1. Basel II Implementation in EFG International

The Swiss Federal Banking Commission (SFBC) published in 2006 a new ordinance on Capital Adequacy (CAO) and several circulars based on the *International Convergence of Capital Measurement and Capital Standards* release by the Basel Committee on Banking Supervision ("Basel II"). EFG International (the Group) switched from Basel I to Basel II calculation methodology and regulatory capital reporting on 30. June 2007.

The Group applies the following calculation methodologies:

- For credit risk, the Group has adopted the International Standardized Approach (SA-BIS) which is based on calculation parameters defined by the regulator and risk weighting rates based on ratings from external rating agencies; the Group uses Moody's ratings.

- The effect of instruments of funded credit risk mitigation is calculated using the comprehensive approach to the calculation of the effect of funded credit risk mitigation.

- The Group uses the Standard approach to calculate the regulatory capital requirements for market risk; the regulatory capital requirement for general interest rate risk is calculated using the Maturity Method.

- The Group applies the Standardized Approach for Operational risk.

- There is no difference in the scope of consolidation for the calculation of capital adequacy and the 2007 Consolidated Financial Statements. Note 25 in the annual report contains a listing of the main subsidiaries of the Group as at 31 December 2007.

Please note: Although some sections of this document refer to the Group's Annual Report, the differences in scope, purpose and valuations imply various discrepancies:

- The calculation of Capital Adequacy (CAD) stresses the capital required to cover potential losses from credit risk, market risk and operational risk. Except for risk premiums calculated on derivatives with a negative replacement value the calculation of the capital charge for credit risk is focused on the Group's assets and its actual as well as potential receivables, and their category and rating, rather than the entire balance sheet of the Group or its income statement. The calculation of the capital charge for market risk is focused on interest rate and equity risk in the trading book, the foreign exchange risk on the net position per currency and the open position in commodities. The calculation of the capital charge for operational risk is focused on revenues and their business type, to which defined multiples are applied.
- The calculation of the exposure to risk, which represents a core concept of Capital Adequacy, is based on a particular set of netting and valuation rules; the methodologies applied within the Group's CAD reporting are explained in this document; however, most of the input parameters as well as the results of the calculation processes are not reflected in the Group's Annual Report. Therefore the possibility to reconcile them to the financial data published in the Annual Report is limited.

2. Eligible Regulatory Capital

The Group's regulatory capital is composed of the IFRS shareholder's equity minus certain deductions (Tier 1) plus certain subordinated debt instruments (Tier 2) capital instruments are added. Table 1 contains an overview over the composition of the Group's eligible regulatory capital.

Tier 1 Capital		
Shareholder's Equity according to IFRS; *thereof*		2'439.1
2007 Profit before Dividend	*330.2*	
Capital investments of minority shareholders	*2.2*	
Deductions from Tier 1 capital		
(–) Prudential Deductions; *thereof*		-63.8
Proposed dividend on Ordinary Shares	*-51.3*	
Accrual for estimated expected future preference dividend	*-5.3*	
Positive valuation differences in available-for-sale securities	*-7.2*	
(–) Goodwill and intangible assets (without software)		-875.0
(–) Other specific deductions from Tier 1 capital		-31.4
Eligible Adjusted Tier 1 capital		1'468.9
Tier 2 Capital		
Upper Tier 2 capital: 45 % of Revaluation reserves in Available-for-sale debt se		3.2
Lower Tier 2 capital Subordinated bonds		158.0
Eligible Tier 2 capital		161.2
Total eligible capital		**1'630.1**

Table 1 Eligible Capital based on Shareholder Capital (in Mio CHF)

For a description of the subordinated instruments issued by the Group refer to the 2007 Consolidated Financial Statements. Note 31 in the Group's annual report.

