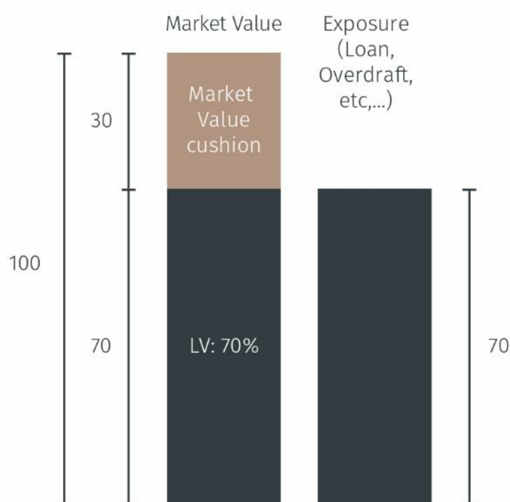
EFG Group

Lombard Loans

Information on the financial services

Definition

Lombard Loans are loans granted to the Client[1] and secured by financial assets deposited at EFG Bank European Financial Group SA (the **Bank** or **EFG**) by the Client and pledged to the Bank.
Clients can borrow against the deposited assets (collateral) to create liquidity. The loan amount is capped at a certain percentage of the market value of those assets; the value determined after applying the cap is referred to as the 'lending value'. This lending value depends on various factors, such as the type, currency, quality, volatility and marketability of the assets in question. The lending value can be modified by the Bank in its discretion at any time. Common collateral assets include, without limitation, bonds, cash and cash equivalents, precious metals, funds, equities and life insurance policies.



Lombard Loans are a financial offering that is aimed at (i) clients with liquidity needs but who do not want to lose the potential returns offered by their portfolios, or (ii) clients who wish to optimise their portfolios through the acquisition of new financial instruments without having to sell their existing securities (leverage effect).

Key benefits

- Clients can access additional liquidity without having to sell any assets.
- They can continue to benefit from the proceeds and voting rights of the pledged financial instruments.
- Lombard Loans offer flexibility in terms of the amount, time frame and currency of the loan.

Key risks

Special risks arise in the context of Lombard Loans. These risks mainly relate to the leverage effect and to a potential decrease in the value of the collateral assets. Due to these special risks, Lombard Loans are only suitable for clients with a certain risk tolerance.

Risks triggered by a decrease in the market value of collateral assets.

In the case of adverse fluctuations in the markets (i.e. high levels of volatility, currency depreciations, rating downgrades, liquidity shocks) and/or the deterioration in the country/counterparty risk profile that negatively affects the market value of the collateral assets, the total lending value of the collateral assets may no longer be sufficient to fully secure the Lombard Loan, resulting in a shortfall.

In this scenario, the Bank may, (i) require the Client to restore the initial lending value by providing additional collateral assets or (ii) ask the Client to repay the Lombard Loan in part or in full or (iii) sell the financial assets should the risk deteriorate to a level that is no longer acceptable to the Bank. This may lead to substantial losses for the Client if the assets are sold at an unfavourable time. Please also note the information on market and liquidity risks included below.

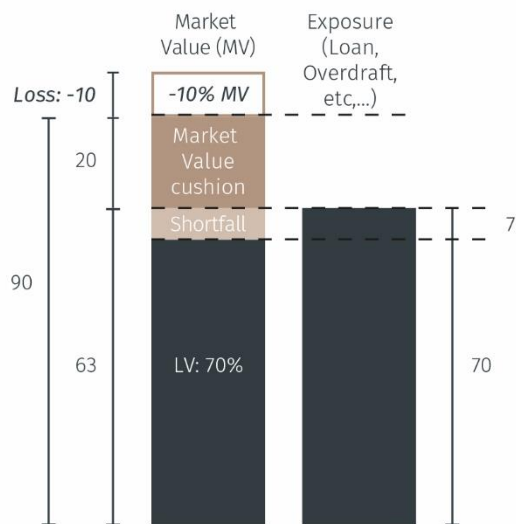
Illustrative example:

The Client holds assets worth 100 with the Bank. The lending value of these assets is 70.
The Bank grants a loan in the amount of 70 to the Client against the pledged assets.

