total HQLA	**13,101**	12,453	11,610
16 Total net cash outflow	**6,476**	7,192	5,107
17 LCR ratio (%)	**202%**	173%	179%

2. Risk Management – measurement approach

Basel III gives room to banks to apply several approaches for computing the capital charge. Below are details of regulatory approach applied for each risk category managed.

2.1 Credit risk

The International Standardised Approach (SA-BIS) is used to determine which risk weights to apply to credit risk. Additionaly, the Comprehensive method was adopted to deal with the collateral portion of a credit transaction. Ratings assigned by rating agencies are used to the risk weighted positions.

2.2 Non-counterparty risk

For non-counterparty related-assets the SA-BIS approach is applied

2.3. Operational risk

The Standardised Approach is applied to calculate the capital charge for operational risk. The capital requirement under this method is based on the last three-year average amount of the Operating Income split by business lines.

2.4 Market risk

The Standardised Approach is used for market risk. This approach requires capital for the following positions:

i) Interest rate instruments held in the trading book,
ii) Equity securities held in the trading book,
iii) Foreign exchange positions, and
iv) Gold & commodity positions.

General market risk associated with interest rate risk instruments are calculated using the Maturity Method. The Delta-plus method is used for options.

3. OVA: Risk Management Approach

The Bank and EFG International have established a comprehensive risk management framework, taking into consideration the risks inherent to their business and relevant regulatory requirements. As part of this risk management framework, they have established a number of internal regulations (comprising frameworks, policies, general directives and procedures) with the aim to identify, assess, measure (where feasible), analyse, mitigate and report on the various risk categories, such as credit (including client, counterparty and country credit risks), market, liquidity, operational, compliance (including financial crime and conduct risks), legal and reputational, in an effective, efficient and consistent manner.

The Bank's and EFG International's primary activities are or reflect the execution of client transactions, with the clients carrying the risk. Within the risk appetite framework agreed and approved by EFG International's Risk Committee and Board of Directors respectively, EFG International also maintains proprietary positions in a number of selected areas. The Bank takes limited proprietary investment positions in the context of the management of its assets and liabilities under the oversight of the Board of Directors.

Within the above, the Bank and EFG International take credit, market and liquidity risks in line with their risk appetite, with most credit risk relating to Lombard (margin) loans and other secured exposures to clients as well as exposures to banks and financial institutions, and with market risk mainly linked to foreign exchange, interest rate gapping and life insurance settlement (EFG International only) positions maintained within defined parameters. In addition, they are exposed to operational and reputational risks.

At the EFG International level, where the vast majority of the risks are, the ultimate responsibility for the supervision of risk management framework lies with EFG International's Board of Directors, which defines the risk appetite of the organisation and sets policies. EFG International's Board of Directors has delegated certain supervision and approval roles to its Risk Committee and Audit Committee.

EFG International is also exposed to certain financial risks that may impact adversely its portfolio of life insurance settlement policies, in the form of increases in the cost of insurance charges and longevity risk. Monitoring changes in the cost of insurance and expected longevity of the insureds is based on periodic studies conducted by external subject matter experts (e.g. actuaries) retained by EFG International. Typical financial information submitted for monitoring and approval includes financial forecasts, impairment reviews, cash flow projections, sensitivity analysis using different scenarios and results of actuarial studies. Management takes into consideration all information available in order to determine the assumptions used in the valuation of this portfolio. This information is submitted periodically to key Management personnel and is reviewed by EFG International's Executive Committee.

The main risks that EFG International is exposed to are credit, market, liquidity, operational (including compliance and legal) and reputational, as detailed further below. EFG International has put in place a three lines model and established a comprehensive Risk Management Framework and related policies for managing these risks.

Risk Governance and organisation at EFG Bank European Financial Group level

At EFG Bank European Financial Group SA, the Risk Management Framework and Risk Tolerance Metrics are defined by the Board of Directors. The risk oversight and control are carried out by the Chief Risk Officer, who is a member of the Bank's Executive Committee, reporting to the Bank's Chief Executive Officer and Board of Directors. An assessment of the Bank's risks is made annually. In addition, through its Board of Directors and Executives, the Bank monitors EFG International's consolidated risks through reports covering all risk categories, attendance by its representatives at the EFG International Risk Committee and through the quarterly consolidated risk report of EFG International's Chief Risk Officer.

