EFG Bank European Financial Group

Swiss FINMA Circ. 2016/1
Pillar 3 disclosures
30 June 2020

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 44.8% 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with the FINMA's Ordinance on the Preparation of Accounts (OEPC) complemented by its circular 2020/1, which have superseded its Circular 2015/1 (Swiss Accounting Rules for Banks "ARB") in the context of regulatory supervision.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 2020), which is the permanent minimum requirement for category 3 banks as defined by the FINMA. 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 (which translated into an additional 0.1% capital ratio requirement as at 31/12/2019). The "consolidated" total capital ratio was 17.8% at 30 June 2020 (31 December 2019: 18.5%) and the common equity tier 1 (CET1) ratio was 14.2% (31 December 2019: 14.9%), versus requirements of 12.0% and 7.8% respectively.

The leverage ratio (excluding cash deposits at central banks as a temporary relaxing measure up to 1/01/2021 in connection with the Covid-19 crisis) was 4.4% at 30 June 2020 (31 December 2019: 3.8% including cash deposits at central banks). This ratio is above the regulatory requirement of 3%. The "consolidated" liquidity coverage ratio (LCR) was 191% at 30 June 2020 (31 December 2019: 185%), above the regulatory requirement of 100%.

1. KM1: Key Metrics

		a	c	a
	(All figures in millions of CHF unless otherwise indicated)	June 30, 2020	Dec. 31, 2019	June 30, 2019
	Available capital			
1	Common equity Tier 1 capital (CET1)	**1,486.6**	**1,516.1**	**1,531.5**
2	Tier 1 capital (T1)	**1,594.9**	**1,622.2**	**1,636.8**
3	Total Capital	**1,864.4**	**1,886.8**	**1,893.7**
	Risk Weighted Assets (RWA)			
4	Total risk-weighted assets (RWA)	**10,448.7**	**10,193.5**	**10,069.4**
4a	Minimum required capital based on risk-based requirements	**835.9**	**815.5**	**805.6**
	Risk-based capital ratio as a percentage of RWA)			
5	Common Equity Tier 1 ratio (%)	**14.2%**	**14.9%**	**15.2%**
6	Tier 1 ratio (%)	**15.3%**	**15.9%**	**16.3%**
7	Total capital ratio (%)	**17.8%**	**18.5%**	**18.8%**
	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%**	**2.6%**
12	CET1 available after meeting the bank's minimum capital requirements (%)	**9.3%**	**9.9%**	**10.3%**
	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%**	**0.1%**	**0.1%**
12c	CET1 capital target per Annex 8 CAO plus countercyclical buffer as per art. 44 and 44a CAO	**7.8%**	**7.9%**	**7.9%**
12d	T1 capital target per Annex 8 CAO plus countercyclical buffer as per art. 44 and 44a CAO	**9.6%**	**9.7%**	**9.7%**
12e	Total capital target per Annex 8 CAO plus countercyclical buffer as per art. 44 and 44a CAO	**12.0%**	**12.1%**	**12.1%**
	Basel III Leverage ratio			
13	Total Basel III leverage ratio exposure measure	**37,744**	**43,086**	**42,647**
14	Basel III Leverage ratio (%)	**4.2%**	**3.8%**	**3.8%**
	Liquidity Coverage Ratio			
15	Total HQLA	**12,015**	**12,068**	**12,666**
16	Total net cash outflow	**6,274**	**6,519**	**7,280**
17	LCR ratio (%)	**191%**	**185%**	**174%**

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. In the SA-BIS approach, ratings assigned by rating agencies can be used to the risk weighted positions: the second worst rating between Standard and Poor, Fitch Ratings and Moody's ratings are used for securities and for bank placements.

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 supervision framework, taking into consideration relevant regulatory requirements. As part of this risk supervision framework, they have established policies and procedures in order to ensure that various categories of risk, such as credit, country, market, liquidity, operational, compliance, legal and reputational, can be identified and managed in an effective 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 Board of Directors and its related Risk Committee, EFG International also maintains proprietary positions in a number of selected areas. The Bank takes limited proprietary positions in its Asset and Liability Management under Board oversight.

