

Basel III Pillar 3 Disclosures

31 December 2018

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1. Introduction

1.1 Background

EFG International AG (the Group) is regulated by the Swiss Financial Market Supervisory Authority (FINMA) which requires the Group to comply with Pillar III disclosures that are part of the Basel III Capital Adequacy Framework.

This report discloses the Group's application of the Basel III framework as at 31 December 2018.

1.2 Objective

The objective of this report is to provide information on risk management in the Group to investors, analysts, ratings agencies and supervisory bodies. In particular, it describes the Group's capital adequacy, liquidity and its risk-assessment methods and the level of risk taken.

1.3 Scope

There is no difference in the scope of consolidation for the calculation of capital adequacy and the 2018 Consolidated Financial Statements. In Note 44 on page 175 of the Group's Annual Report there is a list of the main subsidiaries of the Group as at 31 December 2018.

No subsidiaries are proportionally consolidated.

As the Group operates various regulated banks in different countries, each of these countries have regulations limiting the transfer of regulatory capital (and in some instances cash balances) between jurisdictions.

As the parent entity of the Group, EFG International AG is a holding company, the parent entity is only regulated on a consolidated basis, and hence no "single entity" reporting has been produced.

1.4 Basis of preparation

This document was prepared in accordance with the Pillar III disclosure requirements set forth under FINMA Circular 2016/1 "Disclosure – banks". Certain tables referred to in this document are numbered as per the FINMA requirements. For the full list of required tables see Section 13.

In order to have the full view of the Group's regulatory environment and capital requirements, this report should be read in conjunction with the Group's Annual Report 2018 (<http://www.efginternational.com>).

The Appendices to this report contains information that is useful for understanding this document (and specifically required by FINMA) and a list of abbreviations.

1.5 Internal control system

The Group's internal control system (ICS) is an integrated Group-wide system covering all functions and all hierarchical levels. In addition to the Group's front-line activities, the system also applies to business-support and monitoring functions. The Group works continually to foster a culture of oversight among its staff so that each employee understands his or her role in the ICS.

The Group carries out a periodic review of key risks and controls, with a particular focus on operational risks. The Group keeps detailed records of these risks and controls and identifies the main areas of potential improvement. It also prepares an annual assessment of its ICS for the financial accounts in order to meet the requirements of Swiss auditing standard No. 890.

1.6 Accounting principles

The Group complies with IFRS accounting principles which are used in the financial reporting presented in the Annual Report. The Group complies with Swiss accounting principles reporting (Accounting-banks "Swiss ARB") for Capital Adequacy purposes on the same basis as its major subsidiary, EFG Bank AG. All figures within this report are prepared under the basis of Swiss GAAP, unless otherwise stated.

As at 31 December 2018, the main difference between IFRS and Swiss ARB accounting principles affecting the Group's capital adequacy positions relates to:

- Swiss ARB does not require any actuarial pension liability to be calculated based on short term interest rates to be recognised for defined contribution plans (except if the pension plan showed an actuarial deficit to be calculated based on a reference average long term interest rate and the employer was due to the fund that deficit). Under IFRS, an additional post tax pension liability of CHF 144.0 million (2017: CHF 138.1 million) is recognised on the balance sheet.

- Swiss ARB permits the valuation of certain financial instruments on an amortised cost basis. In line with the Group's intention to hold until maturity certain assets (including the life insurance related assets) a difference arises. Under IFRS the Group is required to fair value these assets, whilst under Swiss ARB they are carried at amortised cost with a difference of CHF 268.2 million (2017: CHF 298.6 million) arising.

For further details of the reconciliation between IFRS and Swiss ARB, see Section 10 to this report.

2. Capital adequacy and liquidity

The Group's objectives when managing regulatory capital and liquidity is to comply with the requirements set by regulators of the jurisdictions in which the Group entities operate and to safeguard the Group's ability to continue as a going concern.

Capital adequacy and the use of regulatory capital is continually monitored and reported by the Group's management, using the framework developed by the Bank for International Settlements (BIS). The regulatory capital requirement of the Group is ultimately determined by the rules implemented by the Swiss banking regulator, the Swiss Financial Market Supervisory Authority (FINMA).

The Group reports regulatory capital according to the Swiss Capital Ordinance, therefore complying with the FINMA requirements.

Monitoring capital adequacy and liquidity is a key component of the Group's financial strategy. Management carefully considers the potential impact on the Group's capital ratios and liquidity ratio before making any major

decisions about the Group's operations and the orientation of its business.

The Executive Committee monitors the capital ratios and liquidity ratio monthly for the Group, with Board oversight on a quarterly basis.

2.1 Key ratios

FINMA's capital ratio requirement is based on the Basel III Accord and is set forth in Article 41 of the Capital Adequacy Ordinance (CAO). The minimum required total capital ratio for the Group is 12.1% at 31 December 2018. It comprises the permanent requirement for a category 3 bank (12%) and a countercyclical buffer (0.1%). The permanent requirement consists of the absolute minimum requirement for a banking license (8%) and the capital buffer for a category 3 bank (4.0%). The countercyclical buffer is a temporary requirement set by the Swiss Federal Council upon the recommendation of the Swiss National Bank.

The Group's common equity tier 1 (CET1) ratio was 17.6%, above FINMA's requirement of 7.8%. The Group's total capital ratio was 21.6% at 31 December 2018, higher than the regulatory requirement of 12.0%.

The leverage ratio was 4.4% at 31 December 2018 (see Section 11). This ratio is above the regulatory requirement of 3% effective as of 1 January 2018.

The Group's liquidity coverage ratio (LCR) was 164% at 31 December 2018, above the minimum regulatory requirement of 90% in 2018 (see Section 9).

The following table¹ summarises all key metrics, which are explained in further detail in subsequent sections of this report.

CHF millions	Section	31 December 2018	30 June 2018	31 December 2017
Available capital				
1	Common Equity Tier 1 (CET1)	1,783.5	1,896.6	1,882.7
2	Tier 1 capital (T1)	12.4	1,912.1	1,898.4
3	Total Capital	2,192.3	2,309.0	2,288.7
Risk weighted assets (RWA)				
4	Total risk weighted assets (RWA)	3	10,132.3	10,763.3
4a	Minimum required capital based on risk-based requirements		810.6	861.1
				870.4
Risk based capital ratios as a percentage of RWA				
5	Common Equity Tier 1 ratio (%)		17.6%	17.3%
6	Tier 1 ratio		17.8%	17.4%
7	Total capital ratio		21.6%	21.0%
Additional CET1 buffer requirements as a percentage of RWA				
8	Capital conservation buffer requirement		1.875%	1.250%
11	Total of bank CET1 specific buffer requirements (%)		2.011%	1.387%
12	CET1 available after meeting bank's minimum capital requirements (%)		11.8%	11.4%
Target capital ratios according to Annex 8 of the Capital Adequacy Ordinance (% of RWA)				
12a	Capital buffer as per Annex 8 CAO		4.0%	4.0%
12b	National countercyclical buffer (art. 44 and 44a CAO) (%)		0.136%	0.137%
12c	CET1 capital target as per Annex 8 CAO plus countercyclical buffer per art.44 and 44a CAO		7.9%	7.9%
12d	T1 capital target as per Annex 8 CAO plus countercyclical buffer per art.44 and 44a CAO		9.7%	9.7%
12e	Total capital target as per Annex 8 CAO plus countercyclical buffer per art.44 and 44a CAO		12.1%	12.1%
BASEL III leverage ratio				
13	Total Basel III leverage ratio exposure	12.1	41,044.1	42,266.6
14	Basel III leverage ratio (%)	12.1	4.4%	4.5%
Liquidity coverage ratio (LCR)				
15	Total high-quality liquid assets (HQLA)		11,034.5	11,851.7
16	Total net cash outflow		6,746.6	6,933.1
17	LCR (%)	9	164%	209%

¹ FINMA Circular 2016/1 Table KM1

2.2 Composition of the regulatory eligible capital

The Group's regulatory capital is composed of:

- CET1 capital
- Additional Tier 1 capital
- Tier 2 capital.

CET1 capital comprises paid-in capital, disclosed reserves and minority interests. At 31 December 2018, the Group's ordinary share capital amounted to CHF 144.9 million and consisted of 294,074,591 fully paid-in registered shares with a par value of CHF 0.50 per share. CET1 capital is adjusted for regulatory deductions such as goodwill and deferred tax assets based on future profitability.

Additional Tier 1 capital comprises Bons de Participation without voting rights. Tier 2 capital comprises a capital instrument of USD 400.0 million.

See Section 12.4 for detailed analysis of the key features of these capital instruments.

3. Risk weighted assets

3.1 Overview of risk weighted assets

Credit risk requirement (primarily for client loans and the placement of excess funding from client deposits) comprises approximately 72% of the Group's total risk weighted asset exposure.

CHF millions	RWA 31 December 2018	RWA 31 December 2017	RWA change in %
Credit risk – excluding counterparty credit risk and non-counterparty credit risk	6,707.8	6,933.0	(3.2%)
Credit risk – Counterparty credit risk	360.4	271.2	32.9%
Credit risk – Non-counterparty credit risk	259.7	308.9	(15.9%)
Settlement risk	0.7	2.7	(74.1%)
Market risk	803.1	1,199.4	(33.0%)
Operational risk	1,998.2	2,161.1	(7.5%)
Amounts below the thresholds for deduction (subject to 250% risk weight)	2.3	3.2	(28.1%)
Total	10,132.3	10,879.5	(6.9%)

The decrease in risk-weighted assets over the period is mainly due to a reduction in Operational Risk and reduction in Credit Risk due to the impact of continuing to exit certain lending relationships that consumed significant RWA relative to the return on the loans. Market risk has decreased driven by lower volumes within trading portfolios throughout the period.

3.2 Framework for risk weighted assets calculation²

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.

	a	b	c	d	e
	31 December 2018				
CHF millions	Total	Positions subject to: credit risk framework	Positions subject to: securitisation framework	Positions subject to: counterparty credit risk framework	Positions subject to: market risk framework
1 Asset carrying value amount under regulatory scope of consolidation	40,205.4	37,983.3		1,473.2	2,187.0
2 Liabilities carrying value amount under regulatory scope of consolidation	1,795.7				1,795.7
3 Total net amount under regulatory scope of consolidation	38,409.7	37,983.3	-	1,473.2	391.3
4 Off-balance sheet amounts	966.9	519.4			
5 Differences in valuations for securities financing transactions (regulatory haircut)	51.5			51.5	
6 Difference in valuation for derivatives transactions (regulatory add-on)	422.4			422.4	
7 Difference in netting rules	(255.6)	(255.6)			
10 Exposure amounts considered for regulatory purposes	39,594.9	38,247.2	-	1,947.2	391.3

² FNMA Circular 2016/1 Table LI2

The above total credit risk exposure amounts considered for regulatory purposes of CHF 38,247.2 million is further split in this report into:

- Non-counterparty related risk of CHF 259.7 million – creating CHF 259.7 million of risk weighted assets.
- Other credit risk of CHF 37,986.5 million – creating CHF 6,707.8 million of risk weighted assets. The quality of these assets are analysed by industry, geography and maturity in Section 5.1

The majority of the assets are assessed under the credit risk framework, whilst less than 1% are subject to the market risk framework.

For details of split of assets under each framework see Section 12.9.

4. Risk management

Risk management overview

EFG International AG (EFG International; the Company) and all its subsidiaries (together EFG International Group) acknowledges that carrying out business in the banking and financial services industry entails risks, i.e. that events may occur which impact EFG International Group's ability to deliver on its objectives. EFG International Group believes that the proper management of risks is critical for the continued success of EFG International.

Risk management comprises the people, processes, and systems designed to ensure that risks are appropriately identified, measured, monitored and reported, as well as mitigated on an ongoing basis.

Importance of risk management

For EFG International Group, risk management is of crucial importance in order to:

- Ensure it understands and controls its exposure to risk
- Ensure that risk exposures are in line with risk capacity and defined risk appetite and strategy
- Help EFG International Group successfully implement its corporate strategy
- Protect clients from potential risks, such as unsuitable products or excess concentrations
- Contribute to the orderly functioning and sound reputation on the markets in which EFG International Group operates

Approach to risk management

EFG International Group has developed a multi-dimensional approach to risk management:

- There are independent Risk Control and Compliance functions with clearly defined objectives
- There is a comprehensive and prioritised list of risk categories
- There is a defined risk strategy and risk appetite
- There is a coherent and comprehensive set of policies, directives and procedures to govern risk management including compliance

The effectiveness and efficiency of risk management is supervised by the Board of Directors with the support and advice of a dedicated Risk Committee

Purpose and objectives of the risk management

The objectives of risk management are to:

- Provide transparency on the risks EFG International Group incurs
- Provide independent oversight and challenge that risks are adequately managed

- Enable better management of the risk-return trade-off
- Support the Board of Directors in defining an adequate risk appetite and strategy and ensure the actual risk profile remains in line with these
- Secure an appropriate degree of protection and promote effective competition in the interest of clients

The role of risk culture in supporting effective risk management

EFG International Group believes the behavioural element is key to ensure sound risk management, and that this is guided by the risk culture of the organisation. Accordingly, risk culture is viewed as a core component of effective risk management.

