EFG Bank European Financial Group

Swiss FINMA Circ. 2016/1 Pillar 3 disclosures

31 December 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 (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 31 December 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 as at 31.12.2019). The "consolidated" total capital ratio was 18.1% at 31 December 2020 (31 December 2019: 18.5%) and the common equity tier 1 (CET1) ratio was 14.6% (31 December 2019: 14.9%), versus requirements of 12.0% and 7.8% respectively.

The leverage ratio was 4.5 % at 31 December 2020 (31 December 2019: 3.8%). This ratio is above the regulatory requirement of 3%. The "consolidated" liquidity coverage ratio (LCR) was 190% at 31 December 2020 (31 December 2019: 185%), above the regulatory requirement of 100%.

1. KM1: Key Metrics

(All figures in millions of CHF unless otherwise indicated)	a **Dec. 31, 2020**	c June 30, 2020	e Dec. 31, 2019
Available capital			
Common equity Tier 1 capital (CET1)	**1,458.7**	1,486.6	1,516.1
Tier 1 capital (T1)	**1,562.3**	1,594.9	1,622.2
Total Capital	**1,812.1**	1,864.4	1,886.8
Risk Weighted Assets (RWA)			
Total risk-weighted assets (RWA)	**9,990.2**	10,448.7	10,193.5
Minimum required capital based on risk-based requirements	**799.2**	835.9	815.5
Risk-based capital ratio as a percentage of RWA			
Common Equity Tier 1 ratio (%)	**14.6%**	14.2%	14.9%
Tier 1 ratio (%)	**15.6%**	15.3%	15.9%
Total capital ratio (%)	**18.1%**	17.8%	18.5%
Additional CET1 buffer requirements as a percentage of RWA			
Capital conservation buffer requirement (%)	**2.5%**	2.5%	2.5%
Total of bank CET1 specific buffer requirements (%)	**2.5%**	2.5%	2.5%
CET1 available after meeting the bank's minimum capital requirements (%)	**9.6%**	9.3%	9.9%
Target capital ratios according to Annex 8 of the Capital Adequacy Ordinance (CAO) (% of RWA)			
Capital buffer as per Annex 8 CAO	**4.0%**	4.0%	4.0%
National countercyclical buffer (art. 44 and 44a CAO) (%)	**0.0%**	0.0%	0.1%
CET1 capital target per Annex 8 CAO plus countercyclical buffer as per art. 44 and 44a CAO	**7.8%**	7.8%	7.9%
T1 capital target per Annex 8 CAO plus countercyclical buffer as per art. 44 and 44a CAO	**9.6%**	9.6%	9.7%
Total capital target per Annex 8 CAO plus countercyclical buffer as per art. 44 and 44a CAO	**12.0%**	12.0%	12.1%
Basel III Leverage ratio			
Total Basel III leverage ratio exposure measure	**34,678**	37,744	43,086
Basel III Leverage ratio (%)	**4.5%**	4.2%	3.8%
Liquidity Coverage Ratio - Average for the quarter ended			
Total HQLA	**12,453**	12,015	12,068
Total net cash outflow	**7,192**	6,274	6,519
LCR ratio (%)	**173%**	191%	185%

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.

OV1: Overview of the Risk Weighted Assets (RWA)

The following table provides an overview of the RWA and the related minimum capital requirement by risk type. Capital requirements presented in this table are calculated based on 8% of RWA.

The decrease in RWA over the period is mainly due to foreign exchange impacts on credit risk.

		a	b	c
		RWA	**RWA**	**Minimum Capital Requirements**
	(All figures in millions of CHF)	**Dec. 31, 2020**	June, 30 2020	**Dec. 31, 2020**
1	Credit risk (incl. non counterparty credit risk)	**6,365.4**	6,690.6	**509.2**
2	*Of which stantardised approach (SA)*	***6,365.4***	*6,690.6*	***509.2***
6	Counterparty Credit risk	**548.9**	737.4	**43.9**
7	*Of which stantardised approach (SA - CCR)*	***439.7***	*627.5*	***35.2***
9	*Of which other CCR approach*	***109.2***	*109.9*	***8.7***
10	Credit Valuation Adjustment (CVA)	**101.3**	75.0	**8.1**
15	Settlement risks	**0.8**	0.5	**0.1**
20	Market risk	**994.8**	996.7	**79.6**
21	*Of which standardised approach*	***994.8***	*996.7*	***79.6***
24	Operational risk	**1,979.0**	1,948.5	**158.3**
27	**Total**	**9,990.2**	10,448.7	**799.2**

5. LI1: Mapping of financial statements with regulatory risk categories

There are no differences between the carrying values as reported in the Swiss ARB financial statements and the carrying values under the scope of regulatory consolidation.

	a	c	d	e	f	g
		Dec. 31, 2020				
		Carrying values				
Assets (All figures in millions of CHF)	Carrying values as reported in Swiss ARB financials	Subject to credit risk framework	Subject to counterparty risk framework	Subject to the securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
Cash and cash at central banks	8,894.7	8,894.7	-	-	-	-
Due from other banks	3,997.5	3,997.5	-	-	-	-
Amounts due from securities financing transactions	317.6	-	317.6	-	-	-
Amounts due from customers	11,529.2	11,494.5	-	-	-	34.7
Mortgage loans	6,087.1	6,087.1	-	-	-	-
Trading portfolio assets	843.5	-	-	-	843.5	-
Positive replacement values of derivatives financial statements	1,208.9	-	1,208.9	-	-	-
Other financial instruments at fair value	149.4	149.4	-	-	-	-
Financial investments	7,738.4	7,141.8	-	-	240.3	356.3
Accrued income and prepaid expenses	202.1	202.1	-	-	-	-
Tangible fixed assets	274.3	-	-	-	-	-
Intangible assets	48.9	-	-	-	-	48.9
Other assets	334.2	246.2	-	-	-	88.0
Total assets	41,625.8	38,213.3	1,526.5	-	1,083.8	527.9
Liabilities						
Amounts due to banks	638.3	-	-	-	-	638.3
Amounts due in respect of customers deposits	31,698.3	-	-	-	-	31,698.3
Trading portfolio liabilities	44.1	-	-	-	44.1	-
Negative replacement values of derivative financial instruments	1,429.3	-	1,429.3	-	-	-
Liabilities from other financial instruments at fair value	448.0	-	-	-	448.0	-
Bonds issues and central mortgage institution loans	4,568.2	-	-	-	-	4,568.2
Accrued expenses and deferred income	289.8	-	-	-	-	289.8
Other liabilities	72.3	-	-	-	-	72.3
Provisions	50.1	-	-	-	-	50.1
Total liabilities	39,238.4	-	1,429.3	-	492.1	37,317.0

6. LI2: Difference between regulatory exposure amounts and carrying values of financial statements

The table below summarises the framework under which the assets on and off-balance sheet are assessed to determine the relevant risk weighted assets. These reflect the gross exposure.