Consequently, the Bank and EFG International take limited credit, market and liquidity risks, with most credit risk being limited to margin loans and other secured exposures to clients as well as exposures to banks and financial institutions, and with market risk being mainly restricted to foreign exchange, interest rate gapping and life insurance settlement (EFG International only) positions maintained within defined parameters. They are also exposed to operational and reputational risks.

At EFG International level, where the vast majority of the risks are, ultimate responsibility for the supervision of risk management 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 functions 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 policies, in the form of increases in the cost of insurance charges and longevity risk. Monitoring changes in cost of insurance and longevity expectations of the insureds is based on periodic studies done by expert 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 utilises all information available to determine the assumptions used in the valuation of this portfolio. This information is submitted to key management personnel on a periodic basis and is reviewed by EFG International's Executive Committee.

The main risks EFG International is exposed to are credit, market and operational risks as detailed below. Monitoring of credit risk is based on ratings, diversification and evolution; that of market risk is based on average positions over the year to date and on the calculation of Value at Risk ("VaR") and stress scenario analyses; that of operational risk is based on an inventory of identified risks with an indication of their probability of occurrence and their estimated potential financial impact. In addition, mitigation measures and the internal control framework (including internal procedures) are taken into

account with a focus on a constant monitoring and evaluation of these risks, as well as the measurement of the potential impact of these risks on the financial statements. A Risk Management Framework and Risk Policies have been established on this basis.

Risk Governance and organisation at EFG Bank European Financial Group level

At EFG Bank European Financial Group SA, risk oversight and control are ensured 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 risk through reports covering all risk categories and via attendance by two representatives at EFG International's Risk Committee and through the quarterly consolidated risk report issued by EFG International's Chief Risk Officer.

Risk governance and organisation at EFG International level

The EFG International Board of Directors determines the overall group risk appetite. It has delegated responsibilities for risk oversight activities as follows:

- The Risk Committee of EFG International's Board of Directors is responsible for overseeing Executive Management's implementation of the Group Risk Appetite policy, 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 the management of all relevant risks, such as credit, market, liquidity, operational and reputational risks, in order to ensure 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 policies and compliance with procedures lies with the Executive Committee and delegated committees it has established:
- EFG International's Executive Committee has responsibility for the implementation of, and compliance with, risk related policies, procedures and internal regulations which also include operational, legal and reputational risks.
- 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 and Regulatory Compliance Committee is responsible for the oversight of matters relating to operational, regulatory and compliance risks as well as corporate governance matters. It includes responsibility for the monitoring of the regulated asset management businesses associated with the discretionary management of assets. The Regulatory and Advisory Compliance team ensures through a network of Fiduciary and Suitability Committees that the holdings of discretionary and advisory portfolios managed or advised adhere to the mandate in place, to the Group Limits Directive and to the strategy that applies to the relevant model portfolio. These committees also ensure that whatever is purchased on behalf of clients under advisory agreements is suitable for them, conforming to the head office Suitability Directive. The same team also ensures through a network of Local Product Committees that all products or securities sold to clients or bought for them have been through the appropriate approval process. Fiduciary and Suitability Committees and Local Product Committees report their findings respectively to the Fiduciary and Suitability Committee and the Group Product Committee, which in turn send their minutes to the Executive Committee and the Risk Committee.
- EFG International's Financial Risk Committee is responsible for the review of incurred market, credit, concentration and liquidity & funding risk exposures and the structures in place for monitoring

and reporting them, including compliance with policies and procedures, as well as exposures relative to limits. The Financial Risk Committee is also responsible for the overall stress test program 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 corporate names.
- EFG International's Country and Counterparty Subcommittee of the Executive Credit Committee 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 global risk officers 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 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 also 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 IT & Operating Officers are, among other respectively, responsible for the oversight of IT-cyber security matters, operational integration of new businesses, business continuity management and insurance cover policies.
- EFG International's Group Chief Compliance Officer heads the Compliance function and is responsible for providing efficient support with regards to the management of compliance, regulatory and reputational risk. In addition, the Compliance function is also responsible for monitoring compliance with anti-money laundering/know-your-customer and cross-border activity rules, as well as adherence to product suitability, product selling restrictions and the Code of Conduct.
- EFG International's Group Head of Legal & Compliance is responsible for the management and oversight of legal risk, together with the Head of Litigation 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 head office's policies and procedures by 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 financial obligations. Credit risk exposure is comparatively low because primary credit exposures relate to loans collateralised by securities portfolios and by mortgages, or to rated financial institutions, sovereign and corporates.