To frame this topic, EFG International Group approaches risk culture along four dimensions in line with Financial Stability Board principles:

- Tone from the top: The Board of Directors, the Executive Committee and senior management are the starting point for setting EFG International Group's core values and risk culture; their behaviour reflects the risk culture that is expected throughout EFG International Group and is communicated through formal and informal channels
- Accountability: The risk management framework and the risk policies clearly assign accountability for risk management and decision-making to functions and specific unit heads
- Effective communication and challenge: An environment must allow for open communication and promote effective challenge in the decision-making process; this is supported by independent Risk Control and Compliance functions
- Incentives: Financial and non-financial incentives are monitored to ensure they do not encourage excessive risk-taking

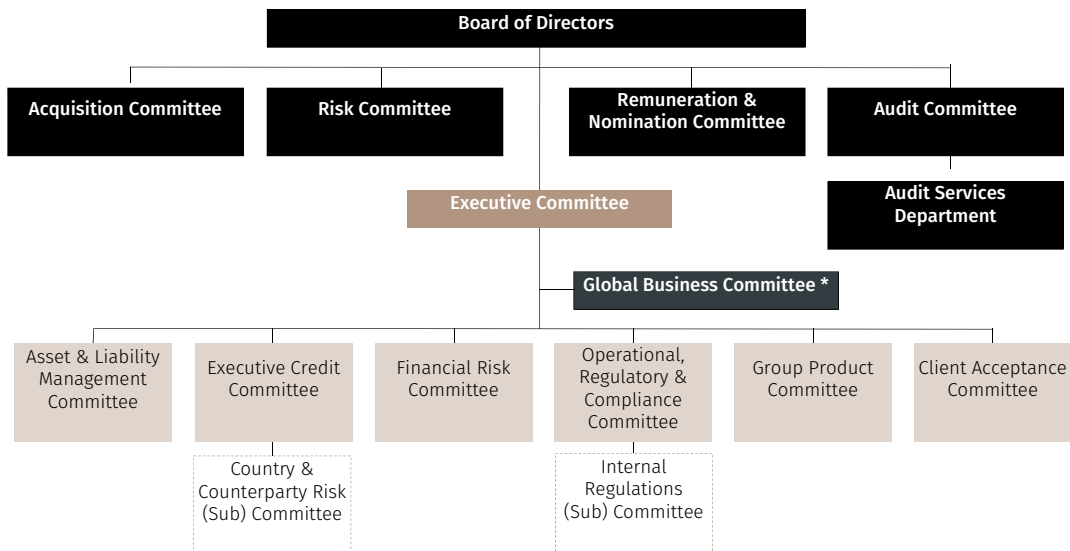
The risk awareness & culture programme, which follows the above mentioned principles, during 2018 focused on the following activities:

- Embedding of the risk management and risk appetite frameworks across the EFG International Group
- Performing comprehensive trainings in several risk and compliance topics
- Implementing the client relationship officer's scorecard to foster a risk-conscious culture among them and reduce operational risks

Risk governance and organisation

Risk management in EFG International Group involves committees, functions and business units. The table below provides an overview of EFG International Group while the roles of the different committees for risk management are described below:

Board of Directors & committees 2018



* Advisory role to the Executive Committee, effective as of 01 July 2018

EFG International Board of Directors sets and approves the risk appetite statement and the risk management framework of EFG International Group, and monitors its risk profile versus the risk appetite, as well as the effectiveness of risk management.

The Risk Committee is the primary advisory committee to the Board of Directors on matters relating to risk and compliance. The Risk Committee proposes the risk management framework of EFG International Group and advises the Board of Directors accordingly. In addition, it monitors the risk profile, ensures that the risk management is effective, reports on the state of risk culture, and interacts with and oversees the performance and activities of the Chief Risk Officer and the Chief Compliance Officer. The Risk Committee's tasks include oversight of the strategies for capital and liquidity management as well as oversight of the management of all relevant risks of EFG International Group, such as credit, market, liquidity, operational and reputational risks, to ensure they are consistent with the stated risk appetite. It examines any situations or circumstances giving rise to a substantial risk for EFG International Group and has the authority to require the reduction of any position or limit.

The Audit Committee oversees the Internal Audit function, which represents the third line of defence, and is responsible for the oversight of:

- The financial and business reporting processes, including the selection and application of appropriate accounting policies
- The integrated internal control systems for financial reporting as well as the internal controls of areas beyond financial reporting
- EFG International Group's tax risks
- The internal and external audit processes

EFG International Executive Committee is tasked by the Board of Directors with the following responsibilities with regards to risk management:

- Managing the day-to-day business, operational revenue and risk management, including the balance sheet structure and liquidity
- Representing EFG International Group vis-à-vis third parties in operational matters
- Approving the risk limits for each risk category, as proposed by EFG International risk management committees
- Monitoring and managing the risk profile of EFG International Group through regular reports from the Chief Risk Officer and the Chief Compliance Officer as well as breaches in risk limits

- Issuing general directives for regulating business operations
- Developing and maintaining effective internal processes, an appropriate management information system (MIS), a comprehensive internal control system and the necessary technological infrastructure
- Submitting applications regarding transactions for which the Board of Directors is responsible

The EFG International Global Business Committee, reporting to EFG International Executive Committee, has an advisory role in assessing and validating business strategies, key business aspects and priorities as well as in debating industry trends and issues.

EFG International risk management committees, reporting to EFG International Executive Committee, play key roles in the oversight of risk management. These committees are established as forums for discussion on important risk management issues, for the identification of relevant changes in the risk profile and new risks arising, for decision-making, and as a point of escalation where resolution is required. The roles of these committees are clearly defined in accordance with EFG International Group standards. Each EFG International risk management committee has dedicated Terms of Reference, which provide more detail on membership, scope and responsibilities. EFG International Group risk management committees play an important role in the approval and review of risk limits and jointly they ensure that there is coverage of the key risk categories for discussion, decision and escalation. Information exchange across committees is maintained through cross-membership.

The Operational, Regulatory & Compliance Committee is responsible for the oversight of EFG International Group with regards to matters relating to regulatory, compliance activities and operational risks.

The role of the Client Acceptance Committee is to oversee and mitigate the risk of money laundering, including reputational and legal risk. This is done by assessing the risks of the new and existing clients. The Client Acceptance Committee is responsible for approving and reviewing periodically within the authorities delegated by the EFG International Group Executive Committee, non-standard clients (PEPs, US persons, special high-risk and tier 3 country clients) in line with relevant EFG International Group internal regulations. It is also responsible for keeping a record of all higher-risk clients.

The Asset & Liability Management Committee is responsible for the management of EFG International Group's consolidated balance sheet and for the implementation of capital allocation across risk categories. In particular, it is responsible for the management of EFG International Group's balance sheet market risk exposure and liquidity risk, with control delegated to the Financial Risk Committee.

The Financial Risk Committee is responsible for the review of market, credit, concentration and liquidity and funding risks' exposures incurred by EFG International Group and the structures in place for monitoring and reporting them, including compliance with policies and directives, as well as exposures relative to limits. The Financial Risk Committee is also responsible of the overall stress test programme encompassing trading and banking book portfolios.

The Executive Credit Committee has responsibility for the management of client credit risk. The Country and Counterparty Risk (Sub) Committee of the Executive Credit Committee is responsible for correspondent banking, broker and custodian relationships and for counterparty credit risk for banks and financial institutions as well as country limits within approved guidelines and parameters.

EFG International Global Product Committee is responsible to assess the risks and viability of the new products and services, and for the oversight with regards to the governance of the product approval, review and monitoring processes across EFG International Group.

The Chief Risk Officer is accountable for enabling the Group's efficient and effective risk governance. The CRO is accountable to the Executive Committee, the Board of Directors and the Risk Committee for enabling the business to balance risk and reward. In the same regard, he is responsible for coordinating the Risk Management approach and for assessing and causing mitigating actions to significant competitive, regulatory, and technological threats to EFG International Group's capital and earnings. The responsibilities also include managing, identifying, evaluating, reporting and overseeing EFG International Group's risks externally and internally to ensure a functioning internal control system. In achieving this, further to the appointment of global risk officers within specific risk management responsibility for each of these risks, he also collaborates with other central EFG International Group functions that also undertake risk oversight activities for their respective area of responsibility, such as the Chief Financial Officer, Chief Operating Officer, Group Chief Compliance Officer, Chief Technology Officer and General Counsel. 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 the Chief Risk Officer and to local senior management.

The Chief Financial Officer is responsible for all financial, tax and prudential regulation matters of EFG International Group as well as other business or control areas allocated to the position. He ensures transparent and timely financial reporting – for internal and regulatory purposes as well as public reporting – in line with legal and regulatory requirements and industry best practices.

The Chief Financial Officer has the oversight of liquidity and capital management within the general regulations and guidelines set by FINMA and other regulators in jurisdictions where the EFG International Group operates, the Board of Directors, the Audit Committee and the Risk Committee. The Chief Financial Officer oversees and monitors business performance, strategic acquisitions, and the EFG International Group's relationship with rating agencies. He also has primary responsibility for the Investor Relations, Legal, Regulatory Affairs, and Group Corporate Office functions. In addition, he supervises the activities of Global Treasury, Financial Reporting and Financial Planning.

The Chief Operating Officer is responsible for the management, coordination, supervision, planning and control of the Operations, Central Filing & General Services, Client Tax & International Projects of EFG International Group.

The Chief Technology Officer is responsible for overseeing all aspects of EFG International Group's IT platform, infrastructure and data security globally, with particular focus on the ongoing investments in digital strategy which is designed to take the existing strategic IT platform to the next level.

The Group Chief Compliance Officer is responsible for the management, coordination and supervision of the consolidated compliance risks of EFG International Group. He supervises the Compliance activities deployed in the entities of EFG International Group. In this function, he also reports to the Risk Committee of EFG International's Board.

The General Counsel is responsible for the management and oversight of legal risk, together with the Litigation unit.

The Chief Executive Officer of EFG International is responsible to the Board of Directors for the overall management and performance of EFG International Group.

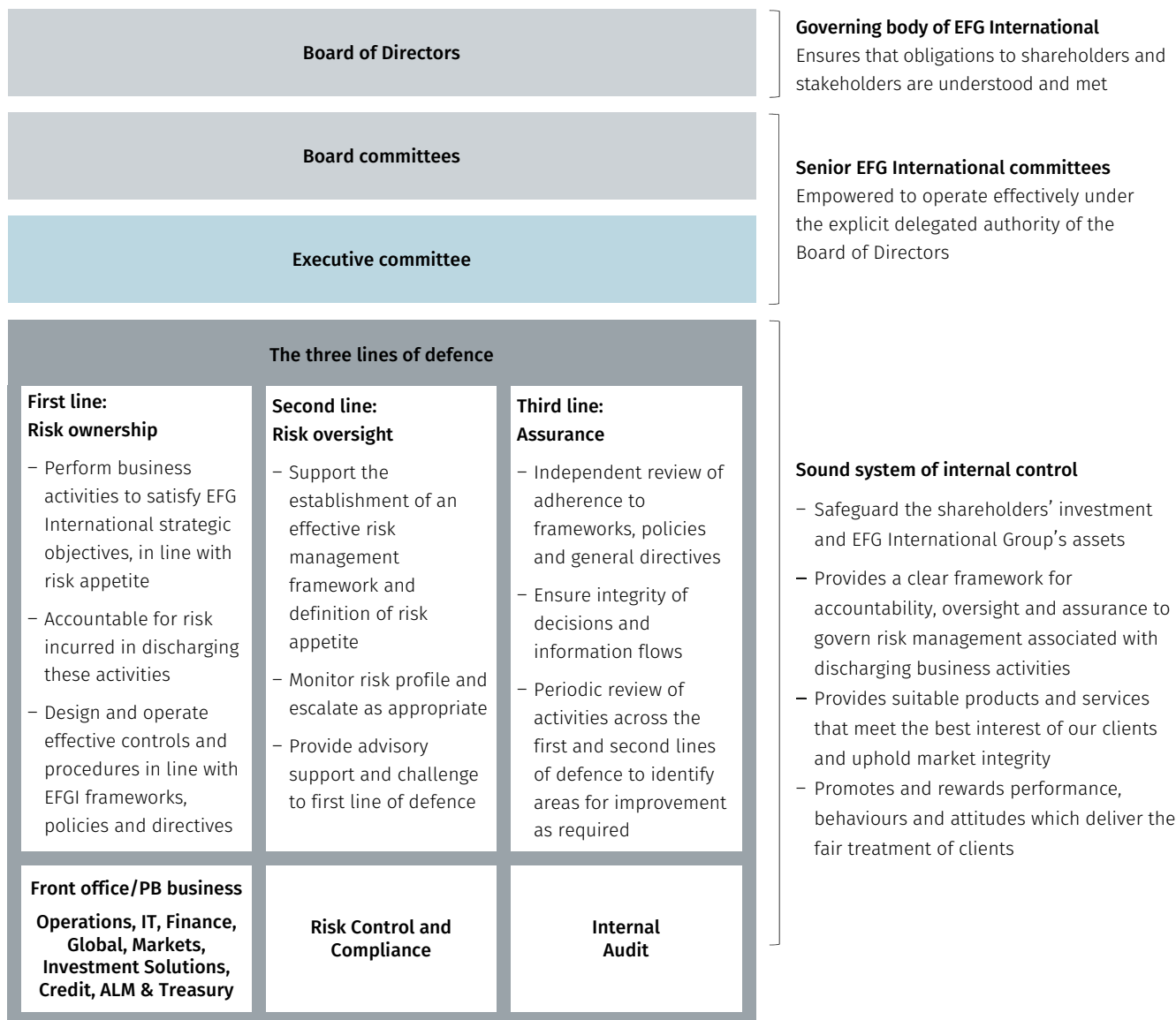
He manages the implementation and development of strategic and operational plans as approved by the Board of Directors. He represents EFG International Group towards third parties and regulators and is responsible (together with the Board of Directors and other senior executives) towards the FINMA for the prudent management and regulation-compliant operation of the organisation.

Furthermore, the Chief Executive Officer chairs the Executive Committee and the Global Business Committee and directly oversees the Litigation, Human Resources and Marketing & Communications functions.

The three lines of defence model

EFG International Group manages its risks in accordance with a three lines of defence (3LoD) model. The 3LoD model delineates the key responsibilities for the business, control functions and audit to ensure that the organisation has a coherent and comprehensive approach to risk management.

EFG International Group’s interpretation of the 3LoD model is in line with industry practice, and the model is operated both centrally and in the business units. This ensures that the material activities and processes are subject to the risk management, oversight and challenge. An overview of the 3LoD model is presented in the figure below:



Risk appetite framework

The risk appetite framework describes EFG International Group's approach, governance and processes in relation to setting risk appetite and is structured by qualitative considerations (risk appetite statement) as well as quantitative considerations (risk appetite metrics).

The risk appetite framework sets the overall approach to risk appetite, documenting the level of risk that

EFG International Group is prepared to incur; it includes:

- The risk appetite statement
- The risk appetite metrics
- The responsibilities of the bodies overseeing the implementation and monitoring of the risk appetite framework
- The risk appetite process, including the escalation of the risk metrics exceeding their pre-determined thresholds

Risk categories

The capital adequacy, strategic, market, liquidity, credit, operational, compliance and reputational risks of EFG International Group are defined in the risk management framework, in the risk taxonomy and are described in the related risk policies. The risk taxonomy identifies the risk categories that the organisation wants to consider in its discussion of risk and provides a definition of the identified risks. The risk categories establish a common language on risks across EFG International and thereby enable alignment across business units, geographies and functions.