		Dec. 31, 2020				
		a	b	c	d	e
			Items subject to:			
	(All figures in millions of CHF)	Total	Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Assets carrying value amount under regulatory scope of consolidation	40,823.6	38,213.3	-	1,526.5	1,083.8
2	Liabilities carrying value amount under regulatory scope of consolidation	1,921.4	-	-	1,429.3	492.1
3	Total net amount under regulatory scope of consolidation	38,902.2	38,213.3	-	97.2	591.7
4	Off balance-sheet amounts	504.7	250.2	-	-	-
5	Differences in valuation for securities financing transaction (regulatory haircut)	105.7	-	-	105.7	-
6	Differences in valuation for derivatives (add-on)	895.8	-	-	895.8	-
7	Differences in netting rules	-	-	-	-	-
10	Exposure amounts considered for regulatory purposes	40,153.9	38,463.5	-	1,098.7	591.7

7. LIA: Explanation of differences between accounting and regulatory exposure amounts

The total net exposures amount considered for regulatory purposes of CHF 40,153.9 is further split in this report into:

- Exposures subject to credit risk framework of CHF 38,463.5 creating CHF 6,365.2 million of risk weighted assets
- Counterparty related risk of CHF 1’098.7 million creating CHF 548.9 million of risk weighted assets
- Net exposures of CHF 591.7 million that contribute towards CHF 994.8 million of risk weighted assets for market risk

8. CC1: Composition of regulatory capital

	(All figures in millions of CHF)	a Dec. 31, 2020	b sheet reconciliation References
Common equity Tier I capital (CET1)			
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	**500.0**	**b)**
2	Reserves and Retained earnings	**972.7**	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	**589.0**	**c)**
6	**Common equity Tier 1 capital before regulatory adjustments**	**2,061.7**	
Common equity Tier I capital: Regulatory adjustments			
8	Goodwill (net of related tax liability)	**(24.3)**	**a)**
9	Other intangible other than mortgage-servicing rights (net of related tax liability)	**(21.0)**	**f)**
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	**(88.0)**	**e)**
26b	Other deductions	**(469.7)**	
28	**Total regulatory adjustments to common equity CET1**	**(603.0)**	
29	**Common equity Tier 1 capital (CET1)**	**1,458.7**	

			Balance sheet reconciliation References
Additional Tier 1 capital (AT1)			
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	**103.6**	**d)**
36	**Additional Tier 1 capital before regulatory adjustments**	**103.6**	
Additional Tier 1 capital: regulatory adjustments		**-**	
43	**Total regulatory adjustments to additional Tier 1 capital**	**-**	
44	**Additional Tier 1 Capital (AT1)**	**103.6**	
45	**Tier 1 Capital (T1 = CET1 + AT1)**	**1,562.3**	
Tier 2 capital (T2)			
48	Minority interests eligible as T2	**249.8**	
51	**Tier 2 Capital before regulatory adjustments**	**249.8**	

	(All figures in millions of CHF)		Balance sheet reconciliation References
Tier 2 capital (T2): regulatory adjustments		**-**	
57	**Total regulatory adjustments to Tier 2 Capital**	-	
58	**Tier 2 Capital (T2)**	**-**	
59	**Total regulatory capital (T1 + T2)**	**1,812.1**	
60	**Total risk-weighted assets**	**9,990.2**	

	Capital ratios and buffers	
61	Common equity Tier 1 (item 29, as a percentage of risk-weighted assets)	**14.6%**
62	Tier 1 (item 45, as a percentage of risk-weighted assets)	**15.6%**
63	Total regulatory capital (item 59, as a percentage of risk-weighted assets)	**18.1%**
64	CET1 requirements in accordance with the Basel minimum standards (capital buffer + counter-cyclical buffer as per Art. 44a CAO) plus the capital buffer for systemically important banks) (as a per-centage of risk-weighted assets)	**2.5%**
65	*of which, capital buffer in accordance with Basel minimum standards (as a percentage of risk-weighted assets)*	**2.5%**
66	*of which, countercyclical buffer in accordance with the Basel minimum standards (as per Art. 44a CAO, as a percentage of risk-weighted assets)*	**0.0%**
68	CET1 available to meet minimum and buffer requirements as per the Basel minimum standards, after deduction of the AT1 and T2 requirements met by CET1 (as a percentage of risk-weighted assets)	**9.6%**
68a	CET1 total requirement target in accord-ance with Annex 8 of the CAO plus the countercyclical buffer as per Art. 44 and 44a CAO (as a percentage of risk-weighted assets)	**7.8%**
68b	*Of which countercyclical buffer as per Art. 44 and 44a CAO (as a percentage of risk-weighted assets)*	**0.0%**
68c	Available CET1 capital to meet CET1 target + countercyclical buffer (after deduction of CET1 capital used to cover T2 and AT1 capital needs)	**13.8%**
68d	T1 total requirement in accordance with Annex 8 of the CAO plus the countercyclical buffer as per Art. 44 and 44a CAO (as a percentage of risk-weighted assets)	**9.6%**
68e	T1 available (as a percentage of risk-weighted assets)	**15.6%**
68f	Total requirement for regulatory capital as per Annex 8 of the CAO plus the countercyclical buffer as per Art. 44 and 44a CAO (as a percentage of risk-weighted assets)	**12.0%**
68g	Regulatory capital available (as a percentage of risk-weighted assets)	**18.1%**
Amounts below the thresholds for deduction (before risk-weighting)		
73	Other qualified participations in the financial sector (CET1)	
74	Mortages servicing rights (net of related tax liability)	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	**2.6**
Applicable caps on the inclusion of items in Tier 2		
76	Valuation adjustments eligible in T2 in the context of the SA-BIS approach	
77	Cap on inclusion of valuation adjustments in T2 in the context of the SA-BIS approach	
78	Valuation adjustments eligible in T2 in the context of the IRB approach	
79	Cap on inclusion of valuation adjustments in T2 in the context of the IRB approach	

9. CC2: Reconciliation of regulatory capital to balance sheet

Assets *(All figures in millions of CHF)*	Dec. 31, 2020	Reference
Cash and cash at central banks	**8,894.7**	
Due from other banks	**3,997.5**	
Amounts due from securities financing transactions	**317.6**	
Amounts due from customers	**11,529.2**	
Mortgage loans	**6,087.1**	
Trading portfolio assets	**843.5**	
Positive replacement values of derivatives financial statements	**1,208.9**	
Other financial instruments at fair value	**149.4**	
Financial investments	**7,738.4**	
Accrued income and prepaid expenses	**202.1**	
Tangible fixed assets	**274.3**	
Intangible assets	**48.9**	
of which goodwill	***24.3***	a)
of which other intangible assets	***24.6***	f)
Other assets	**334.2**	
of which deferred tax assets that rely on future probability	***88.0***	e)
of which deferred tax assets arising from temporary difference	**2.6**	
Total assets	**41,625.8**	
Liabilities		
Amounts due to banks	**638.3**	
Amounts due in respect of customer deposits	**31,698.3**	
Trading portfolio liabilities	**44.1**	
Negative replacement values of derivative financial instruments	**1,429.3**	
Liabilities from other financial instruments at fair value	**448.0**	
Bond issues and central mortgage institution loans	**4,568.2**	
Accrued expenses and deferred income	**289.8**	
Other liabilities	**72.3**	
Provisions	**50.1**	
of which deferred tax liabilities related to other intangible assets	***3.6***	f)
Total liabilities	**39,238.4**	
of which subordinated liabilities eligible as Tier 2 Capital (T2)	**249.8**	
of which subordinated liabilities eligible as Additional Tier 1 Capital (T1)	**103.6**	
Shareholders' equity		
Share capital	**500.0**	b)
of which recognized as CET1	***500.0***	
of which recognized as AT1	**-**	
Reserves for general banking risks	**53.3**	
Reserves and retained earnings	**765.1**	
Other non-controlling interests	**1,069.0**	
of which recognized as CET1	***589.0***	c)
of which recognized as AT1	***103.6***	d)
Shareholders' equity	**2,387.4**	
Total liabilities and shareholders' equity	**41,625.8**	

10. LR1: Leverage ratio: comparison of accounting assets versus leverage ratio exposure measure

The leverage ratio at 31 December 2020 was 4.5% compared to the regulatory requirement of 3.0%.

