

Basel III Pillar 3 Disclosures

30 June 2019

Contents

1. Introduction	3
1.1 Background	3
1.2 Objective	3
1.3 Scope	3
1.4 Basis of preparation	3
1.5 Internal control system	3
1.6 Accounting principles	3
2. Capital adequacy and liquidity	4
2.1 Key ratios	4
2.2 Composition of the regulatory eligible capital	5
3. Risk weighted assets	6
4. Liquidity Risk	7
4.1 Liquidity coverage ratio	8
5. Comparison to IFRS basis	9
6. Leverage ratio	10
7. Interest rate risk in the banking book	10
7.1 Objectives and guidelines for the management of interest rate risk in the banking book	10
7.2 Quantitative information on the exposure's structure and repricing date	13
7.3 Quantitative information on economic value of equity and net interest income	15
8. Appendices	16
8.1 Information on liquidity coverage ratio	17
8.2 Regulatory capital instruments	18
8.3 Detailed regulatory capital calculation	20
9. Abbreviations	21

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 30 June 2019 and the changes since 31 December 2018.

1.2 Objective

The objective of this report is to provide information on capital management within the Group to investors, analysts, ratings agencies and supervisory bodies. In particular, it describes the Group's capital adequacy and liquidity position.

1.3 Scope

There is no difference in the scope of consolidation for the calculation of capital adequacy and the 30 June 2019 Consolidated Financial Statements.

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.

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>).

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 internal control 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 their 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 30 June 2019, the main difference between IFRS and Swiss ARB accounting principles affecting the Group's capital adequacy positions relates to:

- Swiss ARB does not require actuarial pension liability calculated based on short term interest rates to be recognised for defined contribution plans (except if the pension plan showed an actuarial deficit 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 120.5 million (December 2018, CHF 144.0 million) is recognised on the balance sheet.
- Swiss ARB permits 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 fair values these assets, whilst under Swiss ARB they are carried at amortised cost. This results in a net difference of CHF 225.3 million (December 2018, CHF 268.2 million).

For further details of the reconciliation between IFRS and Swiss ARB, see Section 5 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 30 June 2019. 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 17.0%, above FINMA's requirement of 7.8%. The Group's total capital ratio was 21.0% at 30 June 2019, higher than the regulatory requirement of 12.0%.

The leverage ratio was 4.1% at 30 June 2019 (see Section 11). This ratio is significantly above the regulatory requirement of 3%.

The Group's liquidity coverage ratio (LCR) was 171% at 30 June 2019, above the minimum regulatory requirement of 100% in 2019 (see Section 9).

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

¹ FINMA Circular 2016/1 Table KM1

CHF millions	Section	a 30 June 2019	c 31 December 2018	e 30 June 2018
Available capital				
1	Common Equity Tier 1 (CET1)	1,697.5	1,783.5	1,896.6
2	Tier 1 capital (T1)	1,712.6	1,798.6	1,912.1
3	Total Capital	2,097.7	2,192.3	2,309.0
Risk weighted assets (RWA)				
4	Total risk weighted assets (RWA)	10,010.8	10,132.3	10,763.3
4a	Minimum required capital based on risk-based requirements	800.9	810.6	861.1
Risk based capital ratios as a percentage of RWA				
5	Common Equity Tier 1 ratio (%)	17.0%	17.6%	17.6%
6	Tier 1 ratio	17.1%	17.8%	17.8%
7	Total capital ratio	21.0%	21.6%	21.5%
Additional CET1 buffer requirements as a percentage of RWA				
8	Capital conservation buffer requirement	2.500%	1.875%	1.875%
11	Total of bank CET1 specific buffer requirements (%)	2.626%	2.011%	2.010%
12	CET1 available after meeting bank's minimum capital requirements (%)	11.1%	11.8%	11.5%
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%	4.0%
12b	National countercyclical buffer (art. 44 and 44a CAO) (%)	0.126%	0.136%	0.135%
12c	CET1 capital target as per Annex 8 CAO plus countercyclical buffer per art.44 and 44a CAO	7.9%	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%	9.7%
12e	Total capital target as per Annex 8 CAO plus countercyclical buffer per art.44 and 44a CAO	12.1%	12.1%	12.1%
BASEL III leverage ratio				
13	Total Basel III leverage ratio exposure	42,279.0	41,044.1	42,266.6
14	Basel III leverage ratio (%)	4.1%	4.4%	4.5%
Liquidity coverage ratio (LCR)				
15	Total high-quality liquid assets (HQLA)	12,385.7	11,034.5	11,851.7
16	Total net cash outflow	7,233.9	6,746.6	6,933.1
17	LCR (%)	4	171%	164%

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 30 June 2019, the Group's share capital amounted to CHF 146.6 million and consisted of

293,198,833 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.