Business and strategic risk

Business and strategic risk is the risk of loss arising from changes in the business environment and from adverse business decisions or improper implementation of decisions. The business and strategic risk includes the following risk categories:

- Client portfolio risk: The risk inherent in client portfolios in general as well as the risk of a reduction in assets under management and/or loss of client relationships as a result of other risk types, e.g. performance, reputation, operational risks, compliance, etc.
- Strategic risk and governance: The risk of the enterprise or particular business areas making inappropriate strategic choices, or being unable to successfully implement selected strategies or related plans and decisions, which may result in a variance to business plans and strategies
- Competitive risk: The risk of an inability to build or maintain sustainable competitive advantage in a given market or markets
- Project risk: The risk of damage or loss resulting from an acquisition and/or subsequent post-merger integration or any other large-scale project the institution is undertaking

- Human resources risk: The risk arising from inadequate or insufficient human resource performance and/or staffing or key people (including client relationship officers) leaving the EFG International Group

Credit risk

See Section 5.

Market risk

See Section 6.

Liquidity risk

See Section 9.

Operational risk

See Section 8.

Compliance risk

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss of reputation which the Group may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, generally accepted practices, and codes of conduct applicable to all its activities.

The compliance risk is identified, measured, monitored, reported and mitigated by the Compliance department and its clearly distinguished and dedicated units in alignment with the roles and responsibilities defined in EFG International Group's risk management framework.

Changes in the regulatory environment are monitored, and directives and procedures are adapted as required. In line with these evolving regulations, EFG International Group continuously invests in personnel and technical resources to maintain adequate compliance coverage.

EFG International Group's Compliance function is centrally managed from Switzerland with local compliance officers situated in all the organisation's booking centre entities around the world. A compliance risk policy is in place, complemented by a comprehensive set of directives and procedures and regular specialised training sessions delivered to all staff to raise their awareness and understanding of the compliance risks. Group Compliance, implemented a common platform of tools and processes to ensure the consistent application of compliance guidelines.

Compliance risk in EFG International Group is managed in accordance with the 3LoD model, outlined in details in the risk management framework of EFG International Group. The 3LoD model delineates the key responsibilities for the

business, control functions and audit to ensure that the organisation has a coherent and comprehensive approach to risk management.

EFG International Group aims at mitigating compliance risks that it inherently runs taking into account the size, structure, nature and complexity of its business and services/product offering. EFG International Group is committed to sound and effective compliance risk management as the core foundation for a sustainable financial institution. Effective compliance risk management means meeting the compliance obligations and protecting EFG International Group from loss or damage. It improves the way the Group conducts business for our shareholders and stakeholders and it is vital for long-term and sustainable growth.

A major focus of regulators around the world is the fight against money laundering and terrorism financing. EFG International Group has in place comprehensive directives on anti-money laundering and know your customer, as well as on anti-bribery and corruption, to detect, prevent and report such risks. Through dedicated monitoring and quality assessment programmes, EFG International Group Compliance ensures compliance with such directives in every EFG International Group's subsidiary and branch.

EFG International Group has defined a set of standards governing the cross-border services it offers, and has developed country-specific manuals for the major markets it serves. A mandatory staff training and education concept is in place to ensure adherence to 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. Those frameworks are continuously enhanced to comply with new regulations such as MiFID II or CRS.

Conduct risk refers to all risks associated to the firm's behavior or activity that could threaten consumer protection or market integrity and might subsequently damage the reputation of EFG International Group. EFG International Group has directives on customer conduct, market conduct, cross border, suitability and conflicts of interest. The EFG International Group Global Product Committee ensures that all products or securities sold to clients or bought for them meet their best interest and have been through the appropriate approval process.

Legal risk

Legal risk is the risk to the firm's profitability arising from changes in legislation and/or as results from legal actions against the institution.

The General Counsel function and Litigation unit ensure that EFG International Group adequately manages and controls its legal risks. This includes supervising and giving strategic direction to all outside counsels advising EFG International Group on civil, regulatory and enforcement matters.

Any change in the legal environment can constitute a challenge for EFG International Group in its relations with competent authorities, clients and counterparties in Switzerland and globally. The General Counsel function is responsible for providing legal advice to EFG International Group's management as well as handling client complaints and assisting federal and local authorities in their criminal and administrative investigations. The Litigation unit has principal responsibility for overseeing and advising the Group's management on significant civil litigation and all government enforcement matters involving EFG International Group globally.

Reputational risk

Reputational risk is defined as the risk of an activity performed by a EFG International Group entity or its representatives impairing its image in the community or public confidence, and that this will result in the loss of business and/or legal action or potential regulatory sanction. Typically a result of other risk categories.

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

- Potential non-compliance with increasingly complex regulatory requirements
- Potential non-compliance with anti-money laundering regulatory requirements
- Its dealings with politically exposed persons or other clients with prominent public profiles
- Its involvement in transactions executed on behalf of clients other than standard investment products
- Potential major incidents in the area of IT security and data confidentiality
- Potential misconduct by its employees
- Any other potential negative internal or external event arising from other risk categories (e.g. in case of significant downturn on bonds, equities markets or of a particular housing market speculative bubble, etc.)

EFG International Group manages these potential reputational risks through the establishment and monitoring of the risk appetite by the Board of Directors, and through established policies and control procedures.

4.1 Risk management – measurement approach

Basel III gives room to banks to apply several approaches for managing risk exposures. Below are details of the Group's regulatory approach for each risk category managed.

Credit Risk

The Group uses the International Standardised Approach (SA-BIS) to determine which risk weights to apply to credit risk. Additionally, the Group adopted the Comprehensive method to deal with the collateral portion of a credit transaction. In the SA-BIS approach, the Group can use ratings assigned by rating agencies to the risk weighted positions. The Group used Standard & Poor's ratings for securities and for bank placements.

Non-Counterparty Risk

For non-counterparty related assets the Group applies the SA-BIS approach.

Operational Risk

The Group applies the Standardised approach to calculate operational risk. The capital requirement under this method is based on the three year average amount of the Operating Income split by Business Lines.

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 and 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.

5. Credit Risk

Credit risk³

Credit risk is defined as the risk of loss resulting from the failure of EFG International Group's borrowers and other counterparties to fulfil their contractual obligations and that collateral provided (if any) does not cover EFG International Group's claims. The credit risk arises not only from EFG International Group's clients lending operations but also from its Treasury and Global Market activities. EFG International Group incurs credit risk from counterparty default, on traditional on-balance sheet products (such as loan or issued debt), where the credit exposure is the full value but also on off-balance sheet products (such as derivatives) where the credit equivalent exposure covers both actual exposure (as a function of prevailing market prices) and potential exposures (i.e. an add-on for volatility of market price) or other guarantees issued (contingent liabilities).

Credit risks related to clients

The credit risk strategy for private banking clients is explicitly defined in EFG International Group's risk appetite framework, and is based on four dimensions, as described below:

- Client type: EFG International Group's client business is focused on its private banking clients and includes loans to individuals and to standard wealth planning structures held by private individuals. Loans to operating and/or commercial companies, to regulated financial institutions, funds as well as loans relating to complex structures are acceptable within the respective business lines where the overall client relationship justifies such an exposure. In all cases, the borrower or beneficial owner must be able to bear the financial risk of the loan. In addition, where the loan is secured by real estate or any other non-financial asset or where the extension of credit relies on elements other than the value of the collateral, the borrower or guarantor must be sufficiently creditworthy to repay the loan should the collateral (if any) be insufficient to cover the loan balance
- Credit purpose: Credits are extended in order to leverage portfolios of financial assets, to permit clients to purchase illiquid assets without the need to sell existing portfolios of financial assets and to support margin requirements for foreign exchange or other derivative positions. In addition, EFG International Group extends credits to finance or re-finance the purchase of real estate. EFG International Group may extend credits to

³ FINMA Circular 2016/1 Table CRA

- clients in order to provide liquidity to individuals or corporate entities
- Collateral type: Credits are secured by diversified portfolios of financial assets including cash, bonds, equities, precious metals and funds or by real estate primarily residential but also commercial in selected markets, as well as EFG International Group guarantees and life insurance policies. EFG International Group may consider exposures with a risk concentration against shares at conservative loanable values provided that the quality and the liquidity of the collateral justifies it; or, depending on the business line, may provide loans on an unsecured basis, subject to the creditworthiness of the client
 - Profitability: EFG International Group seeks to optimise the profitability of its lending business and has established requirements for the minimum pricing of loans and the minimum amount of banking business required to justify the extension of credit. EFG International Group focuses on the profitability of the overall banking relationship

Counterparty credit risk

EFG International Group incurs counterparty credit risk in its treasury activities, where credit risk derives from the financial assets and derivative instruments that EFG International Group uses for investing its liquidity and managing foreign exchange and interest rate risks in its funding and lending transactions. To ensure the efficient management of its banking activities, EFG International Group engages and maintains business relationships with said counterparties only if certain criteria with regard to solvency, reputation and the quality of the services received are met.

Global limits are proposed and approved centrally and delegated to the respective business units. The responsibility for management of delegated counterparty credit risk lies fully with the business units assuming the risk. Credit department monitors the adherence to delegated limits.

The counterparty credit risk strategy approved by the Board of Directors is the following:

- EFG International Group actively monitors and manages the credit portfolio and consciously take concentrations in certain sectors, countries and clients/counterparties
- EFG International Group engages and maintains relationships with counterparties that either have an explicit investment grade rating or are non-rated but fulfil comparable criteria
- EFG International Group accepts a speculative rating of counterparties within our trading portfolio activities

- EFG International Group targets collateralised transactions when interacting with counterparties or negotiates ISDA master agreement/credit support annexes limiting our risk appetite with them

Moreover, at inception of a transaction, the portfolio managers and traders have to ensure that:

- Any product has been authorised (list of authorised products)
- The underlier of the transaction (e.g. currency pair) is an authorised one
- The maturity of the transaction is authorised
- Depending of the type of the transaction, the risk mitigation of the collateral have been adequately assessed
- The counterparty is located in a country where EFG International Group wishes to conduct business and in case accept the exposure

Country risk

Country risk is defined as the transfer and conversion risk that arises from cross-border transactions. Country risk also encompasses direct and indirect sovereign risk, the default risk of sovereigns or state entities acting as borrowers, guarantors or issuers.

EFG International Group determines the country risk that it wishes to accept, including the countries in which it wishes to operate and the exposure allowed to these countries.

The strategy is directed towards an increasing limitation of country risks via a country classification in primary countries, secondary countries and risk countries. Strategy is geared to containing country risk by selecting countries for own securities investments and credit activities toward private banking clients and banking counterparties. The investment grade country categories include countries with which business relationships exist and for which the risk is intended to be accepted, albeit to a differing extent. In the area of lombard loans, country risk strategy is limited, allowing for the acceptance of risk in off-shore countries and selected risk countries. Within the trading book are included exposures related to risk countries, which are subject to market and concentration risk control metrics and are liquid and negotiable. The risk countries category includes selected countries with a speculative grade for which risk is nonetheless maintained between tight global limits.

Credit risk management

(a) Loans and advances

A basic feature of the credit approval process is a separation between the firm's business origination and credit risk management activities.

The approval of loans and other exposures has been delegated, depending on predefined risk, collateral and size parameters, to the credit departments of EFG International Group's business units, to local credit committees, to specific bank executives and management functions within the organisation and to the Executive Credit Committee of EFG International Group. The approval competencies for large exposures and exposures with increased risk profiles are centralised in Switzerland, in compliance with local regulatory and legal requirements of the individual international business units.

To qualify as collateral for a lombard loan, a client's securities portfolio must meet minimum eligibility criteria and be sufficiently liquid. Different haircuts are applied depending on asset-class and collateral risk profile. Mortgages are mainly booked at EFG Bank AG and EFG Private Bank Ltd, London. They are granted predominantly on properties in Switzerland and in prime London locations.

Management is required to understand purpose of each loan (which is typically for investment in securities, funds, and investment related insurance policies or real estate) and all risk aspects involved in the granting of each loan, mitigating those when possible.

EFG International Group's internal grading system assigns each client credit exposure to one of ten grading categories. The grading assesses the borrower's repayment ability and the value, quality, liquidity and diversification of the collateral securing the credit exposure. The credit policy and the nature of the loans ensure that EFG International Group's loan book is of high quality. Consequently, an overwhelming majority of EFG International Group's credit exposures are graded within the top three categories.

(b) Debt securities and other bills

For debt securities and other bills, external ratings such as S&P's rating or their equivalents are used by EFG International Group for managing the credit risk exposures.

Risk limit control and mitigation policies

To qualify as collateral for a lombard loan, a client's securities portfolio must generally be well diversified with different haircuts applied depending on the asset class and

collateral risk profile. Additional haircuts are applied if the loan and the collateral are not in the same currency or diversification criteria are not fully met.

Loans guaranteed by real estate are treated in conformity with local regulatory requirements and with the internal directives (regulations, procedures) pertaining to valuation and affordability calculation. All real estate property used as collateral must be evaluated by internal appraisers or by selected external surveyors. External valuations are accepted, as long as the competence and independence of the external professional has been verified.

Credit departments monitor credit exposures against approved limits and pledged collateral. If necessary, they initiate rectification steps. Financial collateral is valued where possible on a daily basis (but may be valued more frequently, if particular portfolios and severe market conditions demand). Certain mutual and hedge funds are valued weekly or monthly, whereas insurance policies are valued at least quarterly.

Management of exposure to financial institutions is based on a system of counterparty limits coordinated at the EFG International Group level, and are also subject to pre-approved country limits. Limits for exposure to counterparties are granted based upon internal analysis. The limits are set and monitored by the Country & Counterparty Credit (Sub) Committee depending on each counterparty's S&P or Moody's ratings (with reference to individual and support ratings).

Other specific control and mitigation measures are outlined below.