The ratio is the Tier 1 capital (CHF 1,562.3 million) divided by the Total Gross Exposure (CHF 34,678.3 million). Total Gross Exposure reflects all the on-balance sheet assets at book value primarily adjusted for:

– Deducting assets already deducted from Tier 1 capital– Grossing up securities financing transactions
– Derivatives exposure adjustments
– Other off-balance sheet exposures

Following the FINMA Guidance 02/2020 issued on 31 March 2020, the leverage ratio as at 31 December 2020 has been calculated in accordance with Article 46 of the Capital Adequacy Ordinance, excluding deposits held at central banks in all currencies pursuant to margin nos. 5 and 7 of Annex 1 to FINMA Circular 2020/1 "Accounting-Banks". The ratio increased accordingly.

The table below summarises the reconciliation between the total balance sheet assets and the Leverage ratio exposure used as the denominator for the Leverage ratio calculation.

		a
	(All figures in millions of CHF)	**Dec. 31 ,2020**
1	**Total consolidated assets as per published financial statements**	**41,625.8**
2	**Adjustment for investments in banks, financial companies, insurers and commercial companies which are consolidated as per accounting standards but not for regulatory purposes (margin nos. 6-7 FINMA circ. 15/3) and adjustments as regards assets which are to be deducted from Tier 1 capital (margin nos. 16-17 FINMA circ. 15/3)**	**(524.4)**
4	**Adjustment for derivatives (margin nos. 21-51, FINMA circ. 15/3)**	**414.8**
5	**Adjustment for securities financing transactions (SFT) (margin nos. 52-73, FINMA circ. 15/3)**	**1,739.5**
6	**Adjustment for off-balance sheet transactions (conversion of off-balance sheet transactions into credit equivalents) (margin nos. 74-76, FINMA circ. 15/3)**	**250.5**
7	**Other adjustments**	**(8,827.9)**
8	**Total exposure for leverage ratio (sum of lines 1-7)**	**34,678.3**

11. LR2: Leverage ratio: detailed presentation

		a	b
(All figures in millions of CHF)		**Dec. 31 ,2020**	**Dec. 31 ,2019**
	Balance sheet items		
1	On balance sheet items (excluding derivatives and SFT but including collateral) (margin nos. 14 - 15, FINMA circ. 15/3)	**31,531.5**	40,219.5
2	(Assets that must be deducted in determining the eligible Tier 1 capital)2 (margin nos. 7 and 16-17 FINMA Circ. 15/3).	**(524.4)**	(191.9)
3	Sum of balance sheet items for leverage ratio excluding derivatives and SFT (sum of lines 1 and 2)	**31,007.1**	40,027.6
	Derivatives		
4	Replacement values for derivative transactions, including those for CCPs taking into consideration received margins and netting agreements (margin nos. 22-23 and 34-35 FINMA circ. 15/3)	**1,266.5**	775.9
5	Add-ons for all derivatives (margin nos. 22 and 25 FINMA circ. 15/3)	**384.0**	583.3
7	(Deduction of receivables caused by cash variation margins posted as per margin no. 36 FINMA circ. 15/3)	**(473.5)**	(297.3)
9	The effective notional value of written credit derivatives after deducting any negative replacement values (margin no. 43 FINMA circ. 15/3)	**552.7**	351.1
10	(Offsetting of effective notional values of offsetting credit derivatives (margin nos. 44-50 FINMA circ. 15/3) and deduction of add-ons for written credit derivatives as per margin no. 51 FINMA circ. 15/3)	**(48.4)**	(48.1)
11	**= Total exposures from derivatives (sum of lines 4–10) Securities financing transactions (SFT)**	**1,681.3**	1,365.0
	Securities financing transactions exposures		
12	Gross SFT assets with no recognition of netting (except in the case of nova-tion with a QCCP as per margin no. 57 FINMA Circ. 15/3) including sale accounting transactions (Margin no. 69 FINMA Circ. 15/3), less the items specified in margin no. 58 FINMA Circ. 15/3).	**1,633.8**	1,285.7
14	CCR exposure for SFT assets (margin nos. 63-68 FINMA Circ. 15/3).	**105.7**	128.0
16	**= Total exposures from SFT (sum of lines 12-15)**	**1,739.5**	1,413.7
	Other off-balance sheet items		
17	Off-balance sheet transactions as gross notional values prior to applying credit conversion factors	**480.7**	511.0
18	(Restatement of conversion to credit equivalents) (margin nos. 75-76, FINMA circ. 15/3)	**(230.3)**	(230.9)
19	**Total exposures from off-balance sheet items (sum of lines 17 and 18)**	**250.4**	280.2
	Eligible capital and total exposures		
20	Tier 1 capital (margin no. 5, FINMA circ. 15/3)	**1,562.3**	1,622.2
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**34,678.3**	43,086.4
	Leverage ratio	%	%
22	Leverage Ratio (margin nos. 3–4, FINMA circ. 15/3)	**4.5**	3.8

13. LIQA: Liquidity risk management

For detailed explanation see section 3 Risk Management Approach.

14. 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)	**Dec. 31, 2020**	**Dec. 31, 2019**
	Weighted values	**Weighted values**
Total high-quality liquid assets (HQLA)	**12,358**	**12,068**
Total cash outflows	**10,472**	**10,338**
Total cash inflows	**3,981**	**3,819**
Total net cash outflows	**6,491**	**6,519**
Liquidity Coverage Ratio	**190%**	**185%**

The LCR remains robust at 190 % at 31 December 2020.

As at 31 December 2020, the HQLA is composed of cash deposit at SNB (39%). The remaining, HQLA are 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 79% 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 84% of potential cash inflows. The remaining cash inflows primarily come from derivatives maturing within 30 days. The LCR in Swiss francs is 223%, 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 last quarters of 2020.

		Q4 2020 Average 3-month average		Q3 2020 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)		12,453		11,813
B.	**Cash outflows**				
2	Deposits from retail clients	15,469	1,792	15,718	1,823
3	*of which stable deposits*	-	-	-	-
4	*of which less stable deposits*	*15,469*	*1,792*	*15,718*	*1,823*
5	Unsecured wholesale funding	16,758	7,136	16,069	6,764
6	*of which, operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-
7	*of which non-operational deposits (all counterparties)*	*16,757*	*7,135*	*16,068*	*6,763*
8	*of which unsecured debt instruments*	*1*	*1*	*1*	*1*
9	Secured wholesale funding and collateral swaps	278	277	331	330
10	Other cash outflows	1,288	926	1,232	911
11	*of which cash outflows related to derivative exposures and other transactions*	*1,203*	*901*	*1,134*	*877*
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*	*85*	*25*	*98*	*34*
14	Other contractual funding obligations	6	-	6	-
15	Other contingent funding obligations	1,271	912	1,336	972
16	**Total cash outflows**	-	**11,043**	-	**10,800**
C.	**Cash inflows**				
17	Secured lending (e.g. reverse repos)	-	-	6	6
18	Inflows from fully performing exposures	4,881	3,532	5,544	4,037
19	Other cash inflows	373	319	543	486
20	**Total cash inflows**	**5,254**	**3,851**	**6,092**	**4,529**
			Net values		**Net values**
21	**Total high quality liquid assets (HQLA)**		**12,453**		**11,813**
22	**Total net cash outflow**		**7,192**		**6,271**
23	**Liquidity coverage ratio (LCR) in %**		**173%**		**188%**

15. CRA: General information about risk

For detailed explanation see section 3 Risk Management Approach.