Credit risk management

a) Loans and advances

A basic feature of the credit approval process is a separation between the firm'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 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 procedures defined by the 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 higher risk profile exposures is centralised in Switzerland, in compliance with local regulatory and legal requirements of the individual, international business units.

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

The internal grading system assigns each client 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 policy and the nature of the loans ensure that the loan book is of high quality. 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 diversification criteria are not fully met. Within the EFG International group, mortgages are mainly booked in 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 is treated in conformity with the regulatory authorities' directives pertaining to examination, valuation and treatment of credits guaranteed by real estate and with the internal directives (regulations, procedures) on mortgage loans in relation to different geographical areas. All the 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. If necessary, they initiate rectification steps. Most collateral is valued daily (but may be valued more frequently during periods of high market volatility). However, structured notes, 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 Executive Credit 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 its 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 procedures as outlined under paragraph Credit risk management.

The guarantees and irrevocable lines of credit can be drawn by the customers only if the client has 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, 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 Statement of Income 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 and Liability Committee and monitored by EFG International's Group Market Risk, in accordance with the principles and maximum limits stipulated by EFG International's Group 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.

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 and Liability Committee and monitored by EFG International's Market Risk.

Interest rate risk

The Bank's and EFG International's Boards set limits for the interest repricing gap or mismatch, which is monitored by the Market Risk Management Unit. The management of interest rate risk exposure is performed in accordance with the risk appetite based on the impact of various interest rate scenarios on economic value and interest income sensitivity.

Foreign exchange risk

Foreign currency transactions are carried out both on behalf of clients and on a proprietary basis. Foreign exchange risk arises from on or off-balance sheet assets and liabilities denominated in foreign currencies. The overall net nominal positions per currency are monitored against overnight limits. In addition, 10 sliding days stop loss limits are in place for VaR stress test. Entities use derivative contracts, such as forward or option contracts, to offset customer transactions or to hedge their balance sheet.

The Bank's and EFG International's Boards set limits on the level of exposure.

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

Liquidity risk

Liquidity risks arise when financing activities are difficult or expensive as a result of liquidity crisis on the markets or reputational issues. They also arise when it is difficult to meet own commitments in a timely manner due to a lack of very liquid assets. Liquidity risk is managed in such a way as to ensure that ample liquidity is available to meet commitments to customers, both in demand for loans and repayments of deposits, and to satisfy business entities' own cash flow needs.

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 General Directives relating to risk.

Customer deposit base, capital and liquidity reserves position and a conservative gapping policy when funding customer loans ensure that only limited liquidity risk is run.

Fund transfer pricing

The pricing of assets and credit business is based on the current liquidity situation. EFG International applies a liquidity transfer pricing model which enables the management of the balance sheet structure and the measurement of risk-adjusted profitability, taking into account liquidity risk, maturity transformation and interest rate risk. The liquidity allocation mechanism allows credit providers of funds for the benefit of liquidity and to charge users of funds.

Liquidity risk management process

Concentrations of funding facilities are avoided. Liquidity situation is monitored and pricing of assets and credit business is determined accordingly. The liquidity management process in place includes liquidity contingency plans. These contingency measures include 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 monthly, or as necessary.

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 easily be liquidated (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 debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point

for those projections is an analysis of the contractual maturity of the financial liabilities, and the expected collection date of the financial assets.

EFG International's central Treasury also monitors unmatched medium-term assets and the usage of overdraft facilities.

Funding approach

Sources of liquidity are regularly reviewed by Financial Markets to maintain a wide diversification by currency, geography, provider, product and term.

Summary of Liquidity

EFG International's central Treasury manages the liquidity and financing risks on an integrated basis. The liquidity positions of entities are monitored and managed daily and exceed the regulatory minimum, as required by the market risk framework and policy. Overall, business entities enjoy a favorable 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 this complies with the different local regulatory requirements. In addition, all entities operate within central liquidity policies and guidelines.