(a) Collateral

EFG International Group employs a range of policies and procedures to mitigate credit risk. The EFG International Group implements guidelines and procedures on the acceptability of specific asset classes as collateral for credit risk mitigation. The main asset classes accepted as collateral for loans and advances are:

- Cash and cash equivalent
- Financial instruments such as debt securities, equities and funds
- Bank guarantees
- Mortgages over residential and to a limited extent commercial properties
- Assignment of guaranteed cash surrender value of life insurance policies

(b) Derivatives

EFG International Group maintains a strict monitoring of credit risk exposure induced by over-the-counter derivative transactions and exchanged traded derivatives against limits granted. Credit risk exposure is computed as the sum of the mark-to-market of the transactions and the potential future exposure calculated through dedicated add-on factors applied to the notional of the transactions. EFG International Group has signed risk mitigating agreements with its most important financial institutions counterparties.

(c) Credit related commitments

Credit related commitments include the following:

- Guarantees 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. EFG International Group is 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 of the above, the same standards apply regarding approval competences, collateral requirements and monitoring procedures as outlined in note 6.

The guarantees and irrevocable lines of credit can be drawn by the customers only if the client has adequate collateral pledged with EFG International Group. Should the guarantees and irrevocable lines of credit be drawn, the majority of the facilities would be rated by the EFG International Group with an internal grading of 1 to 3.

5.1 Credit quality of assets⁴

The table below summarises the composition and credit quality of the assets subject to the credit risk framework. The definition applied for default is disclosed within 2018 Annual Report, Section 5 Credit Risk.

CHF millions	a		c	d	
	Gross carrying values of (1)				
	Defaulted exposures (3)	Non-defaulted exposures	Value adjustments/ impairments (2)	Net values	
31 December 2018					
1	Loans (excluding debt securities)	550.3	30,409.9	(178.7)	30,781.5
2	Debt securities		7,201.8		7,201.8
3	Off-balance sheet exposures		966.9		966.9
4	Total	550.3	38,578.6	(178.7)	38,950.2

- 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.
- Sum of value adjustments, without taking into account, that these adjustments cover impaired credits or even deferred risks, and directly booked amortisations.
- Under SA-BIS this includes credits past due and impaired positions.

⁴ FINMA Circular 2016/1 Table CR1

The Group's assets subject to the credit risk framework are geographically located as per the following table⁵:

CHF millions	Switzerland	Europe	North America and Caribbean	Asia	Other	Total
Assets						
Liquid assets	4,195.3	2,918.6	4.3	19.6	4.1	7,141.9
Amounts due from banks	1,470.3	869.6	379.3	603.3	42.6	3,365.1
Amounts due from securities financing transactions						-
Amounts due from customers	788.6	3,593.2	2,819.4	3,888.6	974.4	12,064.2
Mortgage loans	2,157.8	2,665.5	837.0	412.8	136.5	6,209.6
Trading portfolio assets		0.3	0.6			0.9
Positive replacement values of derivative financial instruments						-
Other financial instruments at fair value			136.9			136.9
Financial investments	99.2	3,726.2	3,052.4	693.5	558.3	8,129.6
Accrued income and prepaid expenses	26.7	38.2	66.9	24.8	12.3	168.9
Participations	3.0	0.2			0.1	3.3
Tangible fixed assets						-
Intangible assets						-
Other assets	25.5	40.0	18.1	3.6	0.2	87.4
Total assets	8,766.4	13,851.8	7,314.9	5,646.2	1,728.5	37,307.8
Off Balance sheet						
Contingent liabilities	261.9	43.9	87.4	5.6	22.4	421.3
Irrevocable commitments	18.8	71.6	7.0	0.1	0.7	98.1
Contingent liability for calls and Margin liabilities						-
Commitment credits						-
Add-ons						-
Derivatives						-
Total	280.7	115.5	94.4	5.7	23.1	519.4
Total of reporting period	9,047.1	13,967.3	7,409.3	5,651.9	1,751.6	37,827.2
Receivables past due	27.9	43.2		7.2		78.3
<i>thereof past due not impaired receivables</i>						-
<i>thereof for more than 90 days overdue</i>						-
<i>not impaired receivables</i>						-
Impaired loans	1.4	265.1	3.0	202.4	0.1	472.0
Value adjustments of impaired positions	16.1	88.1	1.0	73.4	0.1	178.7
Positions written off in the current year						-

⁵ FINMA Circular 2016/1 Table CRB

The Group's assets subject to the credit risk framework are primarily short dated as illustrated by the following table⁶:

CHF millions	At sight	Cancellable	Due within 12 months	Due within 12 months to 5 years	Due after 5 years	Total
Assets						
Liquid assets	7,141.9					7,141.9
Amounts due from banks	1,145.8	839.7	1,037.6	332.2	9.8	3,365.1
Amounts due from securities financing transactions						-
Amounts due from customers		3,538.8	6,925.4	1,581.0	19.0	12,064.2
Mortgage loans		0.5	2,994.9	2,565.7	648.5	6,209.6
Trading portfolio assets	0.9					0.9
Positive replacement values of derivative financial instruments						-
Other financial instruments at fair value					136.9	136.9
Financial investments	22.7		3,525.8	3,004.8	1,576.3	8,129.6
Accrued income and prepaid expenses			168.9			168.9
Participations	3.3					3.3
Tangible fixed assets						-
Intangible assets						-
Other assets	23.9		59.6	3.4	0.5	87.4
Total assets	8,338.5	4,379.0	14,712.2	7,487.1	2,391.0	37,307.8
Off Balance sheet						
Contingent liabilities			79.5	51.0	290.8	421.3
Irrevocable commitments	14.7		12.2	71.2		98.1
Contingent liability for calls and Margin liabilities						-
Commitment credits						-
Add-ons						-
Derivatives						-
Total	14.7	-	91.6	122.2	290.8	519.4
Total of reporting period	8,353.2	4,379.0	14,803.8	7,609.3	2,681.8	37,827.2
Receivables past due	78.3					78.3
<i>thereof past due not impaired receivables</i>						-
<i>thereof for more than 90 days overdue</i>						-
<i>not impaired receivables</i>						-
Impaired loans	472.0					472.0
Value adjustments of impaired positions	178.7					178.7
Positions written off in the current year						-

⁶ FINMA Circular 2016/1 Table CRB

The Group's assets subject to the credit risk framework by industry are as detailed by the table that follows⁷:

CHF millions	Central governments and central banks	Banks and securities firms	Corporates	Retail	Other	Total
Assets						
Liquid assets	7,060.9	2.2			78.8	7,141.9
Amounts due from banks		3,335.9	8.3	11.5	9.4	3,365.1
Amounts due from securities financing transactions						-
Amounts due from customers		8.1	2,210.8	9,654.8	190.5	12,064.2
Mortgage loans			1,665.3	4,544.3		6,209.6
Trading portfolio assets					0.9	0.9
Positive replacement values of derivative financial instruments						-
Other financial instruments at fair value			136.9			136.9
Financial investments	4,221.6	2,275.7	1,277.3		355.0	8,129.6
Accrued income and prepaid expenses	20.1	18.1	12.6	51.3	66.8	168.9
Participations					3.3	3.3
Tangible fixed assets						-
Intangible assets						-
Other assets	16.5	13.3		1.6	56.0	87.4
Total assets	11,319.1	5,653.3	5,311.2	14,263.5	760.7	37,307.8
Off Balance sheet						
Contingent liabilities		23.4	263.0	134.9		421.3
Irrevocable commitments		39.9	33.7	12.0	12.5	98.1
Contingent liability for calls and Margin liabilities						-
Commitment credits						-
Add-ons						-
Derivatives						-
Total	-	63.3	296.7	146.9	12.5	519.4
Total of reporting period	11,319.1	5,716.6	5,607.9	14,410.4	773.2	37,827.2
Receivables past due			42.9	31.7	3.7	78.3
<i>thereof past due not impaired receivables</i>						-
<i>thereof for more than 90 days overdue not impaired receivables</i>						-
Impaired loans			265.1	204.9	2.0	472.0
Value adjustments of impaired positions			93.2	85.5		178.7
Positions written off in the current year						-

⁷ FINMA Circular 2016/1 Table CRB

5.2 Changes in stock of defaulted loans and debt securities⁸

CHF millions		a
		31 December 2018
1	Defaulted loans and debt securities at end of the previous reporting period	425.1
2	Loans and debt securities that have defaulted since the last reporting period	125.2
3	Returned to non-defaulted status	
4	Amounts written off	
5	Other changes	
6	Defaulted loans and debt securities at end of the reporting period	550.3

Defaulted loans amounted to CHF 550.3 million at 31 December 2018 (2017: CHF 425.1 million) and accounted for 1.5% of total exposure.

A provision of CHF 178.7 m was recognised for these loans, reflecting the collateral provided on these loans.

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

Defaulted exposure increased CHF 125.2 million over the period primarily due to provisions made for several entities that holds life insurance policies.

5.3 Overview of mitigation techniques⁹

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

CHF millions	a	b1	b	d	f
	Exposures unsecured: carrying amount (2)	Exposures secured by collateral (3)	Exposures secured by collateral, of which: secured amount (4)	Exposures secured by financial guarantees (5)	Exposures secured by derivatives (7)
31 December 2018					
1	Loans (excluding debt securities)	12,443.8	17,662.2	17,008.7	653.4
2	Debt securities	7,201.8			
Off-balance sheet					
3	Total	19,645.6	17,662.2	17,008.7	653.4
4	<i>Of which defaulted</i>	305.0	245.3		

There were no significant changes in the period.

Loans reported above include both Banks and Liquid Assets. Of the CHF 12,443.8 million reported in relation to exposures unsecured, the key components are liquid assets which account for 57% (mainly with central banks) and amounts due from banks that account for 27%.

⁸ FINMA Circular 2016/1 Table CR2

⁹ FINMA Circular 2016/1 Table CR3

5.4 Exposure and credit risk mitigation effects under the standardised approach¹⁰

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:

Asset classes

	a		b		c		d		e	f
	Exposures before CCF and CRM		Exposures post-CCF and CRM							
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density		
CHF millions										
31 December 2018										
1 Central governments and central banks	11,319.1				11,319.6			37.8	0.3%	
2 Banks and securities firms	5,653.3	63.3			4,308.0	60.9		1,250.4	29.1%	
3 Other public sector entities and multilateral development banks	512.6				498.9			45.5	9.1%	
4 Corporates	5,311.2	296.7			4,154.9	66.0		2,093.4	50.5%	
5 Retail	14,263.5	146.9			5,773.7	39.5		3,122.2	54.1%	
6 Equity	14.4				14.4			21.4	148.2%	
7 Other exposures	233.7	12.5			221.9	12.5		137.1	61.8%	
8 Total	37,307.8	519.4			26,291.4	178.9		6,707.8	25.5%	

There were no significant changes in the period.

¹⁰ FINMA Circular 2016/1 Table CR4

5.5 Exposures by exposure category and risk weights under the standardised approach¹¹

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

	a	b	d	e	f	g	h	j
								Total credit exposures amount (post CCF and post-CRM)
CHF millions	0%	20%	35%	50%	75%	100%	150%	
31 December 2018								
1 Central governments and central banks	11,207.0	61.6		51.0				11,319.6
2 Banks and securities firms	52.5	3,174.1		1,060.6		72.7	9.1	4,369.0
3 Other public sector entities and multilateral development banks	319.6	156.8		16.7		5.8		498.9
4 Corporates		1,395.4	1,330.1	417.9	37.6	866.0	163.1	4,210.1
5 Retail		0.3	4,000.4		420.0	1,396.0	7.3	5,824.0
6 Equity						0.5	13.9	14.4
7 Other exposures	78.7	12.5	0.1	19.0		122.1	1.9	234.3
8 Total	11,657.8	4,800.7	5,330.6	1,565.2	457.6	2,463.1	195.3	26,470.3
9 <i>of which, covered by mortgages</i>			5,299.5		96.4	439.5	3.9	5,839.3
10 <i>of which, past-due loans</i>						43.7	3.6	47.3
Exposure post-CCF and CRM								
– On balance sheet	11,657.8	4,747.8	5,299.5	1,543.9	448.3	2,398.8	195.3	26,291.4
– Off balance sheet		52.9	31.1	21.3	9.3	64.3		178.9
Total	11,657.8	4,800.7	5,330.6	1,565.2	457.6	2,463.1	195.3	26,470.3

¹¹ FINMA Circular 2016/1 Table CR5

5.6 Counterparty credit risk¹²

Counterparty credit risk

The Group's counterparty credit risk (CCR) exposure includes securities financing transactions and derivative transactions.

The risk weighted assets for counterparty credit risk is CHF 360.4 million (2017: CHF 271.2 million) and comprises two components:

- CVA – exposure at default post credit risk mitigation of CHF 394.2 million generating CHF 72.2 million of risk weighted assets
- A total exposure of CHF 627.8 million for regulatory portfolios under the standardised approach, resulting in risk weighted assets of CHF 288.2 million

Securities financing transactions (SFTs)

The majority of the Group's SFTs are repo and reverse repo agreements. The Group uses repo and reverse repo agreements to manage liquidity and to generate revenues.

The Group's repo and reverse repo agreements are based on standard contracts such as the GMRA or GMSLA. 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 Group monitors the quality of securities received daily as collateral using a portfolio approach, with particular attention paid to risk concentration. When calculating capital requirements, the Group's 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, the Group manages OTC derivative transactions only on the basis of ISDA netting agreements or an equivalent agreement. For its main bank counterparties in terms of pre-settlement exposure, the Group takes the necessary measures 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 the Group has entered into an ISDA netting agreement with the counterparty, contracts with negative mark-to-market values can be taken into account to reduce credit-risk exposure. Where the Group has entered into a CSA collateral management agreement 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.

When calculating capital requirements, exposure is determined according to the current exposure method, taking account of regulatory add-ons as well as netting and collateral management agreements. 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 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 Group's interest-rate risk.

The Group's 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 for the Group.

¹² FINMA Circular 2016/1 Table CCRA

The table that follows summarises the Group's RWA requirement for CVA²³:

CHF millions	a		b		c		d	
	31 December 2018		31 December 2017					
	EAD post CRM	RWA	EAD post CRM	RWA	EAD post CRM	RWA	EAD post CRM	RWA
Total portfolios subject to the Advanced CVA capital charge								
1	VaR component (including the 3×multiplier)							
2	Stressed VaR component (including the 3×multiplier)							
3	All portfolios subject to the Standardised CVA capital charge							
	394.2	72.2	539.3	46.3				
4	Total subject to the CVA capital charge							
	394.2	72.2	539.3	46.3				

Counterparty credit risk: exposures by regulatory portfolio and risk weights under the standardised approach²⁴

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.