3. Risk weighted assets

The below table summarises the composition of the risk weighted assets, the change versus December 2018 and the minimum requirement on the basis of an 8.0% capital requirement².

CHF millions	a	b	c	RWA change in %	
	RWA 30 June 2019	RWA 31 December 2018	Minimum Capital Requirement 30 June 2019		
1	Credit risk (including non-counterparty credit risk)	6,863.6	6,967.6	549.1	(1.5)
2	Of which standardised approach (SA)	6,863.6	6,967.6	549.1	(1.5)
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	352.2	288.2	28.2	22.2
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	352.2	288.2	28.2	22.2
10	Credit Valuation Adjustment (CVA)	72.5	72.2	5.8	0.4
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				-
14a	Equity investments in funds - simplified approach				-
15	Settlement risks	0.7	0.7	0.1	
16	Securitisation exposures in banking book				-
17	Of which internal ratings-based approach (SEC-IRBA)				-
18	Of which external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)				-
19	Of which standardised approach (SEC-SA)				-
20	Market risk	685.7	803.1	54.9	(14.6)
21	Of which standardised approach	685.7	803.1	54.9	(14.6)
23	Capital charge for switch between trading book and banking book				-
24	Operational risk	2,033.0	1,998.2	162.6	1.7
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	3.1	2.3	0.2	34.8
26	Floor adjustment				-
27	Total	10,010.8	10,132.3	800.9	(1.2%)

² FINMA Circular 2016/1 Table OV1

4. Liquidity Risk

Liquidity reflects the ability of the Group to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. Liquidity risk has two components: funding risk and asset liquidity risk. If the Group is faced with unexpected cash outflows, it may need to sell a large amount of securities, with exposure to market prices and liquidity.

The 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 Group's own cash flow needs within all of its business entities. The customer deposit base, capital and liquidity reserves position, in addition to the conservative gapping policy when funding customer loans, ensure that the Group runs only limited liquidity risks.

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

- Holding sufficient liquid assets that the Group 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
- Funding 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

Due to its business focused on private banking, the Group has high levels of excess liquidity. Financial assets are constantly monitored and a significant portion of safe and highly liquid assets is maintained. Cash and balances with central banks represent 22% of total assets, and an additional 3% are from high-quality liquid securities.

At the end of June 2019, the Group is well positioned with a liquidity coverage ratio of 171%.

Liquidity risk management process

The Group's liquidity risk management process is carried out by the Asset & Liability Committee, with the operative management undertaken by Treasury. The 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 (repaid or sold) as protection against any unforeseen interruption to cash flow
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements
- Managing the concentration and profile of debt maturities
- Monitoring unmatched medium-term assets and the usage of overdraft facilities

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The cash flow projections are computed based on the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The Group attempts to avoid concentrations of its funding facilities. It observes its current liquidity situation and determines the pricing of assets and credit business through the liquidity transfer pricing model. The liquidity risk management process also includes liquidity contingency plans. These contingency plans include 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.

The Group complies with all regulatory requirements, including overnight liquidity limits in the various countries in which it operates. It reports its daily liquidity situation to management on an individual entity basis for its banking subsidiaries.

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.

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

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.

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

- Monitoring of compliance with 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

The 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 credits providers of funds for the benefit of liquidity and charges 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.

Customers deposits are mainly at sight from a contractual point of view. In practice and from an economical perspective, they provide a stable funding source, reducing the exposure to liquidity risk.

4.1 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 is 100% in 2019.

Note that the FINMA require disclosure of the average quarterly LCR (see section 8.1) that reflects the average of ratio throughout the reporting periods. The table below summarises the LCR at 30 June 2019.

CHF millions	30 June 2019 Weighted values	31 December 2018 Weighted values
Total high-quality liquid assets (HQLA)	12,385.7	11,034.5
Total cash outflows	10,529.4	10,650.4
Total cash inflows	3,295.5	3,903.8
Total net cash outflows	7,233.9	6,746.6
Liquidity coverage ratio (in %)	171%	164%

The LCR for the Group has increased to 171% as at 30 June 2019 in comparison to the 164% reported as at 31 December 2018. The main driver to this increase has been an increase in cash held with central banks.