3. Regulatory Capital Requirement

The regulatory capital provides from a supervisory perspective the buffer that enables the bank to absorb losses without affecting the interests of depositors adversely. Losses might occur due to the following risks:

- Credit ans settlement risks – the risk of default of the counterparty;
- Market risk – the risk of deterioration of the bank's assets due to market price development;
- Operational risk – the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events;
- Risk from non-counterparty related assets.

Table 2 provides an overview over the Group's regulatory capital requirements.

Capital Requirements		
Credit risk (pursuant BIS-Standardized Approach)		356'900
Operational Risk (pursuant Standard Approach)		103'354
Market risk (pursuant Standard Approach); *thereof*		30'059
Interest rate instrument in the trading book	*3'349*	
Equity instruments in the trading book	*5'569*	
Currencies and gold	*16'342*	
Commodities	*4'799*	
Non-counterparty-related risks		5'513
Total Capital Requirement (BIS)		**495'826**
Additional capital requirements persuant SFBC-multipliers		47'621
Total Capital Requirement (SFBC)		543'447

Table 2 Regulatory Capital Requirement (in CHF '000)

Credit risk entails 73% of the Group's capital requirement. The capital charge for operational risk, which was introduced with the Basel II framework, accounts for 20% of the Group's BIS regulatory equity requirement. Based on the limited level of trading in the Group, market risk requires less than 6 % of the regulatory capital, and underpinning for non-counterparty related positions 1%.

The SFBC prescribes additional requirements ("multipliers") which include a 10% surplus to the risk weighted assets for credit risk and a multiplier of 2 on equities in the banking book; non-counterparty related positions are subject to a multiplier of 3.

Moreover the SFBC requires all banks to hold an additional 20% capital buffer.

Based on the above tables the capital ratios of the Group are:

BIS Capital Ratios

Eligible core capital – Tier 1 Ratio	23.7 %
Total Eligible capital	26.3 %

SFBC Capital Ratios

Eligible core capital – Tier 1 Ratio	21.3 %
Total Eligible capital	23.6 %

(Capital ratio being defined as: $\frac{\text{Total eligible capital}}{\text{Total capital requirement / 8\%}}$)

The existing regulatory capital of the Group represents 295.3 % of the minimum legal requirement.

4. Risk Management

For an overview of the general principles, responsibilities and the organizational structure of risk management within the Group in respect of credit, market and operational risks, refer to the section on Risk Management in the Group’s annual report and to Note 4 and 23 in the Consolidated Financial Statements for 2007.

5. Detail of Regulatory Capital Requirements for Credit Risk

The capital charge for Credit Risk covers all assets of the bank that could result in a potential loss to the Group from the default of counterparties.

Tables 3, 4 and 5 contain the Basel II exposure amounts net of value adjustments and provisions, post application of credit conversion factors to contingent exposure and including add-ons on derivatives.

Exposure at Default	Private Individuals	Private Investment Companies	Investment Funds and other Corporate Clients
Receivables from third parties and debt instruments outside the trading book	3'797'409	3'889'222	1'312'488
thereof: secured by residential mortgage	868'813	165'675	413'784
Other Assets incl. Positive Replacement Values	132'107	1'660'143	20'302
thereof: Add-on on Derivatives with positive and negative Replacement Values	63'319	1'615'081	14'074
Trading Portfolio	-	55	-
Drawn Exposure	**3'929'516**	**5'549'420**	**1'332'790**
Contingent Claims	86'294	60'981	32'039
Irrevocable Credit Committments	73'900	26'334	35'936
Contingent Exposure	**160'194**	**87'315**	**67'975**
Total Exposure at Default	**4'089'710**	**5'636'735**	**1'400'765**

Table 3 Exposure at Default from Private and Corporate Clients (in CHF '000)