CHF millions	a	c	d	e	f	g	i	
	0%	20%	35%	50%	75%	100%	Total	
1	Central governments and central banks							0.2
2	Banks and securities firms							143.9
3	Other public sector entities and multilateral development banks							0.3
4	Corporates							27.7
5	Retail							27.3
6	Equity							0.4
7	Other exposures							17.0
9	Total							0.5
		171.6	-	403.5	0.4	51.8	627.8	
Weighted value								34.3
Total risk weighted assets								-
		-	-	-	-	-	288.2	

²³ FINMA Circular 2016/1 Table CCR2

²⁴ FINMA Circular 2016/1 Table CCR3

5.7 Analysis by approach

This table summarises the Group's counterparty credit risk according to approach applied:

	a	b	c	d	e	f
	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM (1)	RWA
1	SA-CCR values (for derivatives)					
2	Internal Model Method (for derivatives and SFTs)					
3	Simple Approach for credit risk mitigation (for SFTs)					
4	Comprehensive Approach for credit risk mitigation (for SFTs)					
5	VaR for SFTs					
6	Current Exposure Method (CEM) values (for derivatives) (1)					
7	Total	-	-	-	627.8	288.2

(1) EAD post-CRM: exposure at default. This refers to the amount relevant for the capital requirements calculation having applied CRM techniques, credit valuation adjustments according to paragraph 9 of Annex 4 of FINMA Circular 2016/1 (as supplemented by Basel III in paragraph 105) and specific wrong-way adjustments (see Annex 4, paragraph 58).

(2) The Group does not yet apply the SA-CCR. Under the transitional provisions, the disclosure is made with the Current Exposure Method (CEM) values.

5.8 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 Common Equity Tier 1 capital.

The Group has RWA of CHF 259.7 million for the above (2017: 308.9 million), and comprises the following:

- real estate requirement primarily for the land and buildings the Group operates from in Switzerland of CHF 183.2 million
- other tangible assets requirement of CHF 76.6 million for the Groups other fixed assets.

6. Market Risk²⁵

Market risk is the risk of losses arising from unexpected changes in interest rates, exchange rates, share prices or the prices of precious metals and commodities, as well as the corresponding expected volatility. Market risk can have an impact on EFG International AG's (EFG International; the Company) and all its subsidiaries' (together EFG International Group) income statement and the value of its assets. EFG International Group uses derivative financial instruments for hedging and for trading purposes.

Approach used

The Group uses the standardised approach 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.

Overview

EFG International Group is exposed to market risk, which mainly arises from foreign exchange, interest rate, credit

spread and life insurance settlement positions maintained within defined parameters.

EFG International Group's balance sheet and off-balance sheet positions generate low foreign exchange risk and medium interest rate exposures. The management of EFG International Group's interest rate risk exposure is performed in accordance with risk appetite on the impact of various interest rate scenarios on economic value and interest income sensitivity. EFG International Group uses value at risk (VaR), sensitivity analysis and stress tests as methodologies to monitor and manage foreign exchange risks inherent to its structure.

The market risk strategy at balance sheet level approved by the Board of Directors is defined as follows:

- To manage interest rate risk in line with predefined interest rate limits and risk appetite to generate profits for the benefit of EFG International Group
- To manage foreign exchange risk in order to control its impact on annual results

EFG International Group holds investment portfolios, which allow to diversify balance sheet assets and to optimise any excess liquidity. The investment portfolio is divided into a range of portfolios on the basis of the type of product and strategy.

To mitigate the credit spread and interest rate exposure, minimum country and issuer rating standards and concentration limits have been determined. In addition, VaR, interest rate, credit spread sensitivities and stress metrics as well as P&L limit are computed and monitored at stand-alone portfolio level and on a combined basis.

The investment portfolio risk strategy approved by the Board of Directors is the following:

- To seek to turn liquidity into profit while maintaining liquidity buffers with high-quality liquid securities in accordance with external rules
- To generate income primarily through taking liquidity, interest rate and credit spread risk, and only incur non-material foreign exchange risk in the banking book
- To not take on any equity, commodity, longevity and mortality risk (with the exception of the legacy life insurance portfolio)
- To limit the extent of concentrations in the Group's investment portfolios

EFG International Group is also exposed to market risk in relation to its holding of life insurance policies and to lombard exposures collateralised by life insurance policies.

²⁵ FINMA Circular 2016/1 Table MRA

The major market risk factors of these portfolios are longevity risk, increase in cost of insurance and increase in interest rate risk.

EFG International Group manages those risks using internal models to calculate the fair value of each life insurance policy and through independent estimations done by external service providers as far as the estimation of life expectancies and forecasted premium payments are concerned, in conjunction with management judgements. Moreover, scenario analyses are done to calculate the sensitivity of the life insurance portfolio to increases in life expectancies, in premium payments and in interest rates. Finally, management judgement is applied to these models and scenarios.

EFG International Group engages in trading of securities, derivatives, foreign exchange, money market paper and precious metals primarily on behalf of its clients. This business is conducted out of dealing rooms in Switzerland and Asia. Moreover, it manages a fixed income, a foreign exchange delta, forward and options trading book on its own account. All the trading books are managed by dedicated Lugano trading desks.

The market risk strategy approved by the Board of Directors for the trading portfolios is the following:

- EFG International Group trading activities are designed to ensure that EFG International Group can effectively serve EFG International Group clients' needs
- In addition to execution-only services on behalf of EFG International Group clients, EFG International Group takes market risk in form of foreign exchange principal trading where beneficial for EFG International Group clients, principal trading on EFG International Group own accounts to deliver a return to EFG International Group as well as EFG International Group structured products business
- EFG International Group has appetite for a small amount of higher-risk activity in the trading portfolio fixed income sector where risk-return justifies this risk and EFG International Group has sufficient expertise in the front office and risk organisation to exploit opportunities without exposing EFG International Group to undue risk

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. EFG International Group uses the maturity method 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.

Banking book

Risks related to the balance sheet structure (interest rate and foreign exchange rate) are managed by the Asset & Liability Management Committee and monitored by the Financial Risk Committee, in accordance with the principles and the risk appetite defined in the market risk policy, which defines the organisational structure, responsibilities, limit systems and maximum acceptable risk set by the Board of Directors.

The interest rate risk appetite at balance sheet level is approved by the Board of Directors and has the objective to manage interest rate risk in line with predefined limits and risk appetite to generate profits for the benefit of EFG International Group.

EFG International Group interest rate risk in banking book is monitored centrally by Group Risk division with strategic management done by the Asset & Liability Management Committee and risk monitoring done by the Financial Risk Committee. The interest rate risk assessment includes risks deriving from assets, liabilities and off-balance sheet transactions, considering behavioural assumptions on sight deposits. Although non-maturing current accounts are considered at sight from a contractual point of view, in practice and from an economical point of view it has been observed that they provide a quite stable funding source. EFG International Group distinguishes between the stable and the non-stable part of non maturing deposits, performing an historical analysis to define core stable volume. Current deposits are therefore slotted into appropriate time buckets assuming a high degree of likelihood: non-core and volatile part of deposits is considered at sight, while core and stable part of deposits is slotted based on the natural decay rate.

EFG International Group holds investment portfolios, which allow to diversify balance sheet assets and to optimise any excess liquidity.

EFG International Group investment portfolios carry material credit spread exposure on governments, government-related entities, multilateral development banks, banking institutions and, to a lesser extent, to corporate names. The investment activities are organised within Treasury department and are monitored centrally by Group Risk division and under the supervision of the Asset & Liability Management Committee and of the Financial Risk Committee. Market risk exposure, encompassing interest rate and credit spread risks, carried by the financial investment portfolios belonging to the banking book is monitored, on a daily and month-end basis. It is monitored through various metrics: sensitivity to risk factors, value at risk (VaR) and hypothetical stress tests, all previous metrics being computed with a full revaluation of all the positions. On top of minimum issuer and issuer country of domicile rating standards, counterparty and country concentration risk is monitored through a dedicated set of limits. Month-to-date and year-to-date P&L limits complement the financial investment portfolio risk monitoring framework.

Trading book

The market risk carried by proprietary trading primarily relates to position risk which derives from the fact that any interest rate, foreign exchange rate fluctuation, can cause a change in the EFG International Group's profits.

EFG International Group carries out trading operations both for its clients and on its own account with a daily basis monitoring. The trading activities are based in Lugano and organised in different trading desks: Forex Delta, Forex Forwards, Forex Options, Precious Metals and Banknotes; Fixed Income and Structured Finance managed by expert traders.

All trading positions are valued at market value using market prices, data and parameters published by recognised stock exchanges or financial data providers. For the trading portfolios, on an intra-day or daily basis, the risk measurement systems support the computation and analysis of: (i) the mark-to-market of the positions exposed to risk; (ii) the daily and cumulative monthly and year-to-date P&L; (iii) the various risk metrics (incl. sensitivities – greeks, stress test, VaR, concentration risk) and (iv) the regulatory and economic capital requirements.

Adherence to all limits is independently monitored by the Group Market Risk department. Daily risk reports are produced which review compliance with nominal and sensitivity limits and stop loss limits.

Market risk measurement methodology

Value at risk

The VaR computation is a risk analysis tool statistically designed to estimate the maximum potential periodic loss from adverse movements in interest rates (excluding credit spreads), foreign currencies and equity prices, under normal market conditions. VaR is calculated using statistically expected changes in market parameters for a given holding-period-specified confidence level.

The EFG International Group's VaR methodology is based on a full revaluation historical VaR approach and considering a 10-day holding period with a 501-day observation period and a 99% confidence level.

VaR is used for internal control purpose and not for regulatory reporting of risks.

Sensitivity analysis

The risk assessment through sensitivity analysis considers all major market risks deriving from assets, liabilities and off-balance sheet transactions. The simulations analyse the impacts on risk exposures of adverse movements in market parameters. For interest rate risk the following risk exposures are assessed:

- Impact on net interest income (NII): The NII assessment determines the impact of a change in the interest rate structure on the forecast interest income (and thus on current earnings). This view is based on nominal values and considers the impact on the basis of a 12-month time horizon. This short-term approach enables the EFG International Group to quantify the impact of changes in interest rates on the interest margin
- Impact on economic value of equity (EVE): The EVE assessment measures the impact of changes in interest rates on current values of future cash flows and thus on the current economic value of EFG International Group's equity. When interest rates are used for discounting change, this causes a change in the current value of future cash flows. In contrast to the first approach, which focuses solely on a one-year time frame, the impact on the market value expresses the long-term impact deriving from all future cash flows, if there is a shift in market interest rates

For foreign exchange rate risks the sensitivity measurement covers in particular:

- The mismatch between on- and off-balance sheet positions denominated in foreign currencies
- The forecasted earnings that will be made in foreign currencies

Stress tests

VaR calculation and sensitivity analysis are complemented by stress tests, which identify the potential impact of extreme market scenarios on the EFG International Group's equity and income statements. These stress tests simulate both exceptional movements in prices or rates, and drastic deteriorations in market correlations.

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

The stress tests include:

- Risk factor stress testing, where stress movements are applied to each risk category
- Ad hoc stress testing, which includes applying possible stress events to specific positions or regions

Market risk hedging strategies

EFG International Group is exposed to financial risks arising from many aspects of its business. The International Group

implements different risk management strategies to eliminate or reduce market risk exposures. Risks being hedged through derivative financial instruments are typically changes in interest rates, foreign currency rates or effects of other risks (e.g. mortality risk on insurance policies portfolio). EFG International Group implements fair value hedging strategies.

The risk being hedged in a fair value hedging strategy is a change in the fair value of an asset or liability that is attributable to a particular risk and could affect P&L or the economic value of equity. Changes in fair value might arise through changes in interest rates, foreign exchange rates or other attributes. EFG International Group implements fair value hedges of individual hedged items (micro fair value hedging).

6.1 Capital requirements under the standardised approach²⁶

The below table summarises the RWA for market risk.

	a	b
	RWA	RWA
CHF millions	31 December 2018	31 December 2017
Outright products		
1 Interest rate risk (general and specific)	451.9	849.6
2 Equity risk (general and specific)	39.9	146.6
3 Foreign exchange risk	183.8	100.7
4 Commodity risk	110.0	96.7
Options		
5 Simplified approach		
6 Delta-plus method	17.5	5.8
7 Scenario approach		
8 Securitisation		
9 Total	803.1	1,199.4

The decrease year on year reflects the decrease in the trading portfolio assets on the balance sheet.

²⁶ FINMA Circular 2016/1 Table MR1

7. Interest rate risk in the banking book²⁷

Hedging instruments most commonly used are interest-rate swaps. Options positions on the banking book are systematically hedged through market transactions. Additional hedging simulations are carried out and discussed in the monthly Asset & Liability Management Committee, which uses this information to determine whether the EFG International Group should change its interest-rate-risk exposure. Asset & Liability Management Committee decisions are executed on the market by the Treasury team.

CHF millions	CHF	USD	EUR	Total
31 December 2018				
Increase (+) / decrease (-) in interest rates				
+100 basis points	25.9	1.8	35.0	62.7
-100 basis points	(25.3)	(0.9)	(25.5)	(51.7)
31 December 2017				
Increase (+) / decrease (-) in interest rates				
+100 basis points	29.0	32.2	57.5	118.7
-100 basis points	(29.0)	(26.1)	(57.5)	(112.6)

²⁷ FINMA Circular 2016/1 Table IRRBB

8. Operational Risk²⁸

Operational risk is defined as the risk of losses resulting from the inadequacy or failure of internal processes, people and/or systems or from external events. Operational risk is an inherent part of the day-to-day activities and is therefore a risk common to all EFG International Group's activities.

EFG International Group aims at mitigating significant operational risks it may inherently run to a level it considers appropriate and commensurate with its size, structure, nature and complexity of its service/product offerings, thus adequately protecting its assets and its shareholders' interests.

The Board of Directors and senior management 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 supervision of operational risk at the Board of Directors level is under the responsibility of the Board Risk Committee.