16. CR1: Credit quality of assets

The table below summarises the composition and credit quality of the assets subject to the credit risk framework.

	a	b	c	d
	Gross carying values of[1]			
(All figures in millions of CHF)	Defaulted exposures[3]	Non-defaulted exposures	Allowances / impairments[2]	Net values
1 Loans (without debt securities)	395.6	31,751.2	(98.4)	32,048.4
2 Debt securities	-	6,164.9	-	6,164.9
3 Off balance-sheet amounts	-	250.2	-	250.2
4 Total	395.6	38,166.3	(98.4)	38,463.5

1. Gross carrying values: on- and off-balance sheet items that give rise to a credit risk exposure according to the Basel framework. On-balance sheet items include loans and debt securities. Off-balance sheet items are measured according to the following criteria: (a) guarantees given – the maximum amount that the bank would have to pay if the guarantee were called. The amount is the gross of any credit conversion factor (CCF) or credit risk mitigation (CRM) techniques. (b) Irrevocable loan commitments – total amount that the bank has committed to lend. The amounts are gross of any CCF or CRM techniques. Revocable loan commitments must not be included. The gross value is the accounting value before any allowance/impairments but after considering write-offs. They do not take into account any credit risk mitigation technique.
2. Sum of value adjustments, without taking into account, that these adjustments cover impaired credits or even deferred risks, and directly booked amortisations.
3. Under SA-BIS this includes credits past due and impaired positions.

17. CR2: Changes in stock of defaulted loans and debt securities

	a
(All figues in millions of CHF)	Dec. 31, 2020
1 Defaulted loans and debt securities at December, 31 2019	413.4
2 Loans and debt securities that have defaulted since the las reporting period	18.6
3 Returned to non-defaulted status	(34.1)
4 Amounts written off	(2.3)
5 Other changes	-
6 Defaulted loans and debt securities at December, 31 2020	395.6

Defaulted loans amounted to CHF 395.6 million at 31 December 2020 and accounted for 1 % of total exposure. Valuation adjustments of CHF 90.2 million were recognized against these loans.

Valuation adjustments are determined individually for each defaulted loan, taking into account the liquidation value of collateral and the characteristics of the counterparty.

18. CRB: Additional disclosure related to the credit quality of assets

Assets subject to the credit risk framework (excluding derivatives and securities financing transactions counterparties and non-counterparty risks) are geographically located as per the following table:

By country — Dec. 31, 2020

Assets *(All figures in millions of CHF)*	Switzerland	Europe	North Americas and Carribean	Asia	Other	Total
Cash and cash at central banks	4,916.6	3,813.6	0.3	160.5	3.7	8,894.7
Due from other banks	1,516.8	1,013.6	469.1	908.6	89.4	3,997.5
Amounts due from customers	781.6	3,166.5	2,114.7	2,789.9	2,641.8	11,494.5
Mortgage loans	1,792.0	3,147.5	750.5	387.5	9.6	6,087.1
Other financial instruments at fair value	-	-	0.2	149.2	-	149.4
Financial investments	219.9	2,729.5	2,692.8	1,173.4	326.2	7,141.8
Accrued income and prepaid expenses	43.9	43.6	81.2	17.2	16.2	202.1
Other assets	90.4	30.7	115.4	3.1	6.6	246.2
Total assets	9,361.2	13,945.0	6,224.2	5,589.4	3,093.5	38,213.3
Off Balance sheet						
Contingent liabilities	46.2	40.5	58.7	7.1	27.6	180.1
Irrevocable commitments	22.4	42.7	1.8	2.5	0.7	70.1
Total off balance sheet	68.6	83.2	60.5	9.6	28.3	250.2
Grand Total	9,429.8	14,028.3	6,284.8	5,598.9	3,121.8	38,463.5

Receivables past due *(All figures in millions of CHF)*						
Receivables past due	5.9	11.3	7.5	17.5	-	42.2
Impaired loans	21.0	29.3	298.6	4.1	0.4	353.4
Value adjustments of impaired positions	2.5	1.2	84.7	0.9	0.9	90.2
Positions written off in the current year	-	-	-	-	2.3	2.3

Assets subject to the credit risk framework (excluding derivatives and securities financing transactions counterparties and non-counterparty risks) are primarily short dated as illustrated by the following table:

By remaining maturity				Dec. 31, 2020		
Assets *(All figures in millions of CHF)*	At sight	Cancellable	Due within 12 months	Due after 12 months within 5 years	Due after 5 years	Total
Cash and cash at central banks	8,894.7	-	-	-	-	8,894.7
Due from other banks	1,140.4	409.0	2,236.5	211.6	-	3,997.5
Amounts due from customers	-	2,455.0	6,916.0	1,881.0	242.5	11,494.5
Mortgage loans	-	3.0	2,662.9	2,909.4	511.8	6,087.1
Other financial instruments at fair value	-	-	-	-	149.4	149.4
Financial investments	313.5	-	2,792.9	2,559.7	1,475.7	7,141.8
Accrued income and prepaid expenses	25.6	0.4	175.9	0.2	-	202.1
Other assets	8.2	3.6	234.4	-	-	246.2
Total assets	10,382.4	2,871.0	15,018.6	7,561.9	2,379.4	38,213.3
Off Balance sheet						
Contingent liabilities	0.4	-	95.1	27.0	57.6	180.1
Irrevocable commitments	4.5	-	38.0	24.7	2.9	70.1
Total off balance sheet	4.9	-	133.1	51.7	60.5	250.2
Grand Total	10,387.3	2,871.0	15,151.7	7,613.6	2,439.9	38,463.5

Receivables past due *(All figures in millions of CHF)*						
Receivables past due	42.2	-	-	-	-	42.2
Impaired loans	353.4	-	-	-	-	353.4
Value adjustments of impaired positions	90.2	-	-	-	-	90.2
Positions written off in the current year	2.3	-	-	-	-	2.3

Assets subject to the credit risk framework (excluding derivatives and securities financing transactions counterparties and non-counterparty risks) by industry are as detailed by the table that follows:

By sector			Dec. 31, 2020			
Assets *(All figures in millions of CHF)*	Central governments and Central banks	Banks and stockbrokers	Corporates	Retail	Other	Total
Cash and cash at central banks	8,827.8	-	-	-	66.9	8,894.7
Due from other banks	0.9	3,982.9	-	2.6	11.1	3,997.5
Amounts due from customers			1,416.5	10,074.0	4.0	11,494.5
Mortgage loans			1,615.6	4,469.7	1.8	6,087.1
Other financial instruments at fair value	-	-	148.1	-	1.3	149.4
Financial investments	3,386.5	1,636.2	1,280.5	-	838.6	7,141.8
Accrued income and prepaid expenses	4.9	17.2	128.8	47.1	4.1	202.1
Other assets	14.6	-	0.2	-	231.4	246.2
Total assets	12,234.7	5,636.3	4,589.7	14,593.4	1,159.2	38,213.3
Off Balance sheet						
Contingent liabilities	-	1.5	37.6	141.0	-	180.1
Irrevocable commitments	-	4.0	17.0	45.2	3.9	70.1
Total off balance sheet	-	5.5	54.6	186.2	3.9	250.2
Grand Total	12,234.7	5,641.8	4,644.3	14,779.6	1,163.1	38,463.5
Receivables past due *(All figures in millions of CHF)*						
Receivables past due	-	-	39.0	3.2	-	42.2
Impaired loans	-	-	323.1	30.3	-	353.4
Value adjustments of impaired positions	-	-	86.1	4.1	-	90.2
Positions written off in the current year	-	-	-	-	2.3	2.3

Impaired loans, defined as loans for which it is improbable that the debtor will have the capacity to honour his or her commitments, are individually valued and the depreciation in value is covered by appropriate and individual value adjustments.

A loan is considered as past due when appropriate indicators provide evidence that future contractual repayments of capital and/or interests are unlikely, or at the latest, when such payments are overdue by 90 days (referred to herein as past due).