The Bank's SNB account makes up 42% 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 80% 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 93% of potential cash inflows. The remaining cash inflows primarily come from derivatives maturing within 30 days. The LCR in Swiss francs is 424%, a large percentage of HQLA are denominated in Swiss francs (cash deposited at the SNB).

5. Comparison to IFRS basis

Reconciliation of Swiss GAAP to IFRS Regulatory Capital

	30 June 2019 CHF millions	31 December 2018 CHF millions
Total RWA: Swiss GAAP	10,010.8	10,132.3
Difference between FINMA and BIS rules	(533.2)	(528.7)
IFRS 9 impacts	(67.5)	(70.5)
Other financial assets not recognised under Swiss GAAP	112.8	121.1
Total RWA: IFRS	9,522.9	9,654.2
Total Regulatory Capital: Swiss GAAP	2,097.7	2,192.3
Common Equity Tier 1 (CET1) Capital adjustments	(379.3)	(436.6)
Tier 2 (T2) adjustments	24.0	16.8
Total Regulatory Capital: IFRS	1,742.4	1,772.5
The main variances in CET1 above relate to the following:		
– IAS 19 Pension (net of tax)	(120.5)	(144.0)
– IFRS 9 Impact	(225.3)	(268.2)
– Other	(33.5)	(24.4)
Total CET1 adjustments	(379.3)	(436.6)
IFRS Common Equity Tier 1 Ratio	13.8%	14.0%
IFRS Total Eligible Capital Ratio	18.3%	18.4%

Risk weighted assets

The risk weighted assets for FINMA reporting purposes are higher than for IFRS/BIS EU purposes primarily due to the treatment of mutual funds. These are effectively not eligible as collateral for FINMA purposes, but under BIS EU rules are able to be used on a look through basis to the underlying assets of the fund.

Common equity tier 1

As at 30 June 2019, 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 calculated based on short term interest rates to be recognised for defined contribution plans (except if the

pension plan showed an actuarial deficit 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 120.5 million is recognised on the balance sheet.

- A difference of CHF 225.3 million arises due to valuation differences between IFRS and Swiss ARB. These differences relate to credit impairment provisions (expected credit losses under IFRS9) 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.

6. Leverage ratio

The leverage ratio at 30 June 2019 is 4.1% compared to the regulatory requirement of 3.0%

The denominator of the ratio is effectively the Tier 1 capital of CHF 1,712.6 million divided by the Total Exposure of CHF 42,279.0. 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

7. Interest rate risk in the banking book

7.1 Objectives and guidelines for the management of interest rate risk in the banking book

a. Risk management and risk assessment purposes

Interest rate risk in the banking book (IRRBB)³ is an important risk that arises from banking activities, because the Group's business typically involves intermediation activity that produces exposures to maturity mismatch (e.g. long-maturity assets funded by short-maturity liabilities), rate mismatch (e.g. fixed rate loans funded by variable rate deposits) and basis risk (e.g. different basis reference rates and frequencies). In addition, optionality embedded in many of the common banking products (e.g. non-maturing

deposits, term deposits, fixed rate loans) are triggered in accordance with changes in interest rates.

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

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

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

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

b. Risk management and risk assessment strategies

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

The Group manages interest rate risk in line with pre-defined interest rate limits and risk appetite to generate profits. The interest rate risk appetite is approved by the Board of Directors and refers both to economic value of equity and net interest income views.

Interest rate risk in banking book is assessed centrally by the Group Risk division, with strategic management done by

³ FINMA Circular 2016/1 Table IRRBBA

the Asset & Liability Management Committee and risk monitoring done by the Financial Risk Committee.

The Group performs the interest rate risk measurement with a system, which has embedded data quality checks and best-practice evaluation methodologies. Models for interest rate risks are appropriately documented, controlled and reviewed at least on an annual basis or when deemed necessary due to changing conditions. Both system and models are subject to independent validation.

c. Risk assessment frequency and key indicators

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

d. Interest rate shocks and stress scenarios

The Group measures its vulnerability to loss under stressful market conditions. IRRBB assessment accommodates the calculation of the impact on economic value and earnings of multiple scenarios, in line with FINMA and BIS regulations:

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

The Group develops and implements an effective stress testing framework for IRRBB as part of its broader risk management and governance processes. This feeds into the decision-making process at the appropriate management level, including strategic decisions (e.g. business and capital planning decisions). In particular, IRRBB stress testing is considered in the internal capital assessment, with rigorous, forward-looking stress testing that identifies events of severe changes in market conditions which could adversely impact the bank's capital or earnings.

e. Model assumptions deviations

The Bank analyses in its internal risk indicators the impact on the cash placed at central banks, due to market interest rate changes. Following FINMA prescriptions, such impact is not included in EVE and NII exposures shown in table IRRBB1 (refer to paragraph 7.3).