While the primary responsibility for managing operational risk lies with EFG International Group's business entities and business lines (first line of defence), the development, implementation and oversight of the operational risk policy of EFG International Group forms part of the objectives of the Operational Risk Management function of EFG International Group.

The Operational Risk Management function works in collaboration with the operational risk officers of the local business entities, the regional risk officers within EFG International Group as well as certain centralised EFG International Group functions that also undertake operational risk oversight for their respective area of responsibility, such as the Chief Financial Officer, the Chief Operating Officer, the Chief Technology Officer, the Group Chief Compliance Officer and the General Counsel. The principal aim of the Operational Risk Management function is to ensure that EFG International Group has an appropriate operational risk management framework and program in place for identifying, assessing, mitigating, monitoring and reporting operational risk. The Operational Risk Management function reports to the Chief Risk Officer.

Main measures applied by the Operational Risk Management function for the identification, assessment, monitoring and reporting of operational risk are:

- Assessment and monitoring of key operational risks
- Monitoring of key risk indicators
- Collection, analysis and reporting of operational risk events and losses
- Consolidated operational risk reporting to the Chief Risk Officer and Board of Directors Risk Committee
- Follow-up of actions taken to remedy key operational risk-related control issues
- Establishment of an operational risk awareness programme

EFG International Group and its local business entities design and implement internal controls and monitoring mechanisms in order to mitigate key operational risks that EFG International Group inherently runs in conducting its business.

EFG International Group continuously invests in business continuity management 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 throughout EFG International Group.

Considering the rapidly evolving risks relating to IT security and data confidentiality in the financial industry, EFG International Group continuously assesses its cyber defences and internal processes (including benchmarking with comparable banks) in order to ensure adequate mitigation of risks and adherence to the increasing regulatory requirements in this area.

Where appropriate, EFG International Group establishes operational risk transfer mechanisms; in particular, all entities of EFG International Group are covered by insurance to hedge (subject to defined exclusions) potential low-frequency-high-impact events. EFG International Group administers centrally for all its subsidiaries three layers of insurance cover, being comprehensive crime insurance, professional indemnity insurance and directors, and officers, liability insurance. Other insurances such as general insurances are managed locally.

Approach used

EFG International Group uses the standardised approach as the basis for the calculation of risk-weighted assets (RWA).

Based on the original Basel Accord, under the standardised approach, banks' activities are divided into eight business

²⁸ FINMA Circular 2016/1 Table ORA

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:

CHF millions	31 December 2018	31 December 2017	Change in %
Capital requirement for operational risk	159.9	172.9	(7.5%)
<i>Multiplier</i>	<i>12.5</i>	<i>12.5</i>	
<i>RWA equivalent</i>	<i>1,998.2</i>	<i>2,161.1</i>	<i>(7.5%)</i>
Total RWA	1,998.2	2,161.1	(7.5%)

The decrease year on year is due to the use of the three year average. As The EFG International Group acquired the BSI Group in October 2016, the operational risk of the BSI Group was added to that of the EFG International Group at the date of acquisition. The decline arises in 2018 from dropping the gross income from the 2015 year (used in the 2017 calculation) and adding the 2018 year. The BSI Group revenues for 2018 were lower than in 2015.

9. Liquidity risk

Liquidity reflects the ability of EFG International Group to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. Liquidity risk has a twofold dimension: funding risk and asset liquidity risk. The two liquidity risk types are connected, as asset liquidity risk could directly increase funding risk, if EFG International Group is not any more able to raise sufficient liquidity in case of need. If EFG International Group is wishing to face unexpected cash outflows, it may need to sell a large amount of securities, with exposure to market prices and liquidity.

EFG International Group manages liquidity risk in such a way as to ensure that ample liquidity is available to meet commitments to customers, both in demand for loans and repayments of deposits and to satisfy EFG International Group's own cash flow needs within all of its business entities. EFG International Group customer deposit base, EFG International Group capital and liquidity reserves position and EFG International Group conservative gapping policy when funding customer loans ensure that EFG International Group runs only limited liquidity risks.

Liquidity is handled by treasury, which ensures the ongoing process of sourcing new funds, in the case of a lack of liquidity or the investing of funds, if there is an excess of liquidity. Main subsidiaries/regions have their own local Treasury departments, regulated by the Treasury/ALM EFG International Group internal guidelines and responsible for ensuring compliance with legal restrictions concerning liquidity risk, observing global strategic constraints, local regulation and risk management limits.

Funding operations aim to avoid concentrations in funding facilities. EFG International Group also has a liquidity management process in place that 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 EFG International Group risk guidelines.

Liquidity risks arise when financing activities are difficult or expensive as a result of liquidity crisis on the markets or reputational issues. They also arise when it is difficult to meet own commitments in a timely manner due to a lack of very liquid assets.

As defined in the risk appetite framework, the liquidity risk strategies are defined as follows:

- EFG International Group holds sufficient liquid assets that it could survive a sustained and severe run on its deposit base without any recourse to mitigating actions beyond liquidating those assets, and without breaching regulatory liquidity limits
- EFG International Group funds the balance sheet primarily from customer deposits, using capital markets opportunistically, without being subject to funding concentration due to a small number of funding sources or clients

EFG International Group manages liquidity risk in such a way as to ensure that ample liquidity is available to meet commitments to customers, both in demand for loans and repayments of deposits and to satisfy the EFG International Group's own cash flow needs within all of its business entities.

EFG International Group has a liquidity risk management process in place that includes contingency funding plans, and stress tests that are undertaken to highlight EFG International Group's liquidity profile in adverse conditions, analysing also intraday liquidity stress scenarios.

The liquidity excess is quite typical from the Group's private banking activity.

As a result, liquidity risks are limited.

Financial assets are constantly monitored and a significant portion of safe and highly liquid assets is maintained. Cash and balances with central banks represent 18% of total assets, to which additional 9% derive from high-quality liquid securities.

At the end of 2018, the EFG International Group is well positioned with a liquidity coverage ratio of 164%.

Liquidity risk management process

EFG International Group's liquidity risk management process is carried out by the Asset & Liability Management Committee and monitored by the Financial Risk Committee, in accordance with the principles and the risk appetite defined in the liquidity risk policy, which defines the organisational structure, responsibilities, limit systems and maximum acceptable risk set by the Board of Directors. The operative management is undertaken by Treasury. The liquidity risk management process includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This

- includes replenishment of funds as they mature or are borrowed by customers
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements
- Managing the concentration and profile of debt maturities
- Monitoring unmatched medium-term assets and the usage of overdraft facilities

EFG International Group aims to avoid concentrations of its funding facilities. It observes its current liquidity situation and determines the pricing of its assets and credit business through the liquidity transfer pricing model. The liquidity risk management process also includes EFG International Group contingency funding plans. The contingency measures include, among other actions, the activation of repo transactions with prime counterparties, the liquidation of marketable securities and/or draw downs on lines of credit (liquidity shortage financing) with the Swiss National Bank.

EFG International Group complies with all regulatory requirements.

Funding approach

Overall, EFG International Group, through its business units, enjoys a favourable funding base with stable and diversified customer deposits, which provide the vast majority of the EFG International Group's total funding. The surplus of stable customer deposits over loans and other funding resources are placed by Treasury units in compliance with the local regulatory requirements and internal guidelines.

EFG International Group manages the liquidity and funding risks on an integrated basis. The liquidity positions of the business units are monitored and managed daily and internal limits are more conservative than the regulatory minimum levels, as required by the EFG International Group's risk appetite framework and liquidity risk policy.

Concentration risk

The overall level of liquidity exposure and corresponding limits are tightly monitored by means of specific risk metrics approved by the Board of Directors and in line with EFG International Group's overall committed level of risk appetite. Sources of liquidity are regularly assessed in terms of diversification by currency, geography, provider, term and product.

EFG International Group's concentration risks are managed through the following mechanisms:

- Monitoring of compliance with assets and liability management (ALM), funding concentration and risk appetite limits assigned
- Informing approval bodies when ALM, concentration and risk appetite limits are exceeded
- Proposing risk mitigation measures for ALM, concentration and risk appetite thresholds

Liquidity transfer pricing model

EFG International Group's liquidity transfer pricing model enables the management of the balance sheet structure and the measurement of risk-adjusted profitability, taking into account liquidity risk, maturity transformation and interest rate risk. The liquidity allocation mechanism allows to credit providers of funds for the benefit of liquidity and to charge users of funds.

Customers' loans are charged for the usage of liquidity, based on the liquidity risk embedded in business activities. Short- and long-term loans receive differentiated charges for the cost of liquidity.

Liquidity adjustments are introduced for loans that have the same duration, but due to differing liquidity attributes are not of the same value or cost.

Customers' deposits are credited for the benefit of liquidity based on their likelihood of withdrawal. As a general rule, sticky money, such as term deposits, are less likely to be withdrawn and, therefore, receive larger credits than volatile money, such as demand deposits, savings and transaction accounts, which are more likely to be withdrawn at any time.

9.1 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 was 60% for 2015 and is being increased by 10% each year, reaching 100% by 2019.

Note that the FINMA require disclosure of the average monthly LCR (see Appendix 12.3) that reflects the average of each 3 month period. The table below summarises the LCR at 31 December 2018.

CHF millions	31 December 2018 Weighted values	31 December 2017 Weighted values
Total high-quality liquid assets (HQLA)	11,034.5	12,590.1
Total cash outflows	10,650.4	10,605.5
Total cash inflows	3,903.8	4,569.4
Total net cash outflows	6,746.6	6,036.1
Liquidity coverage ratio (in %)	164%	209%

The LCR for the Group remains robust at 164% as at 31 December 2018.

The Bank's SNB account makes up 37% of its HQLA. 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 81% of total potential cash outflows. This reflects the fact that client deposits are the Bank's primary source of funding and also therefore the primary source of potential fund outflows in the event of a liquidity run.

Other cash outflows relate mainly to:

- Derivatives maturing within 30 days and margin calls relating to credit support annexes;
- 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 94% of potential cash inflows. The remaining cash inflows primarily come from derivatives maturing within 30 days. The LCR in Swiss francs is 172%, a large percentage of HQLA are denominated in Swiss francs (cash deposited at the SNB).

10. Comparison to IFRS basis

Reconciliation of Swiss GAAP to IFRS Regulatory Capital

	31 December 2018 CHF millions	31 December 2017 CHF millions
Total RWA: Swiss GAAP	10,132.3	10,879.5
Difference between FINMA and BIS rules	(528.7)	(546.0)
IFRS 9 impacts	(70.5)	(158.2)
Other financial assets not recognised under Swiss GAAP	121.1	58.0
Total RWA: IFRS	9,654.2	10,233.3
Total Regulatory Capital: Swiss GAAP	2,192.3	2,288.7
Common Equity Tier 1 (CET1) Capital adjustments	(436.6)	(445.4)
Additional tier 1 (AT1) adjustments		
Tier 2 (T2) adjustments	16.8	9.6
Total Regulatory Capital: IFRS	1,772.5	1,852.9
The main variances in CET1 above relate to the following:		
– IAS 19 Pension (net of tax)	(144.0)	(138.1)
– IFRS 9 Impact	(268.2)	(298.6)
– Other	(24.4)	(8.7)
Total CET1 adjustments	(436.6)	(445.4)
IFRS Common Equity Tier 1 Ratio	14.0%	14.0%
IFRS Total Eligible Capital Ratio	18.4%	18.1%

Risk weighted assets

The risk weighted assets for FINMA reporting purposes are higher than for IFRS/BIS EU purposes due to the following:

- mutual funds – effectively not eligible as collateral for FINMA, but under BIS EU able to look through to the underlying assets of the fund (relevant for 2017 and 2018)

Common equity tier 1

As at 31 December 2018, the main difference between IFRS and Swiss ARB accounting principles affecting the Group's common equity tier 1 relates to:

- Swiss ARB does not require any actuarial pension liability to be calculated based on short term interest rates to be recognised for defined contribution plans (except if the pension plan showed an actuarial deficit to be calculated

based on a reference average long term interest rate and the employer was due to the fund that deficit). Under IFRS, an additional post tax pension liability of CHF 144.0 million is recognised on the balance sheet.

- A difference of CHF 268.2 million arises due to valuation differences between IFRS and Swiss ARB. These differences relate to credit impairment provisions (expected credit losses under IFRS 9) and due to valuation differences. Under Swiss ARB certain financial instruments are valued on an amortised cost basis, and on a fair value basis for IFRS purposes. The majority of this difference arises from the Group's intention to hold until maturity certain assets (including the life insurance related assets) which under IFRS are required to be fair valued, whilst under Swiss ARB are carried at amortised cost.

11. Leverage ratio

The leverage ratio at 31 December 2018 is 4.4% compared to the regulatory requirement of 3.0%

The denominator of the ratio is effectively the Tier 1 capital of CHF 1,798.6 million divided by the Total Exposure of CHF 41,044.1 million. Total exposure reflects all the on-balance sheet assets primarily adjusted for:

- Deducting assets already deducted from Tier 1 capital (goodwill and certain deferred tax assets)
- Grossing up securities financing transactions

- Derivatives exposure adjustments
- Other off balance sheet exposures

This ratio is considered as being of limited value in a private banking context, as a private banks balance sheet is liability driven (primarily by the level of client deposits), and these may be placed risk free, for example at the SNB. In this instance the Group would face no additional risk, but would have a lower leverage ratio.

See Section 12.1 for detailed calculations.

12. Appendices

12.1 Information on leverage ratio¹⁹

The following provides the details of the calculation of the Basel III leverage ratio.