Risk governance and organisation at EFG International level

The EFG International Board of Directors determines the overall Risk Management Framework, Risk Appetite Framework and related policies. It has delegated responsibilities for risk oversight activities as follows:

- The Risk Committee of EFG International's Board of Directors is among others responsible for overseeing Executive Management's implementation of the Group Risk Appetite Framework, reporting on the state of risk culture in the group, and interacting with and overseeing the Chief Risk Officer and the Chief Compliance Officer. The Committee's work includes oversight of the strategies for capital and liquidity management as well as of the management of all relevant risks, such as credit, market, liquidity, operational and reputational risks, in order to ensure that they are consistent with the stated risk appetite.

- The Audit Committee of EFG International's Board of Directors is responsible for the oversight of: (i) the financial and business reporting processes, including the selection and application of appropriate accounting policies, (ii) the integrated internal control systems for financial reporting as well as the internal controls of areas beyond financial reporting, (iii) tax risks, and (iv) the internal and external audit processes.

At the EFG International management level, the ultimate responsibility for the implementation of all internal regulations with the Executive Committee and the delegated committees it has established:

- EFG International's Executive Committee has responsibility for the implementation of, and compliance with, all risk related internal regulations.

- EFG International's Asset and Liability Committee is responsible for the management of EFG International's consolidated balance sheet. In particular, it is responsible for the management of EFGI market risk exposure and liquidity, as well as to ensure effective liquidity contingency planning.

- EFG International's Operational, Regulatory & Compliance Committee is responsible for the oversight of matters relating to operational, regulatory and compliance risks as well as corporate governance matters. It's responsibility also includes the monitoring of the regulated asset management businesses associated with the discretionary management of assets. The Conduct Risk team ensures through the establishment of regular reporting to the centre and a network of Fiduciary & Suitability Committees that the holdings of discretionary and advisory portfolios managed or advised adhere to the mandate in place, to the relevant Group internal regulations and to the applicable asset allocation strategies. This setup also ensures that whatever is purchased for clients is suitable for them, in conformity with the relevant Group internal regulations. The Conduct Risk team also ensures through a network of Local Product Committees that all products or securities sold to clients or bought for them went through the appropriate approval process. Local Fiduciary & Suitability Committees and Local Product Committees report their findings respectively to the Group Conduct Risk and the Group Product Committee, which in turn report to the Executive Committee and the Risk Committee through the report of the Head of Legal & Compliance.

- EFG International's Financial Risk Committee is responsible for the review of incurred market, credit, concentration and liquidity and funding risk exposures and the structures in place for their monitoring and reporting, including compliance with internal regulations, as well as exposures relative to limits. The Financial Risk Committee is also responsible for the overall stress test programme encompassing trading and banking book portfolios.

- EFG International's Executive Credit Committee has responsibility for the management of client credit risk, including insurance companies and other corporates.

- EFG International's Country & Counterparty Risk Committee is a subcommittee of the Executive Credit Committee and is responsible for correspondent banking broker and custodian relationships and for counterparty credit risk for banks and financial institutions as well as country limits within approved guidelines and parameters.

- EFG International's Chief Risk Officer is responsible for the management and oversight of credit, market, liquidity and operational risks. In achieving this, further to the appointment of Group functional heads within Risk Management responsible for each of these risks, he also collaborates with other central group functions that also undertake risk oversight activities for their respective area of responsibility, such as the Chief Financial Officer, Chief Operating Officer, Head of Investment Solutions and Group Head of Legal & Compliance. Each business region has its own designated Regional Risk Officer who is responsible for the oversight of Risk Management in the region and reports to local senior management and to EFG International's Chief Risk Officer.

- EFG International's Chief Financial Officer is among others responsible for the consolidated financial regulatory reporting, balance sheet and capital management (i.e. the maintenance of a sound capital adequacy ratio).

- EFG International's Chief Operating Officer is, among others responsible for the oversight of operations and back-offices, Information Technology, IT security, operational integration of new businesses, business continuity management and insurance cover policies.