The NII values in table IRRBB1 are computed assuming a constant balance sheet. The Bank's internal risk indicators consider, besides this static view, also dynamic simulations

that allow the Bank to take into consideration how customers' behaviour affect interest rate risk exposures.

The Group's internal risk indicators consider different risk aggregation rules across currencies and correlation assumptions of interest rates (refer to g.10. Other assumptions).

f. Hedging strategies and accounting treatment

IRRBB hedging decisions are taken by the ALCO Committee and executed in the market by Treasury. The Bank implements interest rate risk hedging strategies that are designated either as fair value hedges or as cash flow hedges.

The Group uses fair value hedges when a derivative financial instrument hedges the exposure to changes in the fair value of the hedged item, in order to mitigate interest rate risks of its assets and liabilities.

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

Banking book hedging derivatives are accounted both at fair value through profit and loss or through other comprehensive income, based on IFRS 9 hedge accounting rules. The Bank applies a qualitative test for its fair value hedges, demonstrating the critical terms match. Further to that the Bank demonstrates that the credit risk of the hedging instrument or the hedged item is not dominating the value changes that result from that economic relationship.

g. Modelling and parameter assumptions used when calculating Δ EVE and Δ NII in table IRRBB1 (paragraph 7.3)

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

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

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

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

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

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

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

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

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

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

g.5. Non-maturing exposures

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

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

- i) Correlation to market rates – magnitude of deposits rate shifts, in response to market rates changes

- ii) Volume stability – estimate of the stability of outstanding volume, and
- iii) Volume decay – rate at which balances are being reduced from the account outstanding volume

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

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

Non maturing products are slotted into the appropriate time bucket:

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

g.6. Exposures with pay-back options

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

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

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

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

g.7. Term deposits

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

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

The early redemption penalty prevents the Bank from incurring losses from early reimbursements; and as a result, such risk is demonstrated not to be significant. For this reason the Bank does not apply any model for early redemptions.

g.8. Automatic interest rate options

The Group considers embedded options in banking products, such as loans, deposits, structured products, fiduciary placements and issued bonds.

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

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

g.9. Derivative exposure

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

g.10. Other assumptions

The Group monitors the interest rate risk exposure with different aggregation methods:

- i. Aggregation of risk exposures considering perfect correlation between different currencies (positive and negative changes can offset each other)

- ii. Aggregation of risk exposures where only negative exposures are considered (as per BIS IRRBB approach), where positive exposures cannot compensate negative ones
- iii. Aggregation of negative and positive exposures applying a 50% weighting to positive ones (as per EBA IRRBB approach).

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

7.2 Quantitative information on the exposure's structure and repricing date

The below table IRRBBA1⁴ shows the interest sensitive positions volume and repricing maturities.

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

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

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

⁴ FINMA Circular 2016/1 IRRBBA1

			Volumes in millions of CHF			Average repricing maturities (in years)		Longest repricing maturity (in years) assigned to non- maturing positions	
			Total	Of which CHF	Of which other significant currencies	Total	Of which CHF	Total	Of which CHF
			Determined repricing maturity	Receivables	Receivables from banks	1,645	159	1,437	0.8
		Receivables from clients	8,842	381	6,707	0.4	0.5		
		Money-market mortgages	3,071	72	2,853	0.2	0.7		
		Fixed-rate mortgages	2,489	1,576	910	1.3	1.8		
		Financial investments	6,777	189	5,544	1.0	2.7		
		Receivables from interest derivatives	16,832	1,377	13,817	0.4	0.7		
	Liabilities	Liabilities to banks	(35)	-	(35)	0.2	-		
		Liabilities from client deposits	(11,975)	(3)	(10,307)	0.1	0.0		
		Bonds and mortgage-backed bonds	(4,573)	(787)	(3,715)	0.9	1.4		
		Liabilities from interest derivatives	(16,849)	(5,251)	(9,242)	0.8	0.7		
Undetermined repricing maturity	Receivables	Receivables from banks	2,131	124	1,591	0.0	0.0		
		Receivables from clients	2,784	255	2,273	0.0	0.1		
		Variable mortgage claims	412	411	1	0.4	0.4		
		Other receivables	1,158	-	1,158	6.5	-		
	Liabilities	Sight liabilities in personal and current accounts	(19,752)	(3,260)	(15,186)	0.5	1.0		
		Other liabilities	(737)	-	(662)	2.1	0.0		
		Liabilities from client deposits, call but not transferable (savings)	(260)	(259)	(2)	0.7	0.7		
		Total	(8,040)	(5,013)	(2,858)	0.2	0.6	6.5	5.0