	31 December 2018	31 December 2017
CHF millions		
On-balance sheet exposures		
1 On-balance sheet items (excluding derivatives and SFTs, but including collateral) (Cm 14-15 FINMA Circ. 15/3)	38,861.0	40,980.2
2 Assets that must be deducted in determining the eligible Tier 1 capital (Margin nos. 7 and Cm 16-17 FINMA Circ 15/3)	(128.6)	(141.0)
3 Total on-balance sheet exposures within the leverage ratio framework, excluding derivatives and SFTs	38,732.4	40,839.2
Derivative exposures		
4 Replacement values associated with all derivatives transactions, including those with CCPs, taking into account the margin payments received and netting agreements in accordance with Margin nos. 22-23 and 34-35 FINMA Circ. 15/3	1,030.7	490.0
5 Add-on amounts for PFE associated with all derivatives transactions (Margin nos. 22 and 25 FINMA Circ. 15/3)	407.2	423.2
7 (Deduction of receivables assets for cash variation margin provided in derivatives transactions, in accordance with Margin no. 36 FINMA Circ. 15/3)	(787.9)	(436.7)
8 (Deduction relating to exposures to QCCPs if there is no obligation to reimburse the client in the event of the QCCP defaulting) (Margin no. 39 FINMA Circ. 15/3)		
9 Adjusted effective notional amount of written credit derivatives, after deduction of negative replacement values (Margin no. 43 FINMA Circ. 15/3)	351.1	23.4
10 Adjusted effective notional offsets of bought/written credit derivatives (Margin nos. 44-50 FINMA Circ. 15/3) and add-on deductions for written credit derivatives (Margin no. 51 FINMA Circ. 15/3)	(165.2)	(23.4)
11 Total derivative exposures	835.9	476.5
Securities financing transaction exposures		
12 Gross SFT assets with no recognition of netting (except in the case of novation 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)	1,114.7	642.7
14 CCR exposure for SFT assets (Margin nos. 63-68 FINMA Circ. 15/3)	90.0	377.5
15 Agent transaction exposures (Margin nos. 70-73 FINMA Circ. 15/3)		
16 Total securities financing transaction exposures	1,204.7	1,020.2
Other off-balance sheet exposures		
17 Off-balance-sheet exposure at gross national amounts before application of credit conversion factors.	470.5	680.9
18 (Adjustments for conversion to credit equivalent amounts) (Margin nos. 75-76 FINMA Circ. 15/3)	(199.4)	(359.0)
19 Off-balance sheet items	271.1	321.9
Capital and total exposures		
20 Tier 1 capital (Margin no. 5 FINMA Circ. 15/3)	1,798.6	1,898.4
21 Total exposures (sum of Rows 3, 11, 16 and 19)	41,044.1	42,657.8
Leverage ratio		
22 Leverage ratio (Margin nos. 3-4 FINMA Circ. 15/3)	4.4%	4.5%

The decrease in the ratio was primarily due to the:

- The payment of the dividend to the ordinary shareholders being greater than the profit for the year (due to final integration expenses associated with the BSI business).

¹⁹ FINMA Circular 2016/1 Table LR2

12.2 Summary comparison of accounting assets versus leverage ratio exposure measure ²⁰

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

CHF millions	31 December 2018	31 December 2017
1 Total assets as per published financial statements	40,334.0	41,822.5
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation (Margin nos. 6-7 FINMA Circ. 15/3), as well as adjustment for assets deducted from Tier 1 capital (Margin nos. 16-17 FINMA Circ. 15/3)	(128.6)	(140.9)
4 Adjustment for derivative financial instruments (Margin nos. 21-51 FINMA Circ. 15/3)	(383.4)	(219.6)
5 Adjustment for securities financing transactions (SFTs) (Margin nos. 52-73 FINMA Circ. 15/3)	951.0	873.9
6 Adjustment for off-balance-sheet items (i.e. conversion to credit equivalent amounts of off-balance-sheet exposures) (Margin nos. 74-76 FINMA Circ. 15/3)	271.1	321.9
8 Leverage ratio exposure	41,044.1	42,657.8

Total consolidated assets year-on-year have decreased in 2018, primarily due to a decrease in customer deposits of CHF 2.1 billion.

²⁰ FINMA Circular 2016/ 1 Table LR1

12.3 Information on liquidity coverage ratio²¹

CHF millions	31 December 2018		31 December 2017		Weighting-Factor ²
	Unweighted values ¹	Weighted values ¹	Unweighted values ¹	Weighted values ¹	
1 Total high-quality liquid assets (HQLA)	10,645.7	10,629.1	11,957.8	11,925.8	99.8%
B. Cash outflows					
2 Retail deposits	15,036.6	1,886.0	16,456.9	1,984.5	12.54%
3 <i>of which, stable deposits</i>			778.4	38.9	-
4 <i>of which, less stable deposits</i>	15,036.6	1,886.0	15,678.4	1,945.6	12.54%
5 Unsecured wholesale funding	17,071.7	7,743.8	16,944.5	7,767.6	45.36%
6 <i>of which, operational deposits (all counterparties) and deposits in networks of cooperative banks</i>					0.00%
7 <i>of which, non-operational deposits (all counterparties)</i>	17,071.1	7,743.2	16,943.7	7,766.8	45.36%
8 <i>of which, unsecured debt</i>	0.7	0.7	0.8	0.8	100.00%
9 Secured wholesale funding and collateral swaps	277.1	277.1	249.4	249.4	100.00%
10 Other outflows Additional requirements	831.2	541.0	705.7	365.2	65.09%
11 <i>of which, outflows related to derivative exposures and other transactions</i>	674.3	481.8	564.0	311.7	71.45%
12 <i>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</i>			5.9	5.9	-
13 <i>of which, outflows related to committed credit and liquidity facilities</i>	154.7	58.6	126.5	45.8	37.88%
14 Other contractual funding obligations	6.3		16.3		0.00%
15 Other contingent funding obligations	1,066.5	674.5	7,784.2	387.2	63.24%
16 Total cash outflows	34,289.4	11,122.4	42,157.0	10,753.9	32.44%
C. Cash inflows					
17 Secured lending (e.g. reverse repos)	2.8	2.8	10.3	10.3	100.00%
18 Inflows from fully performing exposures	6,787.1	4,579.2	7,189.7	4,747.5	67.47%
19 Other cash inflows	247.0	243.8	320.0	304.6	98.70%
20 Total cash inflows	7,036.9	4,825.8	7,520.0	5,062.4	68.58%
21 Total high-quality liquid assets (HQLA)	-	10,629.1	11,957.8	11,925.8	99.8%
22 Total net cash outflows	-	6,296.6	-	5,691.6	
23 Liquidity coverage ratio (in %)	0.0%	168.8%	0.0%	210.0%	

1 Monthly averages

2 For 31 December 2018

²¹ FINMA Circular 2016/1 Table LIQ1

12.4 Regulatory capital instruments

The below table summarises the Tier 1 and Tier 2 capital instruments and their key features²².

31 December 2018				
	Ordinary Shares	Bons de Participation		Tier 2
1 Issuer	EFG International AG	Banque de Luxembourg (on a fiduciary basis)	EFG International (Guernsey) Limited. Guaranteed by EFG International AG	
2 Unique identifier	CH0022268228	XS0204324890	XS1591573180	
3 Governing law of the instrument	Zurich, Switzerland / Swiss law.	Luxembourg / Laws of the Grand Duchy of Luxembourg	Zurich, Switzerland / Swiss law	
Regulatory treatment				
5 Under post-transitional Basel III rules (CET1/AT1/T2)	Common equity tier 1	Additional tier 1	Tier 2	
6 Eligible at single-entity, group/single- entity and group levels	Group	Group	Group	
7 <i>Equity securities/debt securities/hybrid instruments/other instruments</i>	<i>Equity securities</i>	<i>Subordinated debt</i>	<i>Subordinated debt</i>	
8 Amount recognised in regulatory capital (CHF millions)	145.1	15.1	393.7	
9 Par value of instrument	CHF 0.50	EUR 1000	USD 1000	
10 Accounting classification	Equity	Equity	Liability	
11 Original date of issuance	12.10.2005	10.11.2004	05.04.2017	
12 <i>Perpetual or dated</i>	<i>Perpetual</i>	<i>Perpetual</i>	<i>Dated</i>	
13 <i>Original maturity date</i>	<i>N/A</i>	<i>N/A</i>	<i>05.04.2027</i>	
14 Issuer call (subject to prior approval from supervisory authority)	No	Yes	Yes	
15 <i>Optional call date/contingent call dates/redemption amount</i>	<i>N/A</i>	<i>30.04.2010</i>	<i>05.04.2022</i>	
16 <i>Subsequent call dates, if applicable</i>		<i>Every Dividend Payment Date following 30.04.2010 at par</i>	<i>No regular subsequent call date; callable upon Tax Event or Capital Event only</i>	

²² FINMA Circular 2016/1 Table CCA

31 December 2018

	Ordinary Shares	Bons de Participation	Tier 2	
Coupons / dividends				
17	Fixed/floating rate/initially fixed and subsequently floating rate/initially floating rate and subsequently fixed	Variable	Variable	Fixed
18	Coupon rate and any related index		EUR 10year swap + 0.25%, capped at 8%	5% up to 05.04.2022 then USD 5Y swap + 2.978%
19	Existence of a dividend stopper (non-payment of dividend on the instrument prohibits the payment of dividends on common shares)	No	Yes	No
20	Coupon payment/dividends: fully discretionary/partially discretionary/mandatory	Fully discretionary	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
30	Write-down feature	No	No	Yes
31	<i>Write-down trigger(s)</i>			<i>Viability Event (FINMA, Public Support)</i>
32	<i>Full/partial</i>			<i>Full write down</i>
33	<i>Permanent or temporary</i>			<i>Permanent</i>
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1 capital	Tier 2 capital	Senior debt
36	Features that prevent full recognition under Basel III	No	No	No
37	<i>If yes, specify non-compliant features</i>			

12.5 Detailed regulatory capital calculation²³

	<u>31 December 2018</u>	<u>31 December 2017</u>	
CHF millions	Net amounts (after consideration of the transitional provisions)	Net amounts (after consideration of the transitional provisions)	Reference
Common Equity Tier 1 (CET1)			
1	144.9	144.9	d
2	(50.0)	65.2	
3	1,879.3	1,864.5	
5	28.3	24.8	e
6	2,002.5	2,099.4	
Adjustments referring to Common Equity Tier 1			
8	(2.3)	(2.9)	a
9	(68.0)	(85.5)	b
10	(58.3)	(52.6)	c
26b	(90.4)	(75.7)	
28	(219.0)	(216.7)	
29	1,783.5	1,882.7	
Additional Tier 1 Capital (AT1)			
30	15.1	15.7	
31	15.1	15.7	
32	15.1	15.7	
44	15.1	15.7	
45	1,798.6	1,898.4	
Eligible Tier 2 capital (T2)			
46	393.7	390.3	
58	393.7	390.3	
59	2,192.3	2,288.7	

²³ FINMA Circular 2018/1 Table CC1

12.6 Detailed capital ratios²⁴

	CHF millions	31 December 2018 Net amounts (after consideration of the transitional provisions)	31 December 2017 Net amounts (after consideration of the transitional provisions)	Reference
	Capital ratio			
61	Common equity Tier 1 (item 29, as a percentage of risk-weighted assets)	17.6%	17.3%	
62	Tier 1 (item 45, as a percentage of risk-weighted assets)	17.8%	17.4%	
63	Total regulatory capital (item 59, as a percentage of risk-weighted assets)	21.6%	21.0%	
64	CET1 requirements in accordance with the Basel minimum standards (minimum requirements + capital buffer + counter-cyclical buffer) plus the capital buffer for systemically important banks) (as a percentage of risk-weighted assets)	6.5%	5.9%	
65	<i>of which, capital buffer in accordance with Basel minimum standards (as a percentage of risk-weighted assets)</i>	1.88%	1.25%	
66	<i>of which, countercyclical buffer in accordance with the Basel minimum standards (as a percentage of risk-weighted assets)</i>	0.14%	0.14%	
67	<i>of which, capital buffer for systemically important institutions in accordance with the Basel minimum standards (as a percentage of risk-weighted assets)</i>	n/a	n/a	
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)	13.1%	12.8%	
68a	CET1 total requirement target in accordance with Annex 8 of the CAO plus the countercyclical buffer (as a percentage of risk-weighted assets)	7.9%	7.9%	
68b	Of which countercyclical buffer as per Art. 44 and 44a CAO (as a percentage of risk-weighted assets)	0.14%	0.14%	
68c	CET1 available (as a percentage of risk-weighted assets)	17.6%	17.3%	
68d	T1 total requirement in accordance with Annex 8 of the CAO plus the countercyclical buffer (as a percentage of risk-weighted assets)	9.7%	9.7%	
68e	T1 available (as a percentage of risk-weighted assets)	17.8%	17.5%	
68f	Total requirement for regulatory capital as per Annex 8 of the CAO plus the counter-cyclical buffer (as a percentage of risk-weighted assets)	12.1%	12.1%	
68g	Regulatory capital available (as a percentage of risk-weighted assets)	21.6%	21.0%	

²⁴ FINMA Circular 2016/1 Table CC1

	31 December 2018	31 December 2017	
	Net amounts (after consideration of the transitional provisions)	Net amounts (after consideration of the transitional provisions)	Reference
	Amounts below threshold for deductions (before risk weighting)		
72			Non-qualified participation in the financial sector
73			Other qualified participations in the financial sector (CET1)
	0.9	1.3	
74			Mortgages servicing rights (net of related tax liability)
75			Deferred tax assets arising from temporary differences (net of related tax liability)
	38.3	9.6	
	Applicable caps on the inclusion of provisions 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

12.7 Balance sheet²⁵

The below balance sheet is on the basis of Swiss ARB. For the IFRS balance sheet see Annual Report.