Exposure at Default	Banks	Multilateral Development Banks and Clearing Houses	Central Governements and Central Banks	Public Sector Entities
Money Market Paper	994	-	794'586	-
Receivables from third parties and debt instruments outside the trading book	5'531'664	101'067	708'596	143'211
thereof: secured by residential mortgage	-	-	-	-
Other Assets incl. Positive Replacement Values	312'403	3	2'985	-
thereof: Add-on on Derivatives with positive and negative Replacement Values	98'307	3	-	-
Trading Portfolio	12'439	-	171	-
Drawn Exposure	**5'857'500**	**101'070**	**1'506'338**	**143'211**
Contingent Claims	4'664	-	-	-
Irrevocable Credit Committments	1'798	-	-	-
Contingent Exposure	**6'463**	**-**	**-**	**-**
Total Exposure at Default	**5'863'963**	**101'070**	**1'506'338**	**143'211**

Table 4 Exposure at Default from banks, central and multilateral development banks, clearing houses and central governments (in CHF '000)

Exposure at Default	Equities Equities in the Banking Book and illiquid equity instruments in the trading book	Other Assets Liquid Assets, non-banking related pre-payments, etc.
Liquid Assets	-	73'523
Receivables from third parties and debt instruments outside the trading book		75'582
Other Assets incl. Positive Replacement Values	-	90'112
Financial Investments	2'242	
Illiquid Equity Instruments in the Trading Portfolio	3'568	-
Drawn Exposure	**5'810**	**239'217**
Irrevocable Credit Committments	-	1'564
Contingent Exposure	**-**	**1'564**
Total Exposure at Default	**5'810**	**240'781**

Table 5 Exposure at Default from Equity Instruments and Other Assets (in CHF '000)

a) Effect of Credit Risk Mitigation

In the Group the impact of funded credit risk mitigation on the capital requirement is calculated according to the Comprehensive approach based on regulatory standard haircuts. Table 6 contains a summary of the exposure amounts covered by various types of collateral according to the Basel II requirements of the SFBC.

Exposure to Credit Risk Covered by Eligible Collateral	Covered by recognised financial collateral	Covered by guarantees and credit derivatives	Covered by mortgages on residential property
Non-Derivative Exposure per Counterparty Type			
Banks	114'330	1'190	-
Private Investment Companies	2'921'524	76'530	150'712
Investment Funds and other Corporate Clients	635'936	17'765	301'773
Private Individuals	1'672'081	532'620	850'151
Other Clients	1'951	-	-
Derivative Exposure			
All Counterparty Types	1'766'270	2'028	2'936
Total period under review	7'112'091	630'132	1'305'571

Table 6 Exposure to Credit Risk Covered by Collateral Eligible under Basel II Comprehensive Approach (in CHF '000)

Table 7 contains an overview over the exposures to credit risk that – according to Basel II requirements – are considered uncovered. A separate column shows the amount of collateral that clients pledged to the bank but not eligible under Basel II.

	Exposure not covered by collateral eligible under Basel II			Market value of collateral available but not eligible under Basel II
Non-Derivative Exposure to banks by long term credit rating				
Banks (by long term rating grade)	AA3 and above	A1 to A3	below A3 or unrated	4'646'660
	4'560'698	672'131	306'924	
Non-Derivative Exposure to non-Banking Counterparties, unrated				
Central Governements and Central Banks	1'506'338			207'570
Public Sector Entities	143'211			22'398
Multilateral Development Banks and Clearing Houses	101'067			10'401
Private Investment Companies	830'141			3'869'188
Investment Funds and other Corporate Clients	424'989			9'168'449
Private Individuals	908'894			573'908
Other Clients	239'186			39
Equities in the Banking Book	5'810			0
Derivative Exposure				
All Counterparty Types	241'200			0
Total period under review	9'940'588			18'498'612

Table 7 Uncovered Exposure to Credit Risk and Amount of Collateral not Eligible under Basel II (in CHF '000)

Currently the Group holds two credit default swaps with a total notional of CHF 787'927'700 to mitigate its credit risk from financial investments in debt instruments.