A loan is no longer considered past due if the interest and principal payments are up-to-date and future payments are reasonably assured.

19. CRC: Qualitative disclosure requirements related to credit risk mitigation techniques

For detailed explanation see section 3 Risk Management Approach.

20. CR3: Credit risk mitigation techniques – overview

The table below summarises the assets on which the credit risk is mitigated for the purposes of RWA calculations:

	Dec. 31, 2020				
	a	b1	b	d	f
Assets *(All figures in millions of CHF)*	**Exposures unsecured / carrying amount**	**Exposures secured / carrying amount**	**Of which exposures secured by collateral**	**Of which exposures secured by financial guarantees**	**Exposures secured by credit derivatives**
1 Loans (without debt securities)	14,074.8	17,973.6	17,480.4	493.2	-
2 Debt securities	6,164.9	-	-	-	-
3 Total	20,239.7	17,973.6	17,480.4	493.2	-
4 *of which defaulted*	*98.2*	*297.4*	-	-	-

Loans reported above mainly include Cash and cash at central banks and due from other banks. Of the CHF 14'074.8 million reported in relation to exposures unsecured, components are liquid assets with central banks which account for 63% and amounts due from other banks that account for 28%.

21. CRD: Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

For detailed explanation see section 3 Risk Management Approach.

22. CR4: Credit risk: exposure and Credit Risk Mitigation (CRM) effects under the standardised approach

The below table summarises the RWA composition for the assets on and off-balance sheet and the related average percentage these RWA comprise of the gross exposure.

		Dec. 31, 2020					
		a	b	c	d	e	f
		Exposures before Credit Conversion Factor (CCF) and Credit Risk Mitigation (CRM)		Exposures after Credit Conversion Factor (CCF) and Credit Risk Mitigation (CRM)			
	Assets Classes *(All figures in millions of CHF)*	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA Density
1	Sovereign and their central banks	12,234.7	-	11,640.2	-	36.6	0%
2	Banks and securities dealers	5,636.3	5.5	4,154.8	5.6	1,427.0	34%
3	Public sector entities and multilateral development banks	793.4	-	770.7		19.6	3%
4	Corporate	4,589.7	54.6	3,441.1	36.0	1,730.6	50%
5	Retail	14,593.4	186.2	6,526.8	59.7	3,045.9	46%
6	Equity securities	17.1	-	17.2	-	19.5	113%
7	Other assets	348.7	3.9	135.4	3.9	86.2	62%
8	Total	38,213.3	250.2	26,686.2	105.2	6,365.4	24%

23. CR5: Exposures by exposure category and risk weights under the standardised approach

The below table summarises the net exposure after Credit Conversion Factor (CCF) and after Credit Risk Mitigation (CRM) by the risk weighting applied to these exposures.

		Dec. 31, 2020							
		a	b	d	e	f	g	h	j
	Assets classes / Risk weights *(All figures in millions of CHF)*	0%	20%	35%	50%	75%	100%	150%	Total credit exposures amount (post CCF & CRM)
1	Sovereign and their central banks	11,516.4	79.7	-	44.1	-	-	-	11,640.2
2	Banks and securities dealers	260.3	3,136.4	-	645.6	-	118.1	-	4,160.4
3	Public sector entities and multilateral development banks	743.7	21.7	3.5	1.8	-	-	-	770.7
4	Corporates	40.2	1,104.5	1,344.4	332.7	32.6	582.0	40.7	3,477.1
5	Retail	587.1	42.6	4,210.5	55.0	499.4	1,189.5	2.4	6,586.5
6	Equity securities	-	-	-	-	-	11.1	6.1	17.2
7	Other assets	65.5	-	-	32.1	-	41.7	-	139.3
8	Total	13,213.2	4,384.9	5,558.4	1,111.3	532.0	1,942.4	49.2	26,791.4
9	*of which secured by mortages*			*5,529.7*	-	*95.0*	*460.7*	*1.3*	*6,086.8*
10	*of which past due loans*			-	-	-	*39.5*	*2.7*	*42.2*

24. CCRA: Qualitative disclosure related to counterparty credit risk

Counterparty credit risk
Counterparty credit risk (CCR) exposure includes securities financing transactions and derivative transactions. The risk weighted assets for counterparty credit risk is CHF 549.1 million (2019: CHF 323.2 million).

Securities financing transactions (SFTs)
The majority of SFTs used are repo and reverse repo agreements to manage liquidity and generate revenues.

Repo and reverse repo agreements are based on standard contracts such as the GMRA or the GMLSA. Collateral eligibility is determined by SIX when it is the triparty agent (SNB basket) or agreed upon by the counterparties when Euroclear is the triparty agent.

Collateral must meet the eligibility criteria set forth in the group risk framework.

SFT counterparties are mainly banks. They are monitored daily on an individual basis. The quality of securities received as collateral is monitored daily using a portfolio approach, with particular attention paid to risk concentration. When calculating capital requirements, the exposure is determined using the comprehensive approach (Art. 62.1(b) of the CAO). Capital requirements are determined using the SA-BIS approach.

Non-centrally cleared OTC derivatives
Limits for OTC derivatives (including forward contracts) that are not centrally cleared (cleared bilaterally) are mainly granted to bank counterparties in order to carry out trading operations and interest-rate risk hedging transactions.

In principle, OTC derivative transactions are managed only on the basis of ISDA netting agreements or an equivalent agreement. For main bank counterparties in terms of pre-settlement exposure, necessary measures are taken to ensure that OTC derivative transactions can be carried out in accordance with a credit support annex (CSA) for collateral management. Alternatively, blocked cash deposits can be set up as a risk mitigation for OTC derivative exposure.

Credit-risk exposure is measured according to the principle of “positive mark-to-market value plus add-on."

The add-on is determined by type of underlying and by maturity, on the basis of internal models. Where an ISDA netting agreement with the counterparty has been entered to, contracts with negative mark-to-market values can be taken into account to reduce credit-risk exposure. Where a CSA collateral management agreement has been entered to with the counterparty, credit-risk exposure is determined according to the same principle, taking into account the amount of the cash collateral and based on a reduced add-on, in order to take into consideration the frequency of revaluation and the option to make margin calls.

Capital requirements are determined according to the standardised approach (SA-BIS), which includes the credit valuation adjustment (CVA).

Centrally cleared derivatives
Centrally cleared derivatives include exchange-traded derivatives (ETDs) and OTC derivatives cleared by a central counterparty.

Exchange-traded derivatives whose settlement is guaranteed by a central counterparty mainly relate to transactions on behalf of clients and related to balance sheet exposures. The contracts traded are mainly options and futures on equities and major indexes. OTC derivatives cleared by a central counterparty are mainly interest-rate swaps used to manage the interest-rate risk.

Exposure to central counterparties results from derivative positions, initial margins, variation margins, and default fund contributions. For derivatives, the exposure is determined based on the positive mark-to-market value plus an add-on. This type of exposure is subject to a credit limit if it gives rise to credit risk.

25. CCR2: Credit valuation adjustment (CVA) capital charge

The table that follows summarises the RWA requirement for CVA:

		Dec. 31, 2020	
		a	b
	(All figures in millions of CHF)	**EAD post-CRM**	**RWA**
	Total portfolios subject to the Advanced CVA capital charge		
1	**VAR component (including the 3x multiplier)**		**-**
2	**Stressed VaR component (including the 3x multiplier)**		**-**
3	**All portfolios subject to the Standardised CVA capital charge**	**401.3**	**101.3**
4	**Total subject to the CVA capital charge**	**401.3**	**101.3**

26. CCR3: Counterparty (derivatives and securities financing transactions) credit risk: by exposure category and risk weights

The table below summarises the exposure subject to the counterparty credit risk calculation and reflects the exposure after CRM and CCF. These exposures multiplied by the weighting determine the RWA requirement.