CHF millions	31 December 2018		31 December 2017		References
	According to the accounting rules	According to the regulatory scope of consolidation	According to the accounting rules	According to the regulatory scope of consolidation	
Assets					
Liquid assets	7,141.9	7,141.9	9,699.8	9,699.8	
Amounts due from banks	3,508.6	3,508.6	2,826.4	2,826.4	
Amounts due from securities financing transactions	253.6	253.6	146.3	146.3	
Amounts due from customers	12,064.2	12,064.2	11,962.0	11,962.0	
Mortgage loans	6,209.6	6,209.6	6,585.8	6,585.8	
Trading portfolio assets	808.1	808.1	908.4	908.4	
Positive replacement values of derivative financial instruments	1,219.6	1,219.6	696.1	696.1	
Other financial instruments at fair value	156.4	156.4	211.3	211.3	
Financial investments	8,303.0	8,303.0	7,998.6	7,998.6	
Accrued income and prepaid expenses	168.8	168.8	183.9	183.9	
Participations	4.2	4.2	6.4	6.4	
Tangible fixed assets	245.7	245.7	293.1	293.1	
Intangible assets	70.3	70.3	88.4	88.4	
<i>Of which goodwill</i>	2.3	2.3	2.9	2.9	a
<i>Of which other intangible assets</i>	68.0	68.0	85.5	85.5	b
Other assets	180.0	180.0	216.1	216.1	
<i>Of which deferred taxes depending on future profits</i>	58.3	58.3	52.6	52.6	c
<i>Of which deferred taxes from temporary differences</i>	38.3	38.3	9.6	9.6	
Total assets	40,334.0	40,334.0	41,822.6	41,822.6	
Liabilities					
Amounts due to banks	404.4	404.4	647.9	647.9	
Liabilities from securities financing transactions					
Amounts due in respect of customer deposits	30,988.3	30,988.3	32,958.9	32,958.9	
Trading portfolio liabilities	226.6	226.6	244.2	244.2	
Negative replacement values of derivative financial instruments	1,213.9	1,213.9	646.9	646.9	
Liabilities from other financial instruments at fair value	355.2	355.2	232.2	232.2	
Bond issues and central mortgage institution loans	4,586.2	4,586.2	4,268.4	4,268.4	
Accrued expenses and deferred income	335.0	335.0	340.5	340.5	
Other liabilities	63.6	63.6	167.3	167.3	
Provisions	143.0	143.0	201.2	201.2	
Total Liabilities	38,316.2	38,316.2	39,707.5	39,707.5	
<i>Of which subordinated loans, eligible for Tier 2 capital (T2)</i>	393.7	393.7	390.3	390.3	

²⁵ FINMA Circular 2016/1 Table CC2

Balance sheet (continued)

CHF millions	31 December 2018		31 December 2017		References
	According to the accounting rules	According to the regulatory scope of consolidation	According to the accounting rules	According to the regulatory scope of consolidation	
Equity					
Reserves for general banking risks					
Capital	145.1	145.1	145.1	145.1	
<i>Of which eligible for CET1</i>	144.9	144.9	144.9	144.9	d
<i>Of which eligible for AT1</i>	0.2	0.2	0.2	0.2	
Legal reserves/Voluntary retained earnings reserve/Profit-Loss					
carried forward/Profit-Loss of period	1,847.2	1,847.2	1,945.2	1,945.2	
Minority interests (7)	25.5	25.5	24.8	24.8	
<i>Of which eligible for CET1</i>	25.5	25.5	24.8	24.8	e
<i>Of which eligible for AT1</i>					
Total own funds	2,017.8	2,017.8	2,115.1	2,115.1	

12.8 Detailed risk weighted assets

The below table summarises the composition of the risk weighted assets, the change versus June 2018 and the minimum requirement on the basis of an 8.0% capital requirement²⁶.

CHF millions	a	b	c	RWA change in %	
	RWA 31 December 2018	RWA 30 June 2018	Minimum Capital Requirement 31 December 2018		
1	Credit risk (including non-counterparty credit risk)	6,967.6	7,313.2	557.4	(4.7)
2	Of which standardised approach (SA)	6,967.6	7,313.2	557.4	(4.7)
3	Of which internal rating-based (F-IRB) approach				-
4	Of which supervisory slotting approach				-
5	Of which advanced internal ratings-based (A-IRB) approach				-
6	Counterparty Credit risk	288.2	300.6	23.1	-3.9
7	Of which standardised approach (SA - CCR)				-
7a	Of which simplified standard approach (SSA - CCR)				-
7b	Of which market value method				-
8	Of which internal model method (IMM)				-
9	Of which other CCR approach	288.2	300.6	23.1	-
10	Credit Valuation Adjustment (CVA)	72.2	54.8	5.8	-
11	Equity positions under the simple risk weight approach				-
12	Equity investments in funds - look-through approach				-
13	Equity investments in funds - mandate-based approach				-
14	Equity investments in funds - fall-back approach				-
15	Equity investments in funds - simplified approach				-
16	Settlement risks	0.7	1.9	0.1	(64.9)
17	Securitisation exposures in banking book				-
18	Of which internal ratings-based approach (SEC-IRBA)				-
19	Of which external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)				-
20	Of which standardised approach (SEC-SA)				-
21	Market risk	803.1	927.5	64.2	(13.4)
22	Of which standardised approach	803.1	927.5	64.2	(13.4)
23	Capital charge for switch between trading book and banking book				-
24	Operational risk	1,998.2	2,162.7	159.9	-
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	2.3	2.6	0.1	(10.3)
26	Floor adjustment				-
27	Total	10,132.3	10,763.3	810.6	(5.9%)

²⁶ FINMA Circular 2016/1 Table OV1

12.9 Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

There are no differences between the carrying values as reported in the published Swiss ARB financial statements and the carrying values under the scope of regulatory consolidation. For differences between the Group's published IFRS financial statements and the Group's Swiss ARB financial statements see Section 10²⁷

	a	b	c	d	e	f	g
	<i>Carrying values</i>						
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
CHF millions							
Assets							
Liquid assets	7,141.9	7,141.9	7,141.9				
Amounts due from banks	3,508.6	3,508.6	3,508.6				
Amounts due from securities financing transactions	253.6	253.6		253.6			
Amounts due from customers	12,064.2	12,064.2	12,064.2				
Amounts due secured by mortgage	6,209.6	6,209.6	6,209.6				
Trading portfolio assets	808.1	808.1	0.9			808.1	
Positive replacement values of derivative financial instruments	1,219.6	1,219.6		1,219.6		1,219.6	
Other financial instruments at fair value	156.4	156.4	156.4				
Financial investments	8,303.0	8,303.0	8,303.0			159.3	
Accrued income and prepaid expenses	168.8	168.8	168.8				
Participations	4.2	4.2	4.2				
Tangible fixed assets	245.7	245.7	245.7				
Intangible assets	70.3	70.3					70.3
Other assets	180.0	180.0	180.0				58.3
Total assets 31 December 2018	40,334.0	40,334.0	37,983.3	1,473.2		2,187.0	128.6

²⁷ FINMA Circular 2016/1 Table LI1

CHF millions	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values				Not subject to capital requirements or subject to deduction from capital
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	
Liabilities							
Amounts due to banks	404.4	404.4					404.4
Amounts due in respect of customer deposits	30,988.3	30,988.3					30,988.3
Trading portfolio liabilities	226.6	226.6				226.6	
Negative replacement values of derivative financial instruments	1,213.9	1,213.9				1,213.9	
Liabilities from other financial instruments at fair value	355.2	355.2				355.2	
Bond issues and central mortgage institution loans	4,586.2	4,586.2					4,586.2
Accrued expenses and deferred income	335.0	335.0					335.0
Other liabilities	63.6	63.6					63.6
Provisions	143.0	143.0					143.0
Total liabilities							
31 December 2018	38,316.2	38,316.2	-	-	-	1,795.7	36,520.5

The sum of the amounts shown in the different columns "Carrying values" does not equal the total amount shown in column "Carrying values as reported in published financial statements" for the line "Derivatives" and "Trading assets", as some of the assets included in these lines are subject to regulatory capital charges for both counterparty credit risk and market risk.

12.10 Composition of collaterals for counterparty credit risk exposure²⁸

CHF millions	Collateral used in derivative transactions				Collateral used in SFTs							
	a		b		c		d		e		f	
	Fair value of collateral received Segregated	Fair value of collateral received Unsegregated	Fair value of collateral posted Segregated	Fair value of collateral posted Unsegregated	Fair value of collateral received	Fair value of collateral posted	Fair value of collateral received	Fair value of collateral posted	Fair value of collateral received	Fair value of collateral posted	Fair value of collateral received	Fair value of collateral posted
31 December 2018												
Cash – CHF			71.0									
Cash – other currencies	136.9				605.3				129.8			268.6
Swiss Confederation sovereign debt												
Other sovereign debt												
Government agency debt												
Corporate bonds					80.4				832.1			1,245.2
Equity securities					34.5				315.4			256.8
Other collateral									45.9			
Total	136.9	–	791.2	–	–	–	–	1,323.2	1,770.6	–	–	–

12.11 Counterparty credit risk: Credit derivatives exposures²⁹

CHF millions	a		b		c		d	
	31 December 2018		31 December 2017		31 December 2017		31 December 2017	
	Protection bought	Protection sold	Protection bought	Protection sold	Protection bought	Protection sold	Protection bought	Protection sold
Notionals								
Single-name credit default swaps								
Index credit default swaps	215.6		215.6		1,111.6		1,111.6	
Total return swaps								
Credit options								
Other credit derivatives								
Total notionals	–	–	–	–	1,111.6	–	1,111.6	–
Fair values								
Positive replacement values (assets)	42.2				32.3			
Negative replacement values (liabilities)				47.6				32.3

²⁸ FINMA Circular 2016/1 Table CCR5

²⁹ FINMA Circular 2016/1 Table CCR6

12.12 Geographical distribution of credit exposures used in the countercyclical capital buffer³⁰

Geographical breakdown CHF millions	31 December 2018				
	Countercyclical capital buffer rate	Exposures values and/or risk-weighted assets used in the computation of the countercyclical capital buffer		Bank-specific countercyclical capital buffer rate	Countercyclical buffer amount
		Exposure values	Risk-weighted assets		
Switzerland	2.0%	2,226.3	688.0	0.14%	13.8
Total	2.0%	2,226.3	688.0	0.14%	13.8

³⁰ FINMA Circular 2016/1 Table CCyB1

13. FINMA requirements table

The FINMA requirements are covered in this report by reference to the following tables and sections:

FINMA table number	Description	EFG section reference
CC2	Reconciliation of regulatory capital to balance sheet	12.7
CC1	Composition of regulatory capital	12.5 and 12.6
OVA	Bank risk management approach	4
OV1	Overview of risk-weighted assets	12.8
LI1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories	12.9
LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	3.2
LIA	Explanations of differences between accounting and regulatory exposure amounts	3.2
CRA	Credit risk: general information	5
CR1	Credit risk: credit quality of assets	5.1
CR2	Credit risk: changes in stock of defaulted loans and debt securities	5.2
CRB	Credit risk: additional disclosure related to the credit quality of assets	5.1
CRC	Credit risk: qualitative disclosure requirements related to mitigation techniques	5
CR3	Credit risk: overview of mitigation techniques	5.3
CRD	Credit risk: qualitative disclosures of banks' use of external credit ratings under the standardised approach	5
CR4	Credit risk: exposure and credit risk mitigation (CRM) effects under the standardised approach	5.4
CR5	Credit risk: exposures by exposure category and risk weights under the standardised approach	5.5
Not required	IRB: qualitative disclosures related to IRB models	Not required
Not required	IRB: credit risk exposures by portfolio and PD range	Not required
Not required	IRB: effect on RWA of credit derivatives used as CRM techniques	Not required
Not required	IRB: RWA flow statements of credit risk exposures	Not required
Not required	IRB: backtesting of probability of default (PD) per portfolio	Not required
Not required	IRB: specialised lending and equities under the simple risk weight method	Not required
CCRA	Counterparty credit risk: qualitative disclosure	5.6
CCR1	Counterparty credit risk: analysis by approach	Not required
CCR2	Counterparty credit risk: credit valuation adjustment (CVA) capital charge	5.6
CCR3	Counterparty credit risk: standardised approach to CCR exposures by exposure category and risk weights	5.6.1
Not required	IRB: CCR exposures by exposure category and PD scale	Not required
CCR5	Counterparty credit risk: composition of collateral for CCR exposure	12.10
CCR6	Counterparty credit risk: credit derivatives exposures	12.11
Not required	Counterparty credit risk: RWA flow statements of CCR exposures under the IMM (EPE model method)	Not required
Not required	Counterparty credit risk: exposures to central counterparties	Not required
Not required	Securitisations: qualitative disclosure requirements related to securitisation exposures	Not required
Not required	Securitisation: exposures in the banking book	Not required
Not required	Securitisations: exposures in the trading book	Not required
Not required	Securitisations: exposures in the banking book and associated regulatory capital requirements – bank acting as originator or as sponsor	Not required
Not required	Securitisation: exposures in the banking book and associated capital requirements – bank acting as investor	Not required
MTA	Market risk: qualitative disclosure requirements	6
Not required	Market risk: qualitative disclosures for banks using the Internal Models Approach (IMA)	Not required
MR1	Market risk: minimum capital requirements under standardised approach	6.1
Not required	Market risk: RWA flow statements of market risk exposures under an IMA	Not required
Not required	Market risk: IMA values for trading portfolios	Not required

Not required	Market risk: comparison of VaR estimates with gains/losses	Not required
ORA	Qualitative disclosure requirements related to operational risks	8
IRRBB	Interest rate risk in the banking book	7
CCA	Presentation of material features of regulatory capital instruments	12.4
LR1	Leverage ratio: comparison of accounting assets versus leverage ratio exposure measure	12.2
LR2	Leverage ratio: detailed presentation	12.1
LIQ1	Information about the liquidity coverage ratio	12.3

14. Abbreviations

ALCO	Asset & Liabilities Management Committee
ALM	Asset and Liability Management
AT1	Additional Tier 1
BIS	Bank for International Settlements
BoD	Board of Directors
CAO	Capital Adequacy Ordinance - Ordinance of 1 June 2012 concerning capital adequacy and risk diversification for banks and securities traders (known as the “Capital Adequacy Ordinance”)
CCF	Credit conversion factor
CCR	Counterparty credit risk
CET1	Common Equity Tier 1
CLS	Continuous linked settlement
CRM	Credit Risk Mitigation
CSA	Credit Support Annex, an optional annex for ISDA netting agreements
CVA	Credit valuation adjustment: capital requirement aimed at covering the risk of loss in market value as a result of deterioration in the counterparty’s credit quality
EAD	Exposure at default
FINMA	Swiss Financial Market Supervisory Authority
GMRA	Global Master Repurchase Agreement of the Public Securities Association/International Securities Market Association (PSA/ISMA)
GMSLA	Global Master Securities Lending Agreement
HQLA	High-quality liquid assets
ICS	Internal control system
ISDA	International Swaps and Derivatives Association
LCR	Liquidity coverage ratio
OTC	Over the counter
RWA	Risk-weighted assets
SFT	Securities financing transaction
SIC	Swiss Interbank Clearing
SNB	Swiss National Bank
SA-BIS	International Standardised Approach in accordance with the CAO
T2	Tier 2
VaR	Value at risk