7.3 Quantitative information on economic value of equity and net interest income

The values in Table IRRBB1⁵ below are computed in accordance to FINMA Circular 2016/1 “Disclosure – Banks”. The six interest-rate scenarios and currency shifts are defined in Circular 2019/2 “Interest rate risks – Banks”. The following impacts are assessed for each of the prescribed interest rate shock scenarios:

(i) the change in the economic value of equity (Δ EVE), using a run-off balance sheet and an instantaneous shock; and

(ii) the change in net interest income (Δ NII) over a forward-looking rolling 12-month period, using a constant balance sheet assumption and an instantaneous shock.

A general description of significant modelling, parameter assumptions and aggregation rules used when calculating Δ EVE and Δ NII in the below table is provided in section 7.1 g.

CHF millions	Δ EVE		Δ NII	
	Change in economic value of equity		Change in net interest income	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
Parallel up	55	80	127	178
Parallel down	91	53	(107)	(162)
Steeper (1)	12	(6)		
Flattener (2)	8	29		
Short rate up	25	45		
Short rate down	31	(2)		
Worst scenario	8	(6)	(107)	(162)

Period	30 June 2019	31 December 2018
Tier 1 capital	1,713	1,799

(1) The steeper scenario considers a reduction of short term rates combined with an increase of long term rates

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

The EVE worst scenario derives from a curve flattening and remains well below the regulatory threshold corresponding to 15% of Tier 1 capital. The NII worst scenario derives from the curve parallel down shift. As per FINMA requirement, sight deposits at the Swiss National Bank, sight deposits at clearing houses recognised by FINMA and sight deposits at a foreign central bank are treated as non-interest sensitive for the purpose of this disclosure.⁵

Stress scenarios outcomes are highly affected by optional elements embedded in banking products, especially on loans (floors) and other financial products (including behavioural options). Optional elements play an important role, especially in today’s negative interest rates environment (mainly CHF and EUR).

The FINMA stress scenarios activate optional elements, in particular when shocked rates are below zero. As a consequence, the EVE and NII sensitivities are not symmetric and, applying the aggregation rules described in section 7.1 g.10, the resulting net EVE exposure remains positive across all stress scenarios.

The EVE and NII sensitivities variations in respect to previous period are mainly due to FX derivatives and to yield enhancement strategies.

⁵ FINMA Circular 2016/1 Table IRRBB1

8. Appendices

8.1 Information on liquidity coverage ratio⁶

CHF millions	30 June 2019		31 March 2019		31 December 2018		Weighting-Factor
	Unweighted values ¹	Weighted values ¹	Unweighted values ¹	Weighted values ¹	Unweighted values ¹	Weighted values ¹	
1 Total high-quality liquid assets (HQLA)	12,398.5	12,282.5	11,645.1	11,623.3	10,645.7	10,629.1	99%
B. Cash outflows							
2 Retail deposits	16,201.5	2,033.4	15,971.9	2,032.1	15,036.6	1,886.0	13%
3 <i>of which, stable deposits</i>							0%
4 <i>of which, less stable deposits</i>	16,201.5	2,033.4	15,971.9	2,023.1	15,036.6	1,886.0	13%
5 <i>Unsecured wholesale funding</i>	15,999.8	6,810.7	15,678.1	7,078.7	17,071.7	7,743.8	43%
6 <i>of which, operational deposits (all counterparties) and deposits in networks of cooperative banks</i>	-	-	-	-	-	-	-
7 <i>of which, non-operational deposits (all counterparties)</i>	15,997.1	6,808.0	15,676.1	7,076.6	17,071.1	7,743.2	43%
8 <i>of which, unsecured debt</i>	2.7	2.7	2.0	2.0	0.7	0.7	100%
9 <i>Secured wholesale funding and collateral swaps</i>	512.1	265.2	263.4	243.7	277.1	277.1	52%
10 <i>Other outflows Additional requirements</i>	794.2	531.9	775.0	531.4	831.2	541.0	67%
11 <i>of which, outflows related to derivative exposures and other transactions</i>	699.1	502.7	680.6	493.7	674.3	481.8	72%
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>	-	-	-	-	-	-	-
13 <i>of which, outflows related to committed credit and liquidity facilities</i>	78.4	27.5	94.1	37.6	154.7	58.6	35%
14 <i>Other contractual funding obligations</i>	6.7		5.4		6.3		0%
15 <i>Other contingent funding obligations</i>	14,764.9	876.8	1,428.0	1,030.1	1,066.5	674.5	6%
16 Total cash outflows	48,279.2	10,518.0	34,121.8	10,916.0	34,289.4	11,122.4	22%
C. Cash inflows							
17 <i>Secured lending (e.g. reverse repos)</i>	12.6	12.6	6.6	6.6	2.8	2.8	0%
18 <i>Inflows from fully performing exposures</i>	4,801.4	3,190.5	6,161.8	4,014.6	6,787.1	4,579.2	66%
19 <i>Other cash inflows</i>	198.4	218.6	219.4	236.4	247.0	243.8	110%
20 Total cash inflows	5,012.4	3,421.7	6,387.8	4,257.6	7,036.9	4,825.8	68%
21 Total high-quality liquid assets (HQLA)	12,398.5	12,282.5	11,645.1	11,623.3	10,645.7	10,629.1	99%
22 Total net cash outflows	-	7,096.3	-	6,658.2	-	6,296.6	
23 <i>Liquidity coverage ratio (in %)</i>		173.1%		174.6%		168.8%	