- EFG International's Group Head of Legal & Compliance heads the Legal & Compliance function and is responsible for providing efficient support with regards to the management of compliance, regulatory, legal and reputational risk. In terms of compliance risk, the Group Compliance function is among others responsible for monitoring compliance with anti-money laundering/know-your-customer and cross-border activity/booking rules, as well as adherence to product suitability, product selling restrictions and the Code of Conduct. In respect of legal risk, EFG International's Group Head of Legal & Compliance is responsible for the management and oversight of legal risk, together with the Head of Litigations and Head of Legal International & Group Regulatory Affairs.

Independent assurance to EFG International's Board of Directors, Risk Committee, Audit Committee and Executive Committee on the implementation of and adherence to the Group's internal regulations by the business units, as well as the effectiveness of the organisation's risk management framework, is provided by both internal and external auditors, or by other external providers when mandated.

Credit risk

Credit risk refers to the possibility that a financial loss will occur as a result of a borrower's or counterparty's deteriorating creditworthiness and/or inability to meet its contractual financial obligations. Credit risk also encompasses direct/indirect sovereign risk (i.e. the default risk of sovereigns or state entities acting as borrowers, guarantors or issuers) but also arises from treasury and proprietary trading activities. Credit risk exposure is relatively low because primary credit exposures relate to loans collateralised by securities portfolios and by mortgages, or to rated (by credit rating agencies) financial institutions, sovereigns and corporates.

Credit risk management

a) Loans and advances

A basic feature of the credit approval process is the separation between the organisation's business origination and credit risk management activities. Credit requests are initiated by Client Relationship Officers and must be supported by Regional Business Heads and are thereafter analysed and submitted to the competent credit approval bodies and processed by the credit departments.

Credits granted by EFG Bank European Financial Group SA are under the approval responsibility of its own Credit Committee and Board of Directors as relevant.

EFG International's Executive Credit Committee has overall responsibility for EFG International's client credit business, including the implementation of credit policies and internal regulations defined by EFG International's Board of Directors. Certain duties, including monitoring of day-to-day operations, have been delegated to the various Credit Departments within the EFG International group under the supervision of the Credit department of EFG Bank AG. The approval of loans, ceilings and other exposures has been delegated, based on certain defined risk and size criteria, to senior members of the credit departments, certain credit committees of international units and to the Executive Credit Committee of EFG International. Within the EFG International group, the approval of large and exceptional non-standard exposures is centralised in Switzerland, always taking into account the local regulatory and legal requirements of the individual international business units.

Management focuses on thoroughly understanding the background of the borrower and purpose of each loan (which is typically for investment in securities, funds or investment related insurance policies) as well as the quality and enforceability of the underlying collateral and its risks.

The internal grading system assigns each credit exposure to one of ten rating categories. The rating assesses the borrower's repayment ability and the value, quality, liquidity and diversification of the collateral securing the credit exposure. The Credit Risk Policy and the nature of the loans ensure that the loan book is composed of high-quality loans. Consequently, an overwhelming majority of the credit exposures are rated within the top three categories.

Risk limit control and mitigation policies

The largest part of credits is secured by securities or other liquid assets pledged as collateral. To qualify as collateral for such loans, a client’s securities portfolio must be well diversified with differing margins applied depending on the type of risk profile and liquidity of the security. Additional margins are applied if the loan and the collateral are not in the same currency or if the diversification criteria are not fully met. Within the EFG International group, mortgages are mainly booked at EFG Bank AG, Switzerland, and at EFG Private Bank Ltd, London. They are related predominantly to properties in Switzerland and in London (prime locations).

Credit loans guaranteed by real estate are treated in conformity with the regulatory authorities’ directives pertaining to the examination, valuation and treatment of credits guaranteed by real estate and with the internal regulations on mortgage loans in relation to different geographical areas. All real estate provided as collateral must be evaluated by internal appraisers or by selected external surveyors. External valuations are accepted as long as the competence and the independence of the external professional have been verified.

Credit departments monitor credit exposures against approved limits and security pledged as collateral, and they initiate rectification steps if necessary. Most collateral is valued daily (may be valued more frequently during periods of high market volatility). However, structured notes, and certain mutual and hedge funds are valued monthly, whereas insurance policies are valued at least quarterly.