		Dec. 31, 2020					
		a	c	d	e	f	i
	Assets classes / Risk weights *(All figures in millions of CHF)*	**0%**	**20%**	**50%**	**75%**	**100%**	**Total**
1	Sovereign and their central banks	-	-	-	-	-	-
2	Banks and securities dealers	-	220.4	715.5	-	10.6	946.6
3	Public sector entities and multilateral development banks	-	-	0.2	-	-	0.2
4	Corporates	-	-	-	-	66.3	66.3
5	Retail	-	-	-	-	69.9	69.9
7	Other assets	-	-	-	-	0.1	0.1
9	**Total**	-	220.4	715.7	-	147.0	1,083.1
	Weighted value	-	44.1	357.8	-	147.0	548.9

27. CCR5: Composition of collateral for CCR exposure

	a	b	c	d	e	f
	Dec. 31 2020					
	Collateral used in derivative transactions				Collateral used in SFT's	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
(All figures in millions of CHF)	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	-	-	25.6	-	-	-
Cash - other currencies	126.9	-	284.0	-	102.1	346.7
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	1,769.7	2,105.3
Equity securities	-	-	-	-	221.6	97.6
Other collateral	-	-	-	-	0.4	55.8
Total	**126.9**	**-**	**309.6**	**-**	**2,093.8**	**2,605.4**

28. CCR6: Counterparty credit risk: Credit derivatives exposures

	Dec. 31 2020	
(All figures in millions of CHF)	Protection bought	Protection sold
Notionals		
Single-name credit default swaps	26.4	-
Index credit default swaps	89.2	552.7
Total return swaps	-	-
Credit options	-	-
Other credit derivatives	-	-
Total notionals	**115.6**	**552.7**
Fair values		
Positive fair value (asset)	0.4	-
Negative fair value (liability)	(3.0)	(5.4)

29. CCR8: Counterparty credit risk: exposures to central counterparties

This table provides a comprehensive picture of exposures to central counterparties. The table includes all types of exposures (due to operations, margins, contributions to default funds) and related RWA.

	(All figures in millions of CHF)	EAD (post-CRM)	RWA
1	**Exposures to QCCPs (total)**		154.4
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions)	342.9	154.4
3	(i) of which OTC derivatives	342.9	154.4
4	(ii) of which Exchange-traded derivatives	-	-
5	(iii) of which Securities financing transactions	-	-
6	(iv) of which Netting sets where cross-product netting has been approved	-	-
7	Segregated initial margin	-	
8	Non-segregated initial margin	-	-
9	Pre-funded default fund contributions	-	-
10	Unfunded default fund contributions	-	-
11	**Exposures to non - QCCPs (total)**		-
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions)	-	-
13	(i) of which OTC derivatives	-	-
14	(ii) of which Exchange-traded derivatives	-	-
15	(iii) of which Securities financing transactions	-	-
16	(iv) of which Netting sets where cross-product netting has been approved	-	-
17	Segregated initial margin	-	
18	Non-segregated initial margin	-	-
19	Pre-funded default fund contributions	-	-
20	Unfunded default fund contributions	-	-

30. Non counterparty-related risk

The term “non-counterparty-related risks” denotes the risk of a loss as a result of changes in the value of or liquidation of non-counterparty related assets such as real estate and other tangible assets.

In order to cover non-counterparty-related risks with capital, the following positions must be risk-weighted at 100%:
- real estate
- other tangible assets and assets recorded in the balance sheet under "other assets", that are subject to depreciation, unless they are deducted from the Common Equity Tier 1 capital.

RWA for the above amounted to CHF 316.8 million as at December 31, 2020 (2019: CHF 296.6 million) and comprised the following:
- real estate requirement primarily for the land and buildings the Group operates from in Switzerland of CHF 210.5 million
- other tangible assets requirement of CHF 106.3 million for the other fixed assets.

31. MRA: Market risk: qualitative disclosure requirements

Market risk is the risk of losses arising from unexpected changes in interest rates, exchange rates, equity 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 assets.

Approach used

The Standardised Approach is used to measure the capital adequacy on its Market Risk capital adequacy calculation.

Financial instruments in the trading book are marked to market and calculated on this basis for market risk purposes.

Interest Rate instruments in the trading book

Two components compose interest rate risk in the trading book, which must be calculated separately.

One component is based on specific risk of interest rate instruments. Specific risk includes risks that relate to factors other than changes in the general interest rate structure. These risks are calculated per issuer. These positions are based on the issuer rating and residual maturity of the instrument.

The second component is: general market risk. General market risk includes risks which relate to a change in the general interest rate structure and are therefore, calculated per currency. The maturity method is used where the total of a currency is broken down into maturity time bands per position and each specific maturity band carries its own risk weight that is applied to the total positions.

For further detailed explanation see section 3 Risk Management Approach.

32. MR1: Market risk: minimum capital requirements under standardised approach

The below table summarises the RWA for market risk:

		Dec. 31, 2020
		a
	(All figures in millions of CHF)	**RWA**
	Outright products	
1	**Interest rate risk (general and specific)**	**577.8**
2	**Equity risk (general and specific)**	**57.1**
3	**Foreign exchange risk**	**191.7**
4	**Commodity risk**	**168.3**
	Options	
5	**Simplified approach**	-
6	**Delta-plus method**	-
7	**Scenario approach**	-
8	**Securitisation**	-
9	**Total**	**994.8**

33. IRRBB Interest rate risk in the banking book

IRRBBA: Interest rate risk: Risk Management objective and policies

a. Risk management and risk assessment purposes

Interest rate risk in the banking book (IRRBB) is an important risk that arises from banking activities, because business typically involves intermediation activity that produces exposures to maturity mismatch (e.g. long-maturity assets funded by short-maturity liabilities), rate mismatch (e.g. long-maturity assets funded by short-maturity liabilities), and basis risk (e.g. different basis reference rates and frequencies). In addition, optionality embedded in many of the common banking products (e.g. non-maturing deposits, term deposits, fixed rate loans) are triggered in accordance with changes in interest rates.

Different risk metrics are used to assess interest rate risk in the banking book, considering the complementary nature of present value and earnings-based measures. These measures are assessed with both deterministic (sensitivity analysis and stress tests) and probabilistic (value-at-risk, earning-at-risk) methodologies.

Through economic value of equity measures (EVE), a change in the net present value of assets, liabilities and off-balance sheet items, subject to specific interest rate shock and stress scenarios, is computed. Through earnings-based measures on net interest income (NII), focus is made on changes to future profitability within a given time horizon, that could eventually affect future levels of own equity capital.

Economic value measures reflect changes in value over the remaining life of assets, liabilities and off-balance sheet items (i.e. until all positions have run off); earnings-based measures cover the short to medium term period, typically a one-year period.

The economic value measures consider the net present value of repricing cash flows of instruments on the balance sheet or accounted for as an off-balance sheet item (i.e. a run-off view). Earnings measures assume, in addition to a run-off view, the rollover of maturing items (i.e. a constant

balance sheet view) or assess the scenario-consistent impact on the future earnings inclusive of future business (i.e. a dynamic view).

b. Risk management and risk assessment strategies

Interest rate risks related to the balance sheet structure are managed by the Asset & Liability Management Committee and monitored by the Financial Risk Committee, in accordance with the principles and maximum limits stipulated by the market risk policy. The risk policy defines the organisational structure, responsibilities, limit systems and maximum acceptable risk set by the Board of Directors.

Interest rate risk is managed in line with predefined interest rate limits and risk appetite to generate profits. The interest rate risk appetite is approved by the Board of Directors and refers both to economic value of equity and net interest income views.