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, at EFG Bank European Financial Group SA level, by the Board of Directors, the Credit Committee and/or the Executive Committee.
- These exposures and corresponding limits are proactively reviewed through Financial Risk Committee and/or EFG International's Board delegated Risk Committee, respectively the Bank's Board of Directors in respect of EFG Bank European Financial Group SA, in order to ensure full consideration is given to both market and liquidity conditions, the overall risk framework and to avoid any possible concentration risk in light of changing market environments.

Operational risk

Operational risk is the risk of financial loss or business discontinuity resulting from inadequate or failed internal processes, human errors or systems, or from external causes (or a combination of the foregoing) occurring as a result of an operational loss 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 operational risk inherently run is aimed at being mitigated to a level considered appropriate and commensurate with the size, structure, nature and complexity of the service/product offerings, thus adequately protecting 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 line managements 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 management framework, are under the responsibility of the Operational Risk Management Function headed by the Global Head of Operational Risk Management. The Operational Risk Management Function works in collaboration with the Operational 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, Group Head of Legal & Compliance. The principal aim of the Operational Risk Management Function is to ensure that an appropriate operational risk management framework and program are in place for identifying, assessing, mitigating, monitoring and reporting operational risk. The Global Head of Operational Risk Management 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 management framework

The operational risk management framework 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 framework comprises the philosophy, scope, definitions, operational risk boundaries, key operational risk areas, 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

Regulatory and compliance risk is the risk of financial or reputational loss resulting from a breach of applicable laws and regulations or the departure from internal or external codes of conduct or market practice.

The Group Compliance function is responsible for ensuring EFG International's observance of

applicable rules and regulations. In line with the development of the regulatory environment of the industry, EFG International continuously invests in personnel and technical resources to ensure adequate compliance coverage. A Compliance risk framework is in place, complemented by a comprehensive set of policies and procedures and regular specialised training sessions delivered to all staff to raise their awareness and understanding of the compliance risks.

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

Group Compliance ensures adherence of the policy with regular reporting, on-site visits and monitoring programmes.

A set of standards governing the cross-border services are defined, and country-specific manuals have been developed for the major markets where EFG operates. A 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 Regulatory and Advisory Compliance team, which maintains the relevant policies and reports on their checks the Operational, Regulatory and Compliance Committee, which is responsible for compliance monitoring of the regulated asset management businesses and discretionary management of assets. The same team also ensures through a network of Local Product Committees that all products or securities sold to clients or bought for them have been through the appropriate approval process. Fiduciary and Suitability Committees and Local Product Committees are overseen by Operational, Regulatory & Compliance Committee and the Group Product Committee.

Changes in the regulatory environment are monitored and directives and procedures are adapted as required. Compliance is centrally managed with local compliance officers situated in all booking centers around the world. Developments in laws and regulation are monitored locally and centrally to assess the requirement to adapt the control framework.

Legal risk

The Legal function and Litigation function ensure that EFG International adequately manages and controls its legal risks. This includes supervising and giving strategic direction to all outside counsel advising EFG International 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

EFG International considers its reputation to be among its most important assets and is committed to protecting it. Reputational risk for EFG International inherently arises from:

- potential non-compliance with increasingly complex regulatory requirements.
- its dealings with politically exposed persons or other clients with prominent public profiles.
- its 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 its employees.

EFG International manages these potential reputational risks through the establishment and monitoring of the risk appetite of the Board of Directors, its transaction reputation risk policy 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-of-defence model

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

1st line (front office/ business):
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 the established framework, policies and directives

2nd line (risk control and compliance):
Independent Risk oversight

- Support the establishment of an effective risk management framework and definition of a risk appetite
- Monitor risk profile and escalate as appropriate
- Provide the first line of defence with advisory support and challenge it.
- 3rd line (internal audit):

Assurance

- Independent review of adherence to the framework, policies and general directives
- Ensure integrity of decisions and information flows
- Periodic review of activities across the 1st and 2nd lines of defence 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 2019, in addition to regular risk reports tabled four times a year at the Board (and once a month at the Executive Committee). At EFG International level, risk reports and other risk assessments are tabled to the Risk Committee of the Board, at least four times a year, including in 2019.