Management of exposure to financial institutions is based on a system of counterparty limits coordinated centrally, subject to country limits. Limits for exposure to counterparties are granted based upon internal analyses. The limits are set and supervised by EFG International’s Country & Counterparty Risk Committee depending on each counterparty’s S&P or Moody’s ratings (with reference to individual and support ratings). At EFG Bank European Financial Group SA level, the limits are approved by its Executive Committee and Board of Directors as relevant. Limits are set within regulatory limits.

Other specific control and mitigation measures are outlined below.

b) Collateral

A range of policies and practices are used to mitigate credit risk. The most traditional of these is the taking of security for credit exposures. Guidelines on the acceptability of specific classes of collateral for credit risk mitigation have been implemented. The principal collateral types for loans and advances are:

- Financial instruments such as debt securities, equities and funds;
- Cash and cash equivalent;
- Mortgages over residential and to a limited extent over commercial properties;

- Bank guarantees;
-Assignment of guaranteed cash surrender value of life insurance policies.

c) Derivatives

Strict monitoring of credit risk exposure induced by over-the-counter derivatives transactions vs. dedicated limits granted is performed. Credit risk exposure considers the current credit risk exposure through the marking-to-market of the transactions and the potential future exposure through dedicated add-on factors applied to the notional of the transactions. While being ignored in the computation of credit risk, business units have signed mitigating agreements with their most important financial institutions counterparties; collateral paid or received being taken into consideration.

d) Credit related commitments

Credit related commitments include the following:

- Guarantees, forward rate agreements and standby letters of credit - these carry the same credit risk as loans;

- Commitments to extend credit - these represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit, meaning being potentially exposed to loss in an amount equal to the total unused commitments. However, commitments to extend credit are contingent upon customers maintaining specific credit standards.

For all the above, the same standards apply regarding approval competences, collateral requirements and monitoring processes as outlined under the 'Credit risk management' section.

The guarantees and irrevocable lines of credit can be drawn by the customers only if they have adequate collateral pledged. Should the guarantees and irrevocable lines of credit be drawn, the majority of the facilities would be rated with a rating of 1 to 3.

Market risk

Market risk is the risk of losses arising from unexpected changes in interest rates, exchange rates, credit spreads, share prices or the prices of precious metals and commodities, as well as the corresponding expected volatility. Market risk can have an impact on the Income Statement and the value of its assets.

Risks related to the balance sheet structure (interest rate and foreign exchange rate) are managed by EFG International's Asset & Liability Management Committee and monitored by EFG International Group Market Risk, in accordance with the principles and maximum limits stipulated by EFG International Group's Market Risk Policy. The Board-delegated Risk Committee of EFG International sets sensitivity risk limits for the economic value of equity and the net interest income, which are monitored by the EFG International's Group Risk Control. Derivative financial products are used for Asset and Liability Management (ALM) and for trading purposes.

Trading operations are carried out both for clients and on own account using all financial products and their derivatives. The trading portfolio is governed by a dedicated Market Risk Policy, which defines the organisational structure, responsibilities, limit systems and maximum acceptable risk. The trading activities are monitored on a daily basis by EFG International's Market Risk function.

In addition to trading portfolios, investment portfolios exist, which allow to diversify balance sheet assets and optimise any excess liquidity. The investment portfolios comprise a range of portfolios on the basis of the type of product and strategy. The risks of the investment portfolio are under the supervision of EFG International's Asset & Liability Management Committee and monitored by EFG International's Market Risk function.

Interest rate risk

The respective Board of Directors of the Bank and EFG International set limits for the interest repricing gap or mismatch, which are monitored by EFG International's Risk Control function. The management of interest rate risk exposure is performed in accordance with the risk appetite, which is based on the sensitivity of the economic value of equity and net interest income to various interest rate scenarios.

Foreign exchange risk

Foreign exchange risk arises from exposure to changes in the exchange rate of foreign currencies versus the reference currency. This arises from foreign currency transactions carried out both on behalf of clients and on a proprietary basis (FX transaction risk) and from on or off-balance sheet assets and liabilities denominated in foreign currencies (FX translation risk). The overall net nominal positions per currency are monitored against overnight limits. In addition, value at risk (VaR), sensitivity analysis and stress tests are used to monitor and manage foreign exchange risk. The Board of Directors of the Bank and EFG International set limits on the level of foreign exchange exposure. Entities use derivative contracts, such as forward or option contracts, to offset customer transactions or to hedge their balance sheet.