1 Monthly averages

⁶ FINMA Circular 2016/1 Table LIQ1

8.2 Regulatory capital instruments

The below table summarises the Tier 1 and Tier 2 capital instruments and their key features⁷.

		30 June 2019		
		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)	146.7	15.1	385.1
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>

⁷ FINMA Circular 2016/1 Table CCA

30 June 2019

	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	N/A	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	Preferential dividend	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	Write-down trigger(s)	N/A	N/A	Viability Event (FINMA, Public Support)
32	Full/partial	N/A	N/A	Full write down
33	Permanent or temporary	N/A	N/A	Permanent
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	If yes, specify non-compliant features	N/A	N/A	N/A

8.3 Detailed regulatory capital calculation⁸

	<u>30 June 2019</u>	<u>31 December 2018</u>	Variation	
CHF millions	Net amounts (after consideration of the transitional provisions)	Net amounts (after consideration of the transitional provisions)	Net amounts (after consideration of the transitional provisions) in %	
Common Equity Tier 1 (CET1)				
1	Issued fully paid-up capital, fully eligible	146.7	144.9	1.4%
2	Retained earnings	(148.6)	(50.0)	226.6%
3	Capital reserves	1,879.5	1,879.3	0.0%
5	Minority interests	41.5	28.3	46.6%
6	Common Equity Tier 1 (CET1) before adjustments	1,919.1	2,002.5	(4.9%)
Adjustments referring to Common Equity Tier 1				
8	Goodwill (net of related tax liability)	(2.3)	(2.3)	0.0%
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	(108.6)	(68.0)	38.2%
10	Deferred tax assets that rely on future profitability	(56.9)	(58.3)	(2.4%)
26b	Other deductions	(53.8)	(90.4)	(40.6%)
28	Total regulatory adjustments to CET1	(221.6)	(219.0)	(5.5%)
29	Common Equity Tier 1 capital (net CET1)	1,697.5	1,783.5	(4.8%)
Additional Tier 1 Capital (AT1)				
30	Issued and paid in instruments, fully eligible	15.1	15.1	(1.3%)
31	<i>of which: classified as equity under applicable accounting standards</i>	15.1	15.1	(1.3%)
32	<i>of which: classified as liabilities under applicable accounting standards</i>			0.0%
44	Additional Tier 1 capital (net AT1)	15.1	1,798.6	(99.2%)
45	Tier 1 Capital (T1 = CET1 + AT1)	1,712.6	1,798.6	(4.8%)
Eligible Tier 2 capital (T2)				
46	Issued and paid in instruments, fully eligible	385.1	396.9	(3.0%)
58	Tier 2 capital (net T2)	385.1	396.9	(3.0%)
59	Regulatory capital (net T1 & T2)	2,097.7	2,195.5	(4.5%)

⁸ FINMA Circular 2018/1 Table CC1

9. 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
EBA	European Banking Authority
EVE	Economic value of equity
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
ICAAP	Internal capital adequacy assessment program
ICS	Internal control system
IRRBB	Interest rate risk in the banking book
ISDA	International Swaps and Derivatives Association
LCR	Liquidity coverage ratio
NII	Net interest income
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