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

The increase in risk-weighted assets and related capital charge over the period is mainly due to market risk in particular an increase in foreign exchange and gold positions.

		a	b	c
		RWA	**RWA**	**Minimum Capital Requirements**
(All figures in millions of CHF)		**June 30, 2020**	**Dec. 31, 2019**	**June 30, 2020**
1	Credit risk (including non-counterparty credit risk)	**6,690.6**	6,938.5	**535.2**
2	*Of which stantardised approach (SA)*	***6,690.6***	*6,938.5*	**535.2**
6	Counterparty Credit risk (CCR)	**737.4**	323.2	**59.0**
7	*Of which stantardised approach (SA - CCR)*	**627.5**	-	**50.2**
9	*Of which other approach*	***109.9***	*323.2*	**8.8**
10	Credit Valuation Adjustment (CVA)	**75.0**	69.1	**6.0**
15	Settlement risks	**0.5**	0.5	**0.0**
20	Market risk	**996.7**	853.5	**79.7**
21	*Of which standardised approach*	***996.7***	*853.5*	**79.7**
24	Operational risk	**1,948.5**	2,008.7	**155.9**
27	**Total**	**10,448.7**	10,193.5	**835.9**

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, 2020	Dec. 31, 2019
	Weighted values	Weighted values
Total high-quality liquid assets (HQLA)	**12,015**	12,068
Total cash outflows	**10,989**	10,338
Total cash inflows	**4,715**	3,819
Total net cash outflows	**6,274**	6,519
Liquidity Coverage Ratio	**191%**	185%

The LCR remains robust at 192% at 30 June 2020 in comparison to the 185% reported as at December 2019. The main driver to this increase has been an increase in contractual counterparties payments and loans inflows.

As at 30 June 2020, the HQLA is composed of cash deposit at SNB, cash deposits at other central banks for 70% and, for the remaining, primarily US, Hong Kong and Singaporean-issued securities that have a credit rating of between AAA and AA.

Withdrawals from retail and corporate client deposits account for around 76% 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 90% of potential cash inflows. The remaining cash inflows primarily come from derivatives maturing within 30 days. The LCR in Swiss francs is 213%, a large percentage of HQLA are denominated in Swiss francs (cash deposited at the SNB).

The tables below show the average position for the first two quarters of 2020.

	Amounts in millions of CHF	Q2 2020 Average 3-month average		Q1 2020 Average 3-month average	
		Values not weighted	**Weighted values**	**Values not weighted**	**Weighted values**
A.	**High quality liquid assets (HQLA)**				
1	Total of high quality liquid assets (HQLA)		11,610		11,404
B.	**Cash outflows**				
2	Deposits from retail clients	16,028	1,879	15,818	1,928
3	*of which stable deposits*	-	-	-	-
4	*of which less stable deposits*	*16,028*	*1,879*	*15,818*	*1,928*
5	Unsecured wholesale funding	16,592	7,160	16,464	7,394
6	*of which, operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-
7	*of which non-operational deposits (all counterparties)*	*16,591*	*7,159*	*16,462*	*7,392*
8	*of which unsecured debt instruments*	*1*	*1*	*2*	*2*
9	Secured wholesale funding and collateral swaps	416	431	430	429
10	Other cash outflows	1,335	983	1,192	818
11	*of which cash outflows related to derivative exposures and other transactions*	*1,180*	*919*	*1,040*	*772*
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, securi-ties investment vehicles and other such financing facilities*	-	-	-	-
13	*of which cash outflows from committed credit and liquidity facilities*	*155*	*64*	*152*	*46*
14	Other contractual funding obligations	1,169	1,157	1,040	1,022
15	Other contingent funding obligations	383	-	385	-
16	**Total cash outflows**		**11,610**		**11,591**
C.	**Cash inflows**				
17	Secured lending (e.g. reverse repos)	269	260	190	182
18	Inflows from fully performing exposures	6,236	4,448	6,167	4,331
19	Other cash inflows	398	398	466	466
20	**Total cash inflows**	**6,903**	**5,107**	**6,823**	**4,979**
			Net values		**Net values**
21	**Total high quality liquid assets (HQLA)**		**11,610**		**11,404**
22	**Total net cash outflow**		**6,503**		**6,612**
23	**Liquidity coverage ratio (LCR) in %**		**179%**		**172%**