The Group does not provide credit protection through credit derivatives.

b) Counterparty Rating and Risk Weighting

The mapping of ratings assigned by eligible rating agencies and risk weights applicable to exposure after collateral allocation is prescribed in the SFBC's Capital Ordinance. The Group sources ratings from Moody's for Banks only. Table 8 summarizes the distribution of exposures (after consideration of the effects of collateral) among risk weights.

Exposure to Credit Risk after Credit Risk Mitigation	0%	20%	35%	50%	75%	100%	150%	Total
Non-Derivative Exposure per Counterparty Type								
Central Governements and Central Banks	1'506'153	142	-	-	-	-	44	**1'506'338**
Banks	-	4'771'162	-	667'017	-	102'424	340	**5'540'943**
Public Sector Entities	-	47'843	-	95'369	-	-	-	**143'211**
Multilateral Development Banks and Clearing Houses	88'279	12'787	-	-	-	-	-	**101'067**
Private Investment Companies	-	49'762	142'680	42'181	-	784'878	37'880	**1'057'382**
Investment Funds and other Corporate Clients	-	66'416	283'289	26'039	-	363'873	4'910	**744'527**
Private Individuals	-	121'198	790'205	612'549	215'669	541'566	10'478	**2'291'664**
Equities in the banking book	-	-	-	-	-	1'272	4'538	**5'810**
Other Clients	73'523	-	-	-	-	145'466	20'198	**239'186**
Derivative Exposure								
All Counterparty Types	-	192'573	629	16'696	9'596	25'880	789	**246'164**
Total period under review	**1'667'955**	**5'261'882**	**1'216'802**	**1'459'851**	**225'265**	**1'965'360**	**79'176**	**11'876'292**

Table 8 Exposure to Credit Risk by Regulatory Risk Weight (in CHF '000)

For a detailed overview of impaired and past due loans refer to Note 4.1.5 of the Group's Financial Statements 2007, all of the Group's specific provisions refer to exposures in Europe outside Switzerland.

c) Geographical Distribution of Credit Risk

Table 9 provides an overview of risk weighted assets (i.e. exposure to counterparties after consideration of collateral and after risk weighting) over the geographical distribution.

Risk Weighted Assets	Switzerland	Europe excl. CH	Americas	Asia	Others	Total
Central Governements and Central Banks	94	-	-	-	-	**94**
Banks	72'981	1'140'731	180'706	41'070	974	**1'436'462**
Public Sector Entities	6'346	50'897	-	10	-	**57'253**
Multilateral Development Banks and Clearing Houses	-	2'557	-	-	-	**2'557**
Private Investment Companies	44'412	322'344	379'172	142'941	42'599	**931'468**
Investment Funds and other Corporate Clients	6'832	313'905	7'904	172'086	5'366	**506'093**
Private Individuals	106'710	653'209	181'041	382'662	20'822	**1'344'444**
Equities in the banking book	4'633	1'450	-	1'996	-	**8'079**
Other Clients	48'729	97'581	909	28'187	-	**175'406**
Total Risk Weighted Assets	**290'736**	**2'582'675**	**749'732**	**768'952**	**69'760**	**4'461'855**

Table 9 Geographical Distribution of Risk Weighted Assets for Credit Risk (in CHF '000)

6. Additional Information

a) References

This document is based on SFBC Circular on Capital Adequacy Disclosure -C 06/4, the methodologies referenced are based on legal texts published by the Swiss Federal Banking Commission (SFBC) on Basel II:

- Capital Adequacy Ordinance (CAO)
- SFBC Circular on Credit Risk -C 06/1
- SFBC Circular on Market Risk -C 06/2
- SFBC Circular on Operational Risk -C 06/3
- SFBC Circular on Large Exposures -C 06/5

b) Disclaimer

Descriptions of calculation methodologies in this document are meant to explain the Basel II capital calculation implemented in EFGI according to SFBC requirement but do neither represent the full set of rules published by the SFBC nor provide a legally binding opinion of the Group.