Apart from the exposure to foreign currencies which relates to banking and trading activities, exposure also arises at EFG International level from foreign currency fluctuations because most of foreign entities use local currencies as their reporting currencies.

Liquidity risk

The balance sheet and off-balance sheet positions generate liquidity risk, deriving both from the asset liquidity and the funding risk. Liquidity risks arise when financing activities become difficult or expensive due to market liquidity crisis or due to reputational issues; they also arise from the maturity mismatch between short term deposits and long term loans and potential difficulty in meeting own commitments in a timely manner due to lack of very liquid assets.

Funding operations aim to avoid concentrations in funding facilities. The liquidity management process in place includes liquidity contingency plans, encompassing repo borrowing and liquidation of marketable securities. Stress tests are undertaken monthly as part of the reporting requirements established within internal regulations relating to risk.

The customer deposit base, capital and liquidity reserves' positions and the conservative gapping policy followed when funding customer loans ensure containment of liquidity risk.

Liquidity risk management process

Liquidity risk is managed with the primary objective to ensure that ample liquidity is available to meet commitments to customers, both in demand for loans and repayments of deposits and to satisfy own cash flow needs. The aim is to avoid concentration of funding facilities. The current liquidity situation is observed and the pricing of assets and credit business is determined through the liquidity transfer pricing model. The liquidity risk management process in place also includes contingency funding plans; these contingency measures include among others the activation of repo transactions with prime counterparties, the liquidation of marketable securities and/or draw downs on lines of credit (Lombard facility) with the Swiss National Bank.

Compliance with regulatory requirements are ensured, including overnight liquidity limits in the various countries in which the banks operate. The daily liquidity situation is reported to Management. Stress tests are undertaken regularly, with increased frequency during crisis periods.

The liquidity risk management process is carried out by EFG International's central Treasury department and monitored by EFG International's Market Risk Unit. It includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers.

- Maintaining a portfolio of highly marketable assets that can be liquidated easily (repaid or sold) as protection against any unforeseen interruption to cash flow.

- Monitoring balance sheet liquidity ratios against internal and regulatory requirements.

- Managing the concentration and profile of funding.

Funding approach

EFG International's central Treasury manages the liquidity and funding risks on an integrated basis. The liquidity positions of entities are monitored and managed daily and internal limits, as required by EFG International's Risk Appetite Framework and Liquidity Risk Policy, are more conservative than the minimum regulatory requirements. Overall, business entities enjoy a favourable funding base with stable and diversified customer deposits, which provide the vast majority of the funding. Together with capital resources, the surplus of stable customer deposits over loans to customers is placed with the relevant treasury units where funding and liquidity are managed to ensure compliance with the different local regulatory requirements. In addition, all entities operate within Group internal regulations relating to liquidity risk.

Concentration risk

Concentration risk is monitored through the following mechanisms:
- At EFG International level, the overall level of market and credit exposures are tightly monitored by means of specific risk parameters and indicators approved by EFG International's Board of Directors and/or its delegated Risk Committee in line with the group's overall committed level of risk appetite and avoidance of any concentration risk. At EFG Bank European Financial Group SA level, concentration risk is monitored by the Board of Directors, the Credit Committee and/or the Executive Committee.

- These exposures and corresponding limits are proactively reviewed at EFG International and EFG Bank European Financial Group SA in order to ensure that full consideration is given to both market and liquidity conditions, the overall risk management framework and the avoidance of any possible concentration risk in light of changing market environments.

- Sources of liquidity are reviewed regularly with the aim to maintain a wide diversification by currency, geography, provider, product and term.

Operational risk

Operational risk is the risk of financial loss or business disruption resulting from the inadequacy or failure of internal processes, people or systems or from external events (or a combination of the foregoing), occurring as a result of an event falling within one of the following operational risk event categories:

-Internal frauds
-External frauds (including Cyber Risk)
-Physical asset and/or operating site damages or destructions
-Input, processing, execution and/or delivery failures
-Technological failures and/or disruptions
-Client, product and/or business practices failures
-Employment practice and workplace safety failures

Significant inherent operational risk is expected to be mitigated to a level considered appropriate and commensurate with the size, structure, nature and complexity of the service/product offerings, thus adequately protecting the organisation's assets and shareholders' interests.