Interest rate risk in banking book is assessed centrally by the Group Risk function, with strategic management done by the Asset & Liability Management Committee and risk monitoring done by the Financial Risk Committee.

Interest rate risk measurement is performed with a system, which has embedded data quality checks and best-practice evaluation methodologies. Models for interest rate risks are appropriately documented, controlled and reviewed regularly or when deemed necessary due to changing conditions. Both system and models are subject to independent validation.

c. Risk assessment frequency and key indicators

IRRBB is assessed at least daily with simple risk indicators, such as repricing gap and one-year equivalent exposure. On a monthly basis, more complex interest rate risk indicators are assessed, analysing both EVE and NII impact of shock and stress scenarios, based on static and dynamic simulations.

d. Interest rate shocks and stress scenarios

Vulnerability to loss under stressful market conditions is measured. IRRBB assessment accommodates the calculation of the impact on economic value and earnings of multiple scenarios, in line with FINMA and BIS regulations:

i. Internally selected interest rate shock scenarios addressing the Group's risk profile
ii. Historical and hypothetical interest rate stress scenarios, which tend to be more severe than shock scenarios
iii. Six regulatory prescribed interest rate shock scenarios

An effective stress testing framework has been developed and implemented for IRRBB as part of its broader risk management and governance processes. This feeds into the decision-making process at the appropriate management level, including strategic decisions (e.g. business and capital planning decisions). In particular, IRRBB stress testing is considered in the internal capital assessment, with rigorous, forward-looking stress testing that identifies events of severe changes in market conditions which could adversely impact the bank's capital or earnings. Reverse stress tests are performed, highlighting severe and extreme possible causes for the breach of regulatory and internal risk thresholds.

e. Model assumptions deviations

Impact on cash placed at central banks due to market interest rate changes is analysed through internal risk indicators. Following FINMA prescriptions, such impact is not included in EVE and NII exposures shown in table IRRBB1 (refer to paragraph IRRBB1).

The NII values in table IRRBB1 are computed assuming a constant balance sheet. Internal risk indicators consider, besides this static view, also dynamic simulations that allow to take into consideration how customers' behaviour affect interest rate risk exposures.

Internal risk indicators consider different risk aggregation rules across currencies and correlation assumptions of interest rates (refer to g.10. Other assumptions).

f. Hedging strategies and accounting treatment

IRRBB hedging decisions are taken by the Asset & Liability Management Committee and executed in the market by Treasury. Interest rate risk hedging strategies that are designated either as fair value hedges or as cash flow hedges are implemented.

Fair value hedge is used when a derivative financial instrument hedges the exposure to changes in the fair value of the hedged item, in order to mitigate interest rate risks of its assets and liabilities.

Cash flow hedges are used when a derivative financial instrument hedges the exposure to variability in the cash flows from a hedged item, in order to mitigate a particular risk associated with an asset or liability or highly probable forecast transaction.

g. Modelling and parameter assumptions used when calculating ΔEVE and ΔNII in table IRRBB1

g.1. Changes in the present value of capital (ΔEVE) - Determination of payment streams

The EVE is computed under the assumption that existing exposures in the banking book will be amortised and not replaced with new interest business. Nominal and interest cash flows are determined at single position level both for on- and off-balance sheet instruments. Amortising plans are considered when computing both nominal and interest cash flows. When projecting interest cash flows, both cost of funding and commercial margins (i.e. client rate) are included.

g.2. Changes in the present value of capital (ΔEVE) - Mapping approach

Cash flows are slotted into the appropriate time band using the effective payment or repricing date. Floating rate instruments are assumed to reprice fully at the first repricing date. Hence, the entire principal amount is slotted into the bucket in which that date falls, with no additional slotting of notional repricing cash flows to later time buckets (other than the spread components which are considered as a fixed rate cash flows).

Forward starting deals are slotted with dual deposit inflow/outflow with opposite sign, equal in magnitude to the original balance at value date.

g.3. Changes in the present value of capital (ΔEVE) - Discounting and interpolation methods

Cash flows are discounted using risk-free rate curves. Zero-coupon rates and discount factors are derived from market rates through the bootstrapping process. The exponential interpolation method is used.

The discounting of cash flows, which include margin payments, with risk-free discount rates could lead to a slightly overestimated interest rate risk position.

g.4. Changes in the expected income (ΔNII)

The Net Interest Income is computed under the assumption of a constant balance sheet, where payment streams due or new are replaced by payment streams from new interest business with identical characteristics in regard to volume, reset frequency and spread component that depend on creditworthiness. The earning-based approach measures interest rate risk for non-discounted cash flows over a one-year period. Expected payment streams, including margin payments and other spread components, which arise from interest rate sensitive assets, liabilities and off-balance sheet items in the banking book, are taken into account.

g.5. Non-maturing exposures

Non-maturing products are modelled using replicating portfolios, considering behavioural characteristics for significant currencies and companies. Significant non-maturing products are replicated, so that they can be assigned a synthetic maturity and transformed into fixed income instruments.

Non-maturity products assumptions are built around the following three analysis steps:

i) Correlation to market rates – magnitude of deposits rate shifts, in response to market rates changes
ii) Volume stability – estimate of the stability of outstanding volume, and
iii) Volume decay – rate at which balances are being reduced from the account outstanding volume

Based on the above steps, behavioural models are defined and allow quantifying the interest rate risk of the non-maturing products.

In particular, a distinction is made between the stable and non-stable volume for significant non-maturing products.

When analysing the stable component, non-maturing products are segmented into retail and wholesale categories, up to the defined volume and maturity caps (as per BIS IRRBB framework). The stable portion is expected to remain undrawn with a high degree of likelihood. The separation of stable and non-stable parts is done using observed historical volume trend.

Non-maturing products are slotted into the appropriate time bucket:
i. Non-stable volume is considered at overnight and accordingly placed into the shortest/overnight time bucket
ii. Stable volume is slotted to the suitable mid-to-long term maturity

g.6. Exposures with pay-back options

Term loans lock in a rate for a fixed term and would usually be hedged on that basis. However, such loans may be subject to the risk of early repayment, also called prepayment risk.

Economic cost of early repayment on loans is charged to borrowers. As a general rule, customers wishing to pay off their loans before maturity must pay an early repayment fee that is calculated using a rate equal to the difference between interest rate on the loan and interest that can be obtained on the market if a replacement transaction was entered into for the remaining period until maturity, this rate being applied to the remaining amount due. The application of penalty fees prevents from incurring losses from early repayments.

Prepayments, for which the economic cost is not charged to the borrower, are referred to as uncompensated prepayments. For term loan products where the economic cost of prepayments is not charged, the baseline conditional prepayment rate is determined and a scenario multiplier is applied, depending on the upward or downward movement of the market interest rates (as per BIS IRRBB framework).

The scenario multiplier allows to reflect the expectation that term loans prepayments will generally be lower during periods of rising interest rates and higher during periods of falling interest rates.

g.7. Term deposits

Term deposits lock in a fixed rate for a fixed term and would usually be hedged on that basis. However, term deposits may be subject to the risk of early withdrawal, also called early redemption risk.

As a general rule, early withdrawal of term deposits is not allowed. In any case the economic cost of early redemption is charged to depositors. According to Swiss Liquidity Risks - Banks Circular, customers wishing to early-redeem their term deposits before maturity must pay an early redemption fee that is calculated adding at least 2% to the compensation for the lower interest rate since the deposit was made.

The early redemption penalty prevents from incurring losses from early reimbursements; and as a result, such a risk is deemed not to be significant. For this reason, no model for early redemptions is applied.

g.8. Automatic interest rate options

Embedded options in banking products, such as loans, deposits, structured products, fiduciary placements and issued bonds, are considered.