[1] The masculine form shall include the feminine and the singular shall include the plural and vice versa.

The market value of the pledged assets decreases by 10% to 90. The lending value of the pledged assets then decreases to 63, leading to shortfall of 7 relative to the loan amount of 70.

The Bank asks the Client to contribute new assets worth 10 in order to restore the value of the collateral assets (market value: 100 / lending value: 70).



Leverage risk

Clients need to be aware that using borrowed capital alters the risk/return profile of the portfolio. In some cases, it can increase the expected return on the capital they have invested, but this higher return goes hand in hand with a higher investment risk. This is the case because the fixed borrowing costs for a Lombard Loan are set against an uncertain value and the profit of the investments.

Further, investments made with borrowed capital are said to have a leverage effect, meaning that both potential returns and the risks of loss are higher. In addition to the risk that all of the invested capital may be lost, the duty to repay the Lombard Loan may mean that the Client loses even more than was originally invested.

Illustrative example:

The Client holds assets worth 100 with the Bank. The Bank grants a Lombard Loan in the amount of 80 to the Client to invest with the Bank. The gross assets held by the Client with the Bank are therefore 180, but the net assets held by the Client are still 100 (180 less 80).

Assumption 1: Market decrease of 10%

The Client's gross assets decrease by 18 (to 162).
However, this decrease corresponds to an **18% loss** for the Client because:

Gross assets: 162 (180 less 18)
Loan repayment: (80)
Net assets: 82 (corresponding to a loss of 18% on the initial asset value)

Assumption 2: Market decrease of 70%

The Client's gross assets decrease by 126 (to 54).
However, this decrease corresponds to a **126% loss** for the Client because:

Gross assets: 54 (180 less 126)
Loan repayment: (80)
Net assets: -26 (the Client has lost more than the initial amount)

Currency risk

Non-hedging of currency risk increases the risk exposure of invested portfolios over time and the overall volatility of foreign investments, either at asset class or at portfolio level. This risk arises when dealing with a different currency to the reference currency because the applicable exchange rate may change between the time of purchase and the sale of the asset or portfolio. In addition, if the loan is taken out in a currency other than the currency(ies) of the financial investment(s), a potential currency risk must also be taken into account. For example, exchange rate fluctuations might lead to losses due to additional costs for the repayment of the Lombard Loan because the repayment obligation has risen as a result of an increase in the exchange rate between the repayment currency and the base currency of the portfolio.

Suitability/appropriateness assessments

A suitable investment is one that is appropriate in terms of the level of risk that a Client is ready and willing to take, as well as the Client's financial capacity. For investment portfolios comprising the proceeds of a Lombard Loan, the risk exposure may increase significantly (see the illustrative example in the 'Leverage Risk' section). This must be duly considered when assessing the overall suitability and appropriateness of the financial service rendered in respect of the assets obtained through a Lombard Loan.

For Lombard Loans that are granted in respect of ‘Execution-only’ accounts, the Bank does not perform a suitability assessment.

Cross-border risk

In general, client information transmitted outside Switzerland is no longer protected under Swiss law in terms of banking secrecy or data protection. Pursuant to art. 42c of the Financial Market Supervision Act (FINMASA), banks are expressly authorised to transmit non-public information to certain foreign entities. They may also be obliged to disclose client information in accordance with the applicable regulations or in response to a request for information from the authorities. Consequently, this risk is triggered by the restrictions on and conditions for investments that apply in each country, which may not offer the same level of protection.

Market risk

Financial markets are volatile and hard to predict. The value of securities and of the overall portfolio depends on non-predictable variables such as the performance of the portfolio's assets on the markets, which might expose the Client to a loss due to price fluctuations. Interest rates, exchange rates, the economic situation an

d the price of financial instruments are further uncontrollable variables that depend on macroeconomic indicators. In addition, the Client needs to be aware that past performance is no guarantee of future developments.

Liquidity risk

Liquidity risk is the risk that EFG may not be able to sell the financial instruments held in the portfolio on the Client's behalf without having to reduce their price to a significant degree within a reasonable period of time, which could result in significant losses. This risk exists in particular with unlisted and small-cap companies, investments in emerging markets, investments with sales restrictions, selected structured products and alternative investments.

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