Organisational structure and governance

The Boards of Directors and Senior Managements strive to set the operational risk culture through, among others, the definition of the overall operational risk appetite of the organisation (expressed in quantitative thresholds and qualitative statements), which is embedded in the organisation's risk management practices.

The primary responsibility for managing operational risk on a daily basis rests with the first line (line management) of the various business entities, which mitigate operational risk through the establishment of an adequate internal control system and strong risk culture.

At the EFG International risk management level, operational risk oversight and guidance, including the development of an Operational Risk Policy, are under the responsibility of the Operational Risk function. The Operational Risk function works in collaboration with the risk officers of the local business entities, including in respect of EFG Bank European Financial Group SA under an outsourcing agreement, the Regional Risk Officers within the EFG International group as well as certain central functions that also undertake operational risk oversight for their respective area of responsibility, such as the Chief Financial Officer, Chief Operating Officer, Head of Investment Solutions and Group Head of Legal & Compliance. The principal aim of the Operational Risk Function is to ensure that an appropriate operational risk management framework and programme are in place for identifying, assessing, mitigating, monitoring and reporting operational risk. The Operational Risk function reports to the EFG International Chief Risk Officer, who in turn reports to the Risk Committee. EFG Bank European Financial Group SA exercises supervision over its own activity at the level of its Management and Board of Directors.

Operational risk policy

The Operational Risk Policy codifies the approach to identifying, assessing, mitigating, monitoring and reporting operational risk and also incorporates the standards defined by the Basel Committee for Banking Supervision. This policy includes among others the philosophy, scope, definitions, , key operational risk areas, operational risk sub-categories (taxonomy), operational risk mitigation/transfer alternatives, approach for operational risk capital charge, principles for the management of operational risk, operational risk appetite, governance and organisation, role and responsibilities of the constituent parts of the governance structure, and operational risk management processes and tools.

Internal controls and monitoring mechanisms are designed and implemented in order to mitigate key operational risks inherently run in conducting business, in areas such as front-office activities, trading and treasury, IT-cyber security and data confidentiality, product approval and selling practices, cross-border business activities, asset management, transaction processing, accounting and financial reporting, and regulatory compliance activities (e.g. anti-money laundering, product suitability, etc.).

Business continuity management is in place in order to ensure continuity of critical operations in the event of a major disruptive event. Business continuity management encompasses backup operating facilities and IT disaster recovery plans, which are in place and tested regularly.

Where appropriate, operational risk transfer mechanisms are established; in particular, all entities of the EFG International group (and EFG Bank European Financial Group SA) are covered by insurance to hedge (subject to defined exclusions) certain potential low-frequency high-severity events. Three layers of insurance cover are administered centrally, being comprehensive crime insurance, professional indemnity insurance and Directors' and Officers' liability insurance. Other insurances such as general insurances are managed locally.

Compliance risk

Compliance risk is the risk of financial or reputational loss that may result from breach of applicable laws and regulations or non-adherence to internal or external codes of conduct or market practices.

The Group Compliance function is responsible for ensuring the Bank's and EFG International's observance of applicable rules and regulations. In line with the evolution of the regulatory environment of the industry, EFG International continuously invests in personnel and technical resources to ensure adequate compliance coverage. A Compliance Risk Policy is in place, complemented by a comprehensive set of internal regulations and regular specialised training sessions delivered to all staff with the aim to raise their awareness and understanding of the regulatory requirements.

A major focus of regulators around the world is the fight against money laundering and terrorism financing. In this respect, comprehensive internal regulations on sanctions, anti-money laundering and know-your-customer, as well as on anti-bribery and corruption, are in place, to detect, prevent and report such risks.

Group Compliance ensures adherence to these internal regulations through regular reporting, on-site visits and monitoring programmes.

A set of standards governing the cross-border activities are defined, and country-specific manuals have been developed for the major geographical markets where EFG operates. Mandatory staff training and education concept is in place to ensure observance of the standards and compliance with the country manuals. They are complemented by a tax compliance framework, the purpose of which is to prevent the unlawful acceptance of untaxed assets.
Conduct risk is managed centrally by the Conduct Risk team in collaboration with the local entities. Conduct Risk reports on a consolidated basis to the Operational, Regulatory & Compliance Committee. The Conduct Risk team also ensures through a network of Local Product Committees that all products or securities sold to clients or bought for them are appropriate for them and went through the appropriate approval process. Local Fiduciary & Suitability Committees and Local Product Committees are overseen by the Operational, Regulatory & Compliance Committee and the Group Product Committee respectively.