For structured products, the analysis considers the embedded bonds/deposits or interest rate derivative that encompass the interest rate risk component of the product.

Concerning embedded options in loans, floor options are captured and optional cash flows are generated using a deterministic model.

g.9. Derivative exposure

Hedging instruments mainly consist of linear derivatives such as interest rate swaps, cross currency swaps, futures and FX swaps. Derivatives instruments are used both for fair value and cash flow hedging purposes.

g.10. Other assumptions

Interest rate risk exposure is monitored using different aggregation methods:

i. Aggregation of risk exposures considering perfect correlation between different currencies (positive and negative changes can offset each other)
ii. Aggregation of risk exposures where only negative exposures are considered (as per BIS IRRBB approach), where positive exposures cannot compensate negative ones
iii. Aggregation of negative and positive exposures applying a 50% weighting to positive ones (as per EBA IRRBB approach).

In table IRRBB1, the aggregation rule as per approach i. is considered. In this currency aggregation approach the EVE risk measure corresponds to the worst across all interest rate shock scenarios. The EVE exposures are aggregated under a given interest rate shock scenario considering both positive and negative exposure for each single currency, as being market practice in Switzerland for IRRBB disclosure purposes.

IRRBBA1: Quantitative information on the exposure’s structure and repricing date

The below table IRRBBA1 shows the interest sensitive positions volume and repricing maturities.

Swap positions, such as for example interest-rate swaps, cross-currency swaps and FX swaps, are reported with two legs – a receivables leg and a payables leg – and are recorded, therefore, under both “Receivables from interest rate derivatives” and “Liabilities from interest-rate derivatives”. Fixed income securities are reported in terms of nominal values (interest rate risk view).

Sight deposits at the Swiss National Bank, sight deposits at clearing houses recognised by FINMA and sight deposits at a foreign central bank are not included in the table, as being considered as positions without repricing maturity, as per FINMA requirement.

The column “Of which other significant currencies” refers to positions in other currencies that account for more than 10% of balance-sheet assets or liabilities.

			Dec 31, 2020						
			Volumes in mio of CHF			Average repricing maturities (in year)		Longest repricing maturity (in years) assigned to non-maturing positions	
			Total	Of which CHF	Of which other significant currencies	Total	Of which CHF	Total	Of which CHF
Determined repricing maturity	Receivables	Receivables from banks	2,769	433	2,304	0.4	0.2		
		Receivables from clients	8,901	496	7,238	0.6	0.4		
		Money-market mortgages	3,435	56	3,278	0.2	0.5		
		Fixed-rate mortgages	2,336	1,437	899	1.2	1.7		
		Financial investments	6,385	144	5,149	1.6	2.7		
		Receivables from interest rate derivatives	12,604	958	10,574	0.4	1.2		
	Liabilities	Liabilities to banks	(30)	-	(24)	0.0			
		Liabilities from client deposits	(7,173)	(6)	(6,479)	0.1	0.0		
		Bonds and mortgage-backed bonds	(4,883)	(503)	(4,325)	0.6	2.1		
		Other liabilities	(276)		(276)	5.8			
		Liabilities from Interest rate derivatives	(12,701)	(4,221)	(6,480)	1.1	0.4		
Undetermined repricing maturity	Receivables	Receivables from banks	1,530	70	1,099	-	-		
		Receivables from clients	2,648	375	2,107	-	-		
		Variable mortgage claims	317	301	3	0.5	0.6		
		Other receivables	2,017	58	1,956	3.7			
	Liabilities	Sight liabilities in personal and current accounts	(24,302)	(3,388)	(19,122)	0.5	1.0		
		Other liabilities	(789)	(52)	(681)	1.7	-		
		Liabilities from clients deposits, call but not transferable (savings)	(256)	(220)	(36)	0.7	0.8		
		Total	**(7,468)**	**(4,062)**	**(2,816)**	**0.4**	**0.5**	**3.7**	**5.0**

IRRBB1: Quantitative information on economic value of equity and net interest income

The values in table IRRBB1 below are computed in accordance to FINMA Circular 2016/1 “Disclosure – Banks”.
The six interest-rate scenarios and currency shifts are defined in Circular 2019/2 “Interest rate risks – Banks”.
The following impacts are assessed for each of the prescribed interest rate shock scenarios:
(i) the change in the economic value of equity (ΔEVE), using a run-off balance sheet and an instantaneous shock; and
(ii) the change in net interest income (ΔNII) over a forward looking rolling 12-month period, using a constant balance sheet assumption and an instantaneous shock.

A general description of significant modelling, parameter assumptions and aggregation rules used when calculating ΔEVE and ΔNII in the below table is provided in section 33 g. Δ EVE

	Δ EVE (change in economic value)		Δ NII (change in net interest income)	
(All figures in millions of CHF)	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019
Parallel up	47	51	211	117
Parallel down	166	126	(143)	(86)
Steepener (1)	(15)	(9)		
Flattener (2)	47	34		
Short rate up	42	30		
Short rate down	28	1		
Worst scenario	(15)	(9)	(143)	(86)
Tier 1 capital	1,562	1,622		

(1) The steepener scenario considers a reduction of short term rates combined with an increase of long term rates
(2) The flattener scenario considers an increase of short term rates combines with a reduction of long term rates

The EVE worst scenario derives from a curve flattening and remains well below the regulatory threshold corresponding to 15% of Tier 1 capital. The NII worst scenario derives from the curve parallel down shift. As per FINMA requirement, sight deposits at the Swiss National Bank, sight deposits at clearing houses recognised by FINMA and sight deposits at a foreign central bank are treated as non-interest sensitive for the purpose of this disclosure.

Stress scenarios outcomes are highly affected by optional elements embedded in banking products, especially on loans (floors) and other financial products (including behavioural options). Optional elements play an important role, especially in today’s negative interest rates. Negative interest rates have been since some years a feature of the Swiss and Eurozone markets.

The FINMA stress scenarios activate optional elements, in particular when shocked rates are below zero. As a consequence, the EVE and NII sensitivities are not symmetric between the upward and downward stress scenarios.

The EVE and NII sensitivities variations in respect of the to previous period are mainly due to lowering market interest rates environment during 2020.

34. ORA: Qualitative disclosure requirements related to operational risks

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.

Approach used

The standardised approach is used as the basis for the calculation of RWA.

Based on the original Basel Accord, under the Standardised Approach, banks' activities are divided into eight business lines: corporate finance, trading & sales, retail banking, commercial banking, payment & settlement, agency services, asset management, and retail brokerage. Within each business line, gross income is a broad indicator that serves as a proxy for the scale of business operations and thus the likely scale of operational risk exposure within each of these business lines. The capital charge for each business line is calculated by multiplying gross income by a factor (denoted beta) assigned to that business line. Beta serves as a proxy for the industry-wide relationship between the operational risk loss experience for a given business line and the aggregate level of gross income for that business line. The total capital charge is calculated as the three-year average of the simple summation of the regulatory capital charges across each of the business lines in each year.

The table below summarises the capital requirement for Operational Risk converted by a 12.5 times multiplier to arrive at the RWA equivalent:

(All figures in millions of CHF)	Dec. 31, 2020	Dec. 31, 2019	Change in %
Capital requirement for Operational Rsik	**158.3**	160.7	**(1.5)**
Multiplier	**12.5**	12.5	
RWA Equivalent	**1,979.0**	2,008.7	(1.5)

The decrease year on year is due to the use of the three-year average. As the EFG International group moves forward from the acquisition of the BSI group in October 2016.

For further detailed explanation see section 3 Risk Management Approach.