1. Basel II Implementation in EFG International

The Swiss Financial Market Supervisory Authority (FINMA) published in 2006 an 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 AG (the Group) has applied Basel II calculation methodologies and regulatory capital reporting since 30 June 2007.

The Group applies the following calculation methodologies:

- For credit risk, the Group has adopted the International Standardised 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 for securities and Fitch ratings for banks.

- 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 Standardised 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 Standardised Approach for Operational risk.

- There is no difference in the scope of consolidation for the calculation of capital adequacy and the 2008 Consolidated Financial Statements. Note 29 in the annual report contains a listing of the main subsidiaries of the Group as at 31 December 2008.

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, settlement 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, 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 positions 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 the result of IFRS shareholder's equity less prudential deductions required by the FINMA. Subordinated debt instruments that were eligible as Tier 2 capital have been repaid in December in 2008. Therefore at 31 December 2008 the regulatory capital of EFGI consists only of Tier 1 capital.

Table 1 contains an overview over the composition of the Group's eligible regulatory capital.

		31 December 2008	31 December 2007
Tier 1 Capital			
Shareholder's Equity according to IFRS; *thereof*		2,257.4	2,439.1
2008 Profit before Dividend	*221.9*		
Capital investments of minority shareholders	*95.1*		
Deductions from Tier 1 capital			
(–) Prudential Deductions; *thereof*		-40.0	-63.8
Proposed dividend on Ordinary Shares	*-35.3*		
Accrual for estimated expected future preference dividend	*-4.7*		
(–) Goodwill and intangible assets (without software)		-1,462.9	-875.0
(–) Other specific deductions from Tier 1 capital		-5.5	-31.4
Eligible Adjusted Tier 1 capital		749.0	1,468.9
Tier 2 Capital			
Upper Tier 2 capital: 45 % of Revaluation reserves		0.0	3.2
Lower Tier 2 capital Subordinated bonds		0.0	158.0
Eligible Tier 2 capital		0.0	161.2
Total eligible capital		**749.0**	**1,630.1**

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

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 and 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		31 December 2008	31 December 2007
Credit risk incl. Settlement Risk (BIS-Standardised Approach)		290,231	356,900
Operational Risk (Standardised Approach)		125,361	103,354
Market risk (Standardised Approach); *thereof*		55,883	30,059
Interest rate instrument in the trading book	*30,830*		
Equity instruments in the trading book	*1,025*		
Currencies and gold	*20,010*		
Commodities	*785*		
Options	*3,233*		
Non-counterparty-related risks		6,072	5,513
Total Capital Requirement (BIS)		**477,548**	**495,826**
Additional capital requirements persuant FINMA-multipliers		47,602	47,621
Total Capital Requirement (FINMA)		525,149	543,447

Table 2 Regulatory Capital Requirement (in CHF '000)

Credit risk entails 61% (31 December 2007: 73 %) of the Group's capital requirement. The capital charge for operational risk, which was introduced with the Basel II framework, accounts for 26 % (20 %) of the Group's BIS regulatory equity requirement. Based on the limited level of trading in the Group, market risk requires only 12 % (6 %) of the regulatory capital, and underpinning for non-counterparty related positions 1 % (1 %).

The FINMA prescribes additional requirements ("multipliers") which include a 10% surplus to the risk weighted assets for credit risk and a multiplier of 2.5 on equities in the banking book, while non-counterparty related positions are subject to a multiplier of 3.

Moreover the FINMA requires all banks to hold an additional 20% capital buffer, which results in a minimum capital requirement for FINMA in Switzerland of 9.6%.

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

BIS Capital Ratios based on Total Capital Requirements BIS

Eligible core capital – Tier 1 Ratio	12.5 % (2007: 23.7 %)
Total Eligible capital	12.5 % (2007: 26.3 %)

These ratios assume the approval by the Annual General Meeting of the dividend proposal. Excluding the impact of the dividend proposed to be paid in May 2009, the BIS Total Eligible capital ratio would be 13.1%.

FINMA Capital Ratios based on Total Capital Requirements FINMA

Eligible core capital – Tier 1 Ratio	11.4 % (2007: 21.3 %)
Total Eligible capital	11.4 % (2007: 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 142.6 % (2007: 295.3 %) of the Total FINMA Capital 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 in the Consolidated Financial Statements for 2008.

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 for derivatives. All figures are based on BIS calculation rules before FINMA multipliers.

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	3,687,562	2,522,742	2,095,947
thereof: secured by residential mortgage	880,663	141,186	338,898
Other Assets incl. Positive Replacement Values	101,957	62,905	76,930
thereof: Add-on on Derivatives with positive and negative Replacement Values	23,037	13,058	9,435
Drawn Exposure	**3,789,519**	**2,585,647**	**2,172,877**
Contingent Claims	62,604	60,780	28,551
Irrevocable Credit Committments	45,492	27,007	20,562
Contingent Exposure	**108,096**	**87,787**	**49,113**
Total Exposure at Default 31 December 2008	**3,897,615**	**2,673,434**	**2,221,990**
Total Exposure at Default 31 December 2007	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	37,157	-	36,535	-
Receivables from third parties and debt instruments outside the trading book	6,706,727	164,630	139,452	14,344
thereof: secured by residential mortgage	-	-	-	-
Other Assets incl. Positive Replacement Values	254,855	4,944	1,168	-
thereof: Add-on on Derivatives with positive and negative Replacement Values	80,734	1,182	-	-
Trading Portfolio	1,588	-	19,519	-
Drawn Exposure	**7,000,327**	**169,573**	**196,673**	**14,344**
Contingent Claims	3,628	-	-	-
Irrevocable Credit Committments	73,869	1,284	-	-
Contingent Exposure	**77,498**	**1,284**	**-**	**-**
Total Exposure at Default 31 December 2008	**7,077,824**	**170,857**	**196,673**	**14,344**
Total Exposure at Default 31 December 2007	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	Other Assets
	Equities in the Banking Book and illiquid equity instruments in the trading book	Liquid Assets, non-banking related pre-payments, etc.
Liquid Assets	-	115,505
Receivables from third parties and debt instruments outside the trading book		54,275
Other Assets incl. Positive Replacement Values	-	87,701
Financial Investments	39,873	
Illiquid Equity Instruments in the Trading Portfolio	8,366	-
Drawn Exposure	**48,240**	**257,480**
Total Exposure at Default 31 December 2008	**48,240**	**257,480**
Total Exposure at Default 31 December 2007	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 eligible collateral according to the Basel II requirements of FINMA.

Exposure to Credit Risk Covered by Eligible Collateral Basel II Comprehensive Approach	Covered by recognised financial collateral	Covered by guarantees and credit derivatives	Covered by mortgages on residential property
Non-Derivative Exposure per Counterparty Type			
Banks	95,573	182,157	-
Private Investment Companies	1,950,149	46,738	145,030
Investment Funds and other Corporate Clients	803,452	17,130	249,923
Private Individuals	2,354,359	42,582	869,928
Others	1,841	-	-
Derivative Exposure			
All Counterparty Types	141,505	6,290	3,523
Total 31 December 2008	**5,346,879**	**294,897**	**1,268,402**
Total 31 December 2007	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 are not covered with collaterals eligible under Basel II.

	Exposure not covered by collateral 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
	5,916,856	305,898	507,825
Non-Derivative Exposure to non-Banking Counterparties, unrated			
Central Governements and Central Banks	196,673		
Public Sector Entities	14,344		
Multilateral Development Banks and Clearing Houses	165,914		
Private Investment Companies	661,232		
Investment Funds and other Corporate Clients	1,383,314		
Private Individuals	1,442,495		
Others	255,452		
Derivative Exposure			
All Counterparty Types	313,336		
Total 31 December 2008	**11,163,338**		
Total 31 December 2007	9,940,588		

Table 7 Exposure to Credit Risk without Collateral eligible under Basel II (in CHF '000)

Currently the Group neither holds nor provides 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 FINMA'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 at Default after Allocation of Eligible Collateral Basel II Comprehensive Approach	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Total 31 Dec 2008**
Non-Derivative Exposure per Counterparty Type								
Central Governements and Central Banks	375,496	-	-	258	-	41	-	**375,795**
Banks	-	6,500,014	-	152,014	-	-	307	**6,652,335**
Public Sector Entities	-	1,296	-	13,048	-	-	-	**14,344**
Multilateral Development Banks and Clearing Houses	78,551	87,363	-	-	-	-	-	**165,914**
Private Investment Companies	-	96,228	132,398	17,073	-	354,360	14,885	**1,057,382**
Investment Funds and other Corporate Clients	41,706	592,426	227,278	153,724	-	351,784	4,388	**1,371,305**
Private Individuals	-	-	786,537	83,391	125,622	403,872	492	**1,399,913**
Equities in the banking book	-	-	-	-	-	29,833	18,407	**48,240**
Other Clients	115,505	-	-	-	-	139,947	-	**255,452**
Derivative Exposure								
All Counterparty Types	6,046	218,293	3,500	32,544	5,311	46,546	1,096	**313,336**
Total 31 December 2008	**617,304**	**7,495,619**	**1,149,713**	**452,052**	**130,933**	**1,326,381**	**39,575**	**11,211,577**
Total 31 December 2007	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 Default after Credit Risk Mitigation eligible under Basl II by 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 2008, 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.

Basel II Risk Weighted Assets	Switzerland	Europe excl. CH	Americas	Asia	Others	Total 31 Dec 2008
Central Governements and Central Banks	12	-	129	29	-	**170**
Banks	317,242	918,240	153,159	44,251	2,390	**1,435,282**
Public Sector Entities	6,524	257	-	3	-	**6,783**
Multilateral Development Banks and Clearing Houses	14,970	3,491	-	-	-	**18,461**
Private Investment Companies	28,908	126,312	60,397	218,100	25,929	**459,646**
Investment Funds and other Corporate Clients	10,237	389,742	11,000	230,515	4,895	**646,389**
Private Individuals	60,290	354,262	81,657	336,909	14,067	**847,185**
Equities in the banking book	29,528	19,183	7,586	1,146	-	**57,443**
Other Clients	36,357	64,845	12,891	26,041	-	**140,134**
Total 31 December 2008	**504,068**	**1,876,332**	**326,820**	**856,992**	**47,281**	**3,611,493**
Total 31 December 2007	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 FINMA Circular on Capital Adequacy Disclosure -C 08/22; the methodologies referenced are based on legal texts published by the Swiss Financial Market Supervisory Authority (FINMA) on Basel II:

- Capital Adequacy Ordinance (CAO)
- FINMA Circular on Credit Risk - 08/19
- FINMA Circular on Market Risk - 08/20
- FINMA Circular on Operational Risk - 08/21
- FINMA Circular on Large Exposures - 08/23
- FINMA Circular on Recognition of Rating Agencies - 08/26
- FINMA Circular on Calculation of Core Capital based on the Application of International Accounting Standards – 08/34

b) Disclaimer

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