Developments in laws and regulations throughout the group are monitored locally and centrally on an ongoing basis and internal regulations are adapted as required.

Legal risk

The Legal function and Litigation function ensure that legal risks are adequately managed and controlled. This includes supervising and giving strategic direction to all outside counsels on civil, regulatory and enforcement matters.
The Legal function is responsible for providing legal advice to the head office management and front and back officers as well as handling client complaints and assisting federal and local authorities in their criminal and administrative investigations. The Litigation function has principal responsibility for overseeing and advising management on significant civil litigation and all government enforcement matters globally.

Reputational risk

The Bank and EFG International consider their reputation to be among their most important assets and are committed to protecting it. Reputational risk inherently arises from:
- potential non-compliance with increasingly complex regulatory requirements (e.g. anti-money laundering).
- dealing with politically exposed persons or other clients with prominent public profiles.
- involvement in transactions executed on behalf of clients other than standard investment products.
- potential major incidents in the area of IT-cyber security and data confidentiality.
- potential malfeasance by employees.

The Bank and EFG International manage these potential reputational risks through the establishment and monitoring of the risk appetite of their respective Board of Directors, setting of a proper risk culture and established policies, control procedures and monitoring mechanisms in areas such as know-your customer and anti-money laundering, IT-cyber security and data confidentiality, and staff selection and recruitment.

Three-lines model

Risk management and control is based on the concept of the three lines model, as follows:

First line (units involved in day-to-day transactional activities):
Risk ownership
- Perform business activities to satisfy strategic objectives, in line with the risk appetite
- Accountable for risk incurred in discharging these activities
- Design and operate effective controls and procedures in line with established internal regulations.

Second line (risk control and compliance):
Independent risk oversight
- Support the establishment of an effective risk management framework and definition of a risk appetite
- Perform independent checks and recommend improvement actions
- Monitor risk profile and escalate as appropriate
- Provide the first line with risk mitigation support.

Third line (internal audit):
Assurance
– Independent review of adherence to the internal regulations.
– Review governance arrangements over decision making bodies and related information flows
– Periodic review of activities across the first and second lines to identify areas for improvement as required.

Performance of risk assessments

The Bank performed its annual risk assessment, which was tabled and discussed by its Board of Directors at its meeting of December 2020, in addition to regular risk reports tabled four times a year at the meetings of the Board of Directors (and once a month at the meetings of the Executive Committee). At EFG International level, risk reports and other risk assessments are tabled at the meetings of the Risk Committee of the Board of Directors, which take place at least four times a year, including in 2020.

4. OV1: Overview of the Risk Weighted Assets (RWA)

The below table summarises the composition of the RWA, the changes versus December 2020 and the minimum requirement on the basis of an 8% capital requirement.

	a	b	c
	RWA	**RWA**	**Minimum Capital Requirements**
figures in millions of CHF)	**June 30, 2021**	**Dec. 31, 2020**	**June 30, 2021**
Credit risk (incl. non counterparty credit risk)	**6,699.5**	6,365.4	**536.0**
Of which stantardised approach (SA)	***6,699.5***	*6,365.4*	***536.0***
Counterparty Credit risk	**401.2**	548.9	**32.1**
Of which stantardised approach (SA - CCR)	***242.7***	*439.7*	***19.4***
Of which other CCR approach	***158.5***	*109.2*	***12.7***
Credit Valuation Adjustment (CVA)	**129.6**	101.3	**10.4**
Equity investments in funds - look -through approach	**14.7**	-	**1.2**
Settlement risks	**0.5**	0.8	**0.0**
Market risk	**806.1**	994.8	**64.5**
Of which standardised approach	***806.1***	*994.8*	***64.5***
Operational risk	**2,006.9**	1,979.0	**160.6**
Total	**10,058.5**	9,990.2	**804.7**

5. LIQA: Liquidity risk management

For detailed explanation see section 3 Risk Management Approach.

LIQ1: Information about the liquidity coverage ratio

The LCR is an international regulatory standard. The LCR ensures that a bank has enough liquidity to withstand a 30-calendar-day liquidity stress scenario. It is the ratio between the amount of high-quality liquid assets (HQLA) available and potential net cash outflows over a 30-day period. The term net cash outflows is defined as the total potential cash outflows (such as withdrawals from sight deposits and non-renewals of borrowings with a maturity of less than 30 days) less the total potential cash inflows (such as the repayment of receivables with a maturity of less than 30 days) in a stress situation. For banks that, like EFG, are not systemically important, the minimum requirement for the LCR is 100%.

(All figures in millions of CHF)	June 30, 2021	Dec. 31, 2020
	Weighted values	Weighted values
Total high-quality liquid assets (HQLA)	**13,655**	12,358
Total cash outflows	**10,872**	10,472
Total cash inflows	**4,187**	3,981
Total net cash outflows	**6,685**	6,491
Liquidity Coverage Ratio	**204%**	190%

The LCR has increased to 204% at 30 June 2021 in comparison to the 190% reported as at December 2020, mainly due to an increase in High-quality liquid assets.

As at 30 June 2021, 64% of the HQLA is composed of cash deposit at SNB and other central banks and the remaining primarily of sovereign bonds, which have a credit rating of between AAA and AA.

Withdrawals from retail and corporate client deposits account for around 80% of total potential cash outflows. This reflects the fact that client deposits are the primary source of funding and therefore the primary source of potential fund outflows in the event of a liquidity stress.

Other cash outflows relate mainly to:

- Derivatives maturing within 30 days and margin calls relating to credits;
- The undrawn part of credit facilities granted to clients;
- Contingent liabilities (e.g. guarantees and letters of credit).

Loans to clients and banks maturing within 30 days account for around 81% of potential cash inflows. The remaining cash inflows primarily come from derivatives maturing within 30 days. The LCR in Swiss francs is 300%, a large percentage of HQLA are denominated in Swiss francs (cash deposited at the SNB).

The tables below show the average position for the 2 first quarters of 2021.

		Q2 2021 Average 3-month average		Q1 2021 Average 3-month average	
	Amounts in millions of CHF	Values not weighted	Weighted values	Values not weighted	Weighted values
A.	**High quality liquid assets (HQLA)**				
1	Total of high quality liquid assets (HQLA)		**13,101**		**12,516**
B.	**Cash outflows**				
2	Deposits from retail clients	**15,761**	**1,874**	**15,883**	**1,837**
3	*of which stable deposits*	-	-	-	-
4	*of which less stable deposits*	*15,761*	*1,874*	*15,883*	*1,837*
5	Unsecured wholesale funding	**17,122**	**7,266**	**16,695**	**7,119**
6	*of which, operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-
7	*of which non-operational deposits (all counterparties)*	*17,005*	*7,148*	*16,694*	*7,119*
8	*of which unsecured debt instruments*	*118*	*118*	*0*	*0*
9	Secured wholesale funding and collateral swaps	**345**	**343**	**329**	**329**
10	Other cash outflows	**1,180**	**916**	**1,182**	**916**
11	*of which cash outflows related to derivative exposures and other transactions*	*1,026*	*883*	*1,076*	*884*
12	*of which, outflows related to loss of funding on asset-backed securities, covered bonds and other structured financing instruments, asset-backed commercial papers, conduits, securities investment vehicles and other such financing facilities*	-	-	-	-
13	*of which cash outflows from committed credit and liquidity facilities*	*63*	*15*	*106*	*33*
14	Other contractual funding obligations	**2**	**-**	**3**	**-**
15	Other contingent funding obligations	**736**	**310**	**1,170**	**570**
16	**Total cash outflows**		**10,708**		**10,771**
C.	**Cash inflows**				
17	Secured lending (e.g. reverse repos)	-	-	7	7
18	Inflows from fully performing exposures	5,936	3,928	5,656	3,826
19	Other cash inflows	575	305	514	282
20	**Total cash inflows**		4,233		4,115
			Net values		Net values
21	**Total high quality liquid assets (HQLA)**		13,101		12,516
22	**Total net cash outflow**		6,476		6,655
23	**Liquidity coverage ratio (LCR) in %**		202%		188%