

# Annual Report 2019

EFG Bank



Entrepreneurial thinking.  
Private banking.

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# Report of Chair and CEO

John A. Williamson, Giorgio Pradelli

## Dear clients and colleagues,

The financial year 2019 was a period of global uncertainty. The world was faced with growing trade tensions – not only between the US and China but also Europe – and central banks partially reversed the previous monetary policy, once again moving towards more expansionary measures, to counter fears of a global recession and continued deflationary forces. At the same time, markets were impacted by the ongoing uncertainty surrounding Brexit as well as the growing unrest in Hong Kong and Latin America. These various factors weighed heavily on investor sentiment.

Against this challenging backdrop, we successfully refocused our business on profitable growth and continued to concentrate on further developing our core business. EFG remains committed to providing clients with private banking services of the highest quality, based on our client-centric value proposition.

### **Our 2022 strategic plan: Achieving profitable growth**

We have a clear strategy and value proposition: We want to be a leading Swiss private bank that is renowned for its distinctive client approach. Our CRO model sets us apart in the market and enables us to offer truly client-centric service.

On 13 March 2019, we announced a new strategic plan for the period from 2019 to 2022. This plan is designed to increase momentum across our organisation to allow us to realise our true potential following the BSI integration. We are building on our significantly strengthened market position as one of the ten largest Swiss private banks. While our previous strategy for end-2019 centred around the successful execution of the integration process and the realisation of synergies, our new strategic plan for 2022 targets profitable and sustainable growth.

In particular, we want to further develop our presence and share of wallet in our Swiss domestic market, capturing the potential of this traditional private banking market, while also benefitting from our presence in key growth markets such as Asia Pacific, Latin America, Continental Europe and the Middle East, which offer significant opportunities for EFG. In addition to implementing regional initiatives, we want to drive growth on a global scale by hiring experienced CRO teams and increasing the efficiency of our current teams – leveraging our enhanced Investment Solutions products, services and expertise.



While our primary focus is on achieving organic growth in our core business, we will also continue to consider selected acquisitions if they represent a good strategic fit for EFG.

Based on these growth ambitions, we have defined the following financial targets for 2022:

- Average net new asset growth of 4-6%
- Revenue margin of at least 85 basis points
- Cost/income ratio of 72-75%
- Return on tangible equity in excess of 15%

### **Substantial progress on strategic initiatives**

With the announcement of our new strategic plan for 2022, we have successfully changed tack and shifted our focus from integration and optimisation to driving profitable and sustainable growth and delivering a first-class client experience – supported by our distinctive client service model and compelling value proposition.

In 2019, we made important progress in executing our strategic initiatives.

# Editorial of Chair and CEO

As mentioned above, we also increased our focus on hiring CRO teams as important drivers for growth, while enhancing the productivity of our existing teams. We made considerable progress in this area in 2019. Our success in hiring new talents reflects our improved position in the market and confirms that our CRO model is attractive. In addition, we further enhanced the productivity of our existing CROs, increasing the average portfolio size per existing CRO and applying stricter performance measures.

In parallel to these efforts, we leveraged more effectively our Investment Solutions capabilities – successfully increasing our mandate penetration.

## **2019: Successfully refocused on growth**

Despite the challenging conditions facing the entire industry in 2019, we successfully refocused our business on profitable growth. These efforts translated into a significant improvement in net new asset inflows and substantially higher Assets under Management.

In particular, we saw a significant turn-around and accelerating positive trend in net new asset development in 2019 compared to the previous years, which were affected by the integration process. In the second half of the year, our Switzerland & Italy Region significantly rebounded and Latin America returned to positive net asset inflows. On a global level, net new asset developments reflected a balanced contribution from new CROs as well as existing CROs.

## **Strong capital position**

At the end of 2019, EFG Bank's Swiss GAAP Common Equity Tier 1 (CET1) Ratio was 12.6%, compared to 13.3% at end-2018. The Total Capital Ratio was 18.9% at the end of 2019, compared to 19.9% at end-2018.

## **Outlook & 2022 strategic plan**

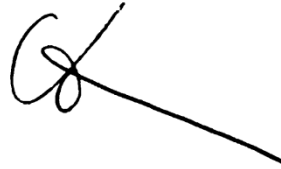
In 2019, we announced our new 2022 strategic plan and successfully refocused our business on achieving profitable growth. In 2020 and going forward, we will concentrate on maintaining and accelerating this momentum by systematically executing our growth plan and strategic initiatives.

In view of the challenging market environment, we will maintain our strict cost discipline and strive to enhance our operational efficiency. As part of these efforts and in order to support our strategic growth initiatives, we plan to execute further cost management actions, streamline our processes and reduce general and administrative expenses.

In addition, we aim to rationalise our international booking centre footprint, by exiting or reducing our presence in locations that display limited or no growth, with low returns on Assets under Management and high cost/income ratios. In addition, we will further optimise the operational set-up, eliminating duplications and streamlining the processes in order to make them more efficient. These efforts are designed to support our strategic growth initiatives and to help us achieve our Group-wide end-2022 cost/income ratio target of 72-75%. Several of these actions have already been initiated and are expected to benefit our overall operational efficiency throughout the year.

In 2019, we have successfully advanced our strategic initiatives and delivered our distinctive value proposition to clients. Going forward, we will continue to build on these strong foundations and further reinforce our market position. We have a very attractive platform – both for clients and employees – and we are convinced that our CRO model continues to provide significant advantages for clients and investors alike, setting us apart in the market and confirming our position as a trusted, independent provider of first-class financial advice.

We would like to thank our clients, shareholders and employees for their continued trust and loyalty.



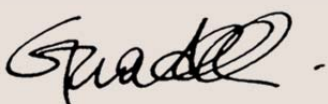
John A. Williamson,  
Chair of the Board



Giorgio Pradelli,  
Chief Executive Officer

### **Thank you, John Williamson**

As communicated in November 2019, John Williamson has decided not to stand for re-election as Chair of the Board of Directors at the forthcoming Annual General Meeting on 29 April 2020. In his 18 years at EFG, John Williamson has significantly shaped and influenced our bank. Throughout his exceptional career at EFG, he has not only headed EFG's operations in the United Kingdom from 2002 to 2011 and held the role of CEO of EFG International from 2011 to 2015, but also served as both the Vice-Chair and from 2015 as Chair of the Board. John Williamson has worked relentlessly to support our bank's growth whilst at the same time preserving its founding entrepreneurial culture and singular client focus. I look forward to working with him in his new role as a strategic advisor to EFG. On behalf of the Board of Directors, the Global Business Committee and all our employees, I want to thank John for his outstanding commitment and contribution over many years.



Giorgio Pradelli,  
Chief Executive Officer

# Management Report



In 2019, EFG successfully refocused its business on profitable growth, increasing total client funds generating revenues to CHF 73.8 billion, from CHF 70.0 billion a year earlier. Against the backdrop of a challenging operating environment, with further decreases in interest rates and continued margin pressure – particularly in the private banking industry – EFG has executed on its 2022 strategic plan.

## **Detailed financials**

### **Operating income**

For the full year 2019, EFG Bank generated operating income of CHF 543.5 million, compared to CHF 554.8 million in 2018. In particular, net results from interest operations decreased from CHF 163.9 million in 2018 to CHF 133.3 million. While this is in line with industry trends reflecting the continued downward trend in interest rates, this does also include an increased loss year on year of CHF 13.9 million booked in Singapore for an ongoing loan related litigation.

Results from commissions business slightly decreased from CHF 217.2 million in 2018 to CHF 215.7 million in 2019.

Results for trading activities down from CHF 148.9 million to CHF 129.8 million primarily reflected a loss on derivatives amounting to CHF 28.8 million. These derivatives are economic hedges for the interest rate risk in the life insurance portfolio that are not offset at a Swiss GAAP level, as the life insurance policies are not marked to market (however at an EFG International Group IFRS level are offset).

Commission expenses is also impacted by setup and initial costs of CHF 6.8 million, following the launch of the new business in Dubai.

### **Operating expenses**

In 2019, Operating expenses were CHF 524.9 million, compared to CHF 550.7 million in 2018. While the 2019 amount includes a loss of CHF 13.5 million for employee related restructuring costs, this decrease year on year reflects the synergies resulting from the acquisition of BSI.

### **Extraordinary income**

Extraordinary income of CHF 6.7 million mainly relates to the realised gain from the sales of shares in Six Group (CHF 2.8 million), the reversal of miscellaneous unclaimed provisions (CHF 2.0 million) and the sale of a building in Ticino (CHF 1.7 million).

### **Factors affecting results of operations**

EFG Bank's financial results for 2019 were impacted by a number of factors, ranging from the loss on derivatives of CHF 28.8 million, a loss of CHF 13.9 million booked in Singapore for an ongoing litigation, a loss of CHF 13.5 million for employee related restructuring costs, an investment for the setup of a business in Dubai operations and extraordinary income of CHF 6.7 million.

On an underlying basis, the net profit of EFG Bank amounts to CHF 31.5 million.

### **Balance sheet**

The balance sheet increased from CHF 27.4 billion at end-2018 to CHF 28.1 billion. EFG's balance sheet remains highly liquid and is liability driven.

# Management Report

## Capital adequacy disclosures (pillar 3)

Please see the table below for an overview of the FINMA capital ratios and other key related figures on a fully applied-basis as per year-end:

	Required	2019	2018
Common Equity Tier 1 (CET1)		879	905
Tier 1 Capital		1,317	1,351
Total Capital Adequacy		1,317	1,351
CET1 ratio	7.8%	12.6%	13.3%
Tier 1 capital ratio	9.6%	18.9%	19.9%
Total Capital Adequacy ratio	12.0%	18.9%	19.9%
Countercyclical buffer on capital ratios	<i>Immaterial impact on Capital Ratios</i>	0.2	0.1
Risk-weighted assets		6,950	6,802
Minimum capital requirement		1,121	1,010
Leverage ratio*	3.0%	4.3%	4.6%
Leverage ratio exposure		30,902	29,177

\* The ratio of Tier 1 capital to leverage ratio exposure.

Below is a summary of the risk-weighted assets for 2019 and 2018 (in CHF millions):

	2019	2018
Credit Risk	4,664	4,621
Operational Risk	1,209	1,184
Market Risk, Settlement Risk, Non-Counterparty Related	1,077	997
Total FINMA Risk-weighted assets	6,950	6,802

Compared to the previous year, total risk-weighted assets increased in 2019, mainly driven by a higher level of Market Risk. The driver within Market Risk is currency impact of underlying derivative activity.

## Liquidity

The Banks' Liquidity Coverage ratios in 2019 and 2018 were as follows (in CHF millions):

	Average HQLA*	Average Net Outflows	Average Ratio	Required (fully applied)
1Q19	6,778	4,384	155%	100%
2Q19	7,041	5,022	140%	100%
3Q19	6,374	4,587	139%	100%
4Q19	5,812	4,023	144%	100%
1Q18	7,124	5,663	126%	100%
2Q18	6,862	5,287	130%	100%
3Q18	6,135	4,459	138%	100%
4Q18	5,598	3,664	153%	100%

\* High-quality liquid assets

## Ratings

EFG Bank is rated by the Fitch and Moody's rating agencies. The current ratings are as follows:

- Fitch: Long-term issuer default rating of A and short-term issuer default rating of F1 (outlook stable)
- Moody's: Long-term bank deposit rating of A1 and the short-term bank deposit rating of P1 (outlook stable).

## Change in capital structure

There were no changes to the Bank's capital during 2019. The capital of CHF 162,410,000 comprises 162,410 fully

paid-up registered shares, all with a nominal value of CHF 1,000 each.

## Number of personnel

The total number of permanent FTEs was 1,668 at the end of 2019 and 1,737 at the end of 2018.

The average number of permanent FTE's for the year was 1,702 compared to 1,790 in 2018.

# Auditor's Report

# Report of the statutory auditor

## to the General Meeting of EFG Bank AG, Zurich

### Report on the financial statements

As statutory auditor, we have audited the financial statements of EFG Bank AG, which comprise the income statement, balance sheet, statement of changes in equity and notes (pages 13 to 55), for the year ended 31 December 2019.

#### Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements for the year ended 31 December 2019 comply with Swiss law and the articles of incorporation.

### Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (art. 728 CO and art. 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with art. 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA



Thomas Romer  
Audit expert  
Auditor in charge



Omar Grossi  
Audit expert

Geneva, 25 February 2020

# Financial Statements

# Financial Statements for the year ended 31 December 2019

## Income Statement

	Notes	31 December 2019 CHF millions	31 December 2018 CHF millions
<b>Result from interest operations</b>			
Interest and discount income	22	305.2	293.8
Interest and dividend income on trading portfolios		19.4	12.6
Interest and dividend income from financial investments		67.6	70.2
Interest expense		(245.0)	(204.6)
<b>Gross result from interest operations</b>		<b>147.2</b>	172.0
Changes in value adjustments for default risks and losses from interest operations		(13.9)	(8.1)
<b>Subtotal net results from interest operations</b>		<b>133.3</b>	163.9
<b>Result from commission business and services</b>			
Commission income from securities trading and investment activities		283.7	287.5
Commission income from lending activities		3.2	4.1
Commission income from other services		45.3	56.1
Commission expense		(116.5)	(130.5)
<b>Subtotal result from commission business and services</b>		<b>215.7</b>	217.2
<b>Result from trading activities and the fair value option</b>	21	<b>129.8</b>	148.9
<b>Other result from ordinary activities</b>			
Result from the disposal of financial investments		16.5	4.0
Income from participations		7.1	3.0
Income from real estate		2.0	2.0
Other ordinary income		40.0	33.3
Other ordinary expenses		(0.9)	(17.5)
<b>Subtotal other result from ordinary activities</b>		<b>64.7</b>	24.8
<b>Operating income</b>		<b>543.5</b>	554.8
<b>Operating expenses</b>			
Personnel expenses	23	(374.9)	(354.3)
General and administrative expenses	24	(150.0)	(196.4)
<b>Subtotal operating expenses</b>		<b>(524.9)</b>	(550.7)
<b>Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets</b>		<b>(21.7)</b>	(24.8)



## Income statement (continued)

	Notes	31 December 2019 CHF millions	31 December 2018 CHF millions
<b>Changes to provisions and other value adjustments, and losses</b>		<b>(25.3)</b>	(1.7)
<b>Operating result</b>		<b>(28.4)</b>	(22.4)
Extraordinary income	25	6.7	30.0
Extraordinary expenses	25	(0.2)	(0.3)
Changes in reserves for general banking risks			
<b>(Loss)/profit before taxes</b>		<b>(21.9)</b>	7.3
Taxes	26	(2.8)	2.6
<b>(Loss)/profit (result of the period)</b>		<b>(24.7)</b>	9.9
<b>Proposed appropriation of retained earnings</b>			
Retained earnings brought forward		5.9	(4.0)
(Loss)/profit of the period		(24.7)	9.9
<b>Retained earnings available for appropriation</b>		<b>(18.8)</b>	5.9
Transfers from the statutory capital reserves			86.0
Dividend payment			(86.0)
Retained earnings to be carried forward		(18.8)	5.9
<b>Total</b>		<b>(18.8)</b>	5.9

# Financial Statements for the year ended 31 December 2019

## Balance Sheet

	Notes	31 December 2019 CHF millions	31 December 2018 CHF millions
<b>Assets</b>			
Liquid assets		4,759.1	4,168.1
Due from banks	7	3,112.1	2,928.8
Due from securities financing transactions	1	244.2	253.5
Due from customers	2	9,310.7	9,313.8
Mortgage loans	2	3,046.2	3,287.1
Trading portfolio assets	3	859.5	807.0
Positive replacement values of derivative financial instruments	4	319.3	378.7
Other financial instruments at fair value	3	153.0	156.3
Financial investments	5	5,886.1	5,745.4
Accrued income and prepaid expenses		135.3	145.3
Participations		6.6	6.7
Tangible fixed assets		196.3	194.3
Intangible assets			0.3
Other assets	6	45.3	27.2
<b>Total assets</b>		<b>28,073.7</b>	<b>27,412.5</b>
Total subordinated claims		-	-
<i>of which subject to mandatory conversion and/or debt waiver</i>		-	-
<b>Liabilities</b>			
Due to banks		2,921.5	2,597.5
Liabilities from securities financing transactions	1	19.7	20.1
Amounts due in respect of customer deposits		23,056.7	22,568.7
Trading portfolio liabilities	3	103.2	188.7
Negative replacement values of derivative financial instruments	4	338.0	361.0
Liabilities from other financial instruments at fair value	3	447.6	355.2
Accrued expenses and deferred income		222.5	272.1
Other liabilities	6	23.6	12.7
Provisions	12	43.2	28.1
<b>Total liabilities</b>		<b>27,176.0</b>	<b>26,404.1</b>
<b>Equity</b>			
Reserves for general banking risks	12	0.4	0.4
Banks' capital	13	162.4	162.4
Statutory capital reserve	17	621.3	707.3
<i>of which tax-exempt capital contribution reserve</i>		621.3	707.3
Statutory retained earnings reserve		46.5	46.5
Voluntary retained earnings reserves		85.9	85.9
Profit/(loss) carried forward		5.9	(4.0)
(Loss)/profit (result of the period)		(24.7)	9.9
<b>Total equity</b>		<b>897.7</b>	<b>1,008.4</b>
<b>Total liabilities and equity</b>		<b>28,073.7</b>	<b>27,412.5</b>
Total subordinated liabilities	11	437.6	446.0
<i>of which subject to mandatory conversion and/or debt waiver</i>		437.6	446.0
<b>Off-balance sheet positions</b>			
Contingent liabilities	2	987.9	769.4
Irrevocable commitments	2	66.3	25.6

## Statement of Changes in Equity

	Banks' capital CHF millions	Capital reserve CHF millions	Retained earnings CHF millions	Reserve for general banking risks CHF millions	Voluntary retained earnings reserve and profit/loss carried forward CHF millions	Result of the period CHF millions	Total CHF millions
Total equity as at 01 January 2019	162.4	707.3	46.5	0.4	81.9	9.9	1,008.4
Appropriation of retained earnings 2018:							
– Loss of the year					9.9	(9.9)	–
– Dividend paid		(86.0)					(86.0)
Profit (result of the period)						(24.7)	(24.7)
<b>Total equity as at 31 December 2019</b>	<b>162.4</b>	<b>621.3</b>	<b>46.5</b>	<b>0.4</b>	<b>91.8</b>	<b>(24.7)</b>	<b>897.7</b>

# Notes to the Financial Statements

## A Business activities

EFG Bank AG (hereinafter referred to as “The Bank”), offers its clients the full range of Private Banking services including portfolio management for private clients, investment advisory services, Lombard lending, Mortgage loans and trust services.

In addition to its head office in Zurich, it operates through its Geneva, Lugano, Hong Kong, Singapore, Cayman Islands branches as well as an advisory branch in Bahrain.

### Board of Directors

The Board of Directors of the Bank comprises:

John A. Williamson*	Chair
Nico H. Burki*	Vice-Chair
Susanne Brandenberger*	
Emmanuel L. Bussetil	
Michael N. Higgin* <sup>1</sup>	
Roberto Isolani	
Steven M. Jacobs	
Spiro J. Latsis	
John S. Latsis	
Pericles Petalas	
Stuart M. Robertson*	
Fong Seng Tee* <sup>1</sup>	
Bernd-A. von Maltzan*	
Daniel Zuberbühler* <sup>1</sup>	

\* Independent directors

<sup>1</sup> Until 26 April 2019.

### Executive Committee

The Executive Committee of the Bank comprises:

Piergiorgio Pradelli	CEO
Renato Cohn	Deputy CEO
Mark Bagnall	Chief Technology Officer
Yves Aeschlimann	Head of Legal & Compliance
Christian Flemming	Chief Operating Officer
Maurizio Moranzoni <sup>2</sup>	Head of Global Markets
Ranjit Singh	Chief Risk Officer
Dimitris Politis	Chief Financial Officer
Franco Polloni	Head of Switzerland and Italy Region

<sup>2</sup> Effective as of 01 January 2020, Kurt Haueter is the Head of the newly combined Global Markets and Treasury division.

## B Accounting policies

The accounting and valuation principles are based on the Swiss Code of Obligations, the banking legislation and the directives of the Swiss Financial Market Supervisory

Authority (FINMA) and its Circular 2015/01 “Accounting Rules for Banks “ (“ARB”). The accompanying reliable assessment statutory single entity financial statements present the economic situation of the bank such that a third party can

# Notes to the Financial Statements for the year ended 31 December 2019

form a reliable opinion. The financial statements are allowed to include hidden reserves.

The most significant accounting policies may be summarised as follows:

## General valuation principles

The financial statements are prepared on the assumption of an ongoing concern. The accounting is therefore based on going-concern values. The disclosed balance sheet items are valued individually.

## Transaction recording

All transactions are accounted for on a trade date basis, with the exception of loans and deposits, which are accounted on a value date basis.

## Foreign currency translation

Assets and liabilities denominated in foreign currencies are converted at rates of exchange prevailing at year end.

Foreign currency transactions are converted at the rates of exchange prevailing during the year.

## Main foreign exchange rates against CHF

	2019 Year-end	2019 Average	2018 Year-end	2018 Average
EUR	1.0854	1.1126	1.1269	1.1552
GBP	1.2757	1.2689	1.2598	1.3059
HKD	0.1241	0.1268	0.1257	0.1248
SGD	0.7183	0.7286	0.7228	0.7254
USD	0.9662	0.9938	0.9842	0.9785

The functional currency is defined at EFG Bank AG level and is the Swiss franc "CHF". Branches operations in Hong Kong and Cayman are recorded using local currencies and are converted to CHF at average rates with the difference to closing rates reflected in "Result from trading activities".

## Liquid assets

These assets are recorded in the balance sheet at their nominal value.

## Due from / liabilities from securities transactions

The term "securities financing transactions" may include repurchase and reverse repurchase transactions, securities lending and securities borrowing.

## Due from banks, due from customers and mortgage loans

These are stated at nominal value net of specific valuation adjustments for impaired loans and receivables.

Impaired loans, defined as loans for which it is improbable that the debtor will have the capacity to honour his or her commitments, are individually valued and the depreciation in value is covered by appropriate and individual value adjustments. The individual valuation adjustment is deducted from the corresponding asset item in the balance sheet.

A loan is considered as non-performing when appropriate indicators provide evidence that future contractual repayments of capital and/or interests are unlikely, or at the latest, when such payments are overdue by 90 days. Interest unpaid after 90 days is considered overdue. In this case, the Bank ceases to record the interest income in the income statement. Value adjustments for non-performing loans are booked in the Income Statement "Changes in value adjustments for default risks and losses from interest operations".

A loan is no longer considered non performing if the interest and principal payments are up-to-date and future payments are reasonably assured. Value adjustments are released with an effect on income via the item "Changes in value adjustments for default risks and losses from interest operations".

The Bank classifies receivables into nine rating grades. For receivables in the Grade 1-8, the debt is serviced, the collateral is adequate and the repayment of the loan is not in doubt. No value adjustments for default risks are created.

Loans in Grade 9 are considered likely to default and value adjustments for latent default risks are created. Impaired loans/receivables and any collateral are valued at the liquidation value, and the value is adjusted taking the debtor's creditworthiness into account. Where the recovery of the loan receivable is dependent exclusively on realisation of the collateral, a value adjustment is created to completely cover the unsecured portion.

## Due to banks and amounts due in respect of customer deposits.

These items are to be recognised at their nominal value.

Amounts due in respect of precious metal account deposits must be valued at fair value if the precious metal concerned is traded on a price-efficient, liquid market.

### **Trading portfolio assets and trading portfolio liabilities**

Bonds, equities and precious metals not acquired as medium term or long-term investments are included under "Trading portfolio assets/liabilities" and are valued at fair value. Fair value is the price based on a price-efficient and liquid market or the price calculated using a valuation model.

If a fair value cannot be determined, the valuation and recognition is based on the lower of cost or market principle.

The gain or loss resulting from the change in valuation is recorded in the income statement "Result from trading activities and the fair value option". Interest and dividend income from trading operations are recorded in the income statement "Interest and dividend income from trading operations".

### **Other financial instruments at fair value and liabilities from other financial instruments at fair value**

Financial assets and liabilities may initially be designated as at fair value through profit and loss (fair value option) if the following conditions are met:

- They are part of a portfolio which is risk-managed on a fair value basis
- There is an economic hedging relationship between the financial instruments on the asset side and those on the liability side that reduces or eliminates an accounting mismatch that would otherwise arise
- Any impact of a change in own creditworthiness on the fair value must be neutralised and may not influence the income statement

Structured products with acknowledgment of debt issued by the Bank, net of any parts repurchased from clients, are shown under the item 'Liabilities from other financial instruments at fair value' and valued at market price. The result of revaluation and devaluation of these structured products is shown in the income statement item 'Result from trading activities and the fair value option'.

Physical life insurance policies held for the medium term are considered as financial instruments. The Bank has elected to apply the fair value option since the physical life insurance policies are economically hedged by synthetic life insurance policies. As a consequence, the physical life insurance policies are assets valued at fair value.

Synthetic life insurance policies are economically hedging physical life insurance policies and are also valued at fair value.

### **Financial investments**

Money market papers are recorded in the balance sheet according to the accrual method.

Equity securities are held at the lower of cost and market value. The value adjustments arising from a subsequent valuation are recorded via "Other ordinary expenses" or "Other ordinary income".

Unhedged bonds held for the medium term are valued at the lower of cost and market value. The value adjustments arising from a subsequent valuation are recorded via "Other ordinary expenses" or "Other ordinary income".

Bonds held to maturity are valued under the straight line accrual method. The agio/disagio is accrued or deferred over the residual term to maturity via "Accrued income and prepaid expenses" or "Accrued expenses and deferred income".

Value adjustments for default risk are recorded immediately under "Changes in value adjustments for default risk and losses from interest operations".

Life insurance policies held for the long term until their maturities are valued under the accrual method as they are considered as financial investments with the intention to be held until maturity. The cost reflects the contractual purchase price of these policies and the premiums paid. The accruals are recorded as interest income. Any impairment in the values will be recognised in the Income Statement as "Changes in value adjustments for default risks and losses from interest operations".

### **Participations**

These are valued at historical cost less any permanent impairment.

Each participation is tested for impairment as of the balance sheet date. This test is based on indicators reflecting a possible impairment of individual assets. If any such indicators exist, the recoverable amount is calculated. The recoverable amount is the higher amount of the net selling price and the value in use. An asset is impaired if its carrying amount exceeds its recoverable amount. If the asset is impaired, the book value is reduced to match the recoverable value, and the impairment is charged via "Value adjustments on participations and amortisation of tangible and intangible assets".

Realised gains from the sale of participations are recorded via "Extraordinary income" and realised losses are recorded via the item "Extraordinary expense".

# Notes to the Financial Statements for the year ended 31 December 2019

## **Tangible fixed assets**

Fixed assets comprise buildings, fixtures and fittings, computers, telecommunications equipment and are recognised at acquisition cost less accumulated amortisation over the estimated operating life.

Tangible fixed assets are depreciated on a straight-line basis over their estimated economic useful life via "Value adjustments on participations and amortisation of tangible fixed assets and intangible assets". The estimated operating lives of specific categories of tangible fixed assets are as follow:

- Building own use: 20-50 Years
- Fixture and fittings: 5-10 years
- Computers and telecommunications equipment: 3-4 years
- Software: 4-10 years
- Other fixed assets: 5-10 years

## **Intangibles assets**

Intangible assets are of non-monetary nature and without physical substance. They can be acquired or generated internally. Acquired intangible assets are to be capitalised if they yield measurable economic benefits for the Bank over several years.

Expenses for identifiable intangible assets that cannot be capitalised are to be charged to the Income Statement in the period incurred.

Expenses for intangible assets generated internally charged to the Income Statement cannot be capitalised subsequently.

Intangible assets that can be capitalised and that are identifiable may be valued at acquisition cost or at production cost. If expenses incurred are higher than the recoverable amount, as determined at the recognition date, the latter is decisive. Any difference between higher expenses incurred, and the recoverable amount has to be charged to the Income Statement.

## **Provisions**

Legal and factual obligations are valued regularly. If an outflow of resources is likely and can be reliably estimated, a corresponding provision must be created.

Existing provisions are re-assessed at each balance date.

Provisions are released via the Income Statement if they are no longer needed on business grounds.

## **Reserves for general banking risks**

The reserves for general banking risks are, according to Art. 21 of the Capital Adequacy Ordinance, considered as part of the eligible equity of the Bank. The creation and release of reserves is recognised via the item "Changes in reserves for general banking risks" in the Income Statement.

The reserves for general banking risks are subject to tax.

## **Taxes**

Taxes due from current income and capital tax of the Bank, but not yet paid, are recorded under "Accrued expenses and deferred income" in the balance sheet.

The valuation differences between the value for tax purpose and the financial accounting value are calculated systematically. The effects of deferred taxes are considered in the calculations. Provisions for deferred tax are created via "Taxes".

## **Off-balance-sheet transactions**

Off-balance-sheet disclosures are at nominal value. Provisions are accounted for in the liabilities in the balance sheet of the foreseeable risks.

## **Pension benefit obligations**

The Pension schemes cover ageing, death and disability, and are run in accordance with laws and regulations of the respective local countries. Employees and their survivors are protected against economic consequences of age, death and disability. Generally funded by employees and employers, the schemes are legally independent from the Bank. The main schemes are in Switzerland, Hong Kong and Singapore.

Employer's contributions are included in "Personnel expenses" in the Income Statement for the financial year to which they correspond. Every year, the Bank assesses whether there are economic benefits or economic obligations vis-à-vis the pension institutions, and treats them as follows:

- The economic obligations may be recorded in "Provisions" in the balance sheet, and the difference with the corresponding value for the previous period is recorded under "Personnel expenses" in the Income Statement
- An economic benefit may be recorded in the balance sheet

This annual assessment is conducted on the basis of the financial statements of the pension institution, where the balance sheet date may not be older than 12 months, established in accordance with the Swiss GAAP FER 26 or the relevant accounting framework of the country of residence.



### **Equity-based compensation schemes**

An Equity Incentive Plan ("EIP") exists for the employees of the Bank and is managed at Group level. Employees receive as part of their variable compensation a portion in the form of Restricted Stock Units ("RSUs"). The RSUs granted give the employee the right to receive shares from EFG International AG (the "Holding Company") under the EIP. The Bank accounts for the shares at par value (transaction price between the Holding Company and the Bank) at grant date.

The liability is initially recorded within "Accrued expenses and deferred income" and the equity-based compensation scheme is recorded in the item "Personnel expenses". The liability is adjusted if employees leave the Bank or lose their rights under the EIP.

### **Derivative financial instruments**

Derivative financial instruments are initially valued and recognised in the balance sheet at fair value on the date on which the contracts are entered into and are subsequently remeasured at their fair value. Replacement values of derivatives are presented in the balance sheet on a gross basis.

Derivative financial instruments are classified either as trading derivatives or hedging derivatives. Hedging derivatives are used by the Bank to minimise its exposure to market risks such as interest rate and foreign exchange risks. More details related to hedging derivatives could be found under "Hedge accounting".

Fair values are obtained from quoted market prices, including recent market transactions, discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is derived from its comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging), or based on a valuation technique whose variables include only data from observable markets.

Certain derivatives embedded in other financial instruments, such as the option in a structured product, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit and loss.

The realised result from trading operations and the unrealised result from valuation relating to trading operations are recorded via the item "Result from trading operations and use of the fair value option".

### **Hedge accounting**

Holdings in bonds issued at fixed rates expose the Bank to fair value interest rate risk. The Bank enters into fixed-to-floating interest rate swaps to hedge such risk. Interest rate swaps used for hedging purposes are disclosed as hedging derivatives.

The Bank designates certain derivatives as hedges of the fair value of recognised assets or liabilities (fair value hedge). The Bank does not designate a group of financial instruments as hedged items. Certain derivative instruments do not qualify for hedge accounting and therefore are recorded as trading derivatives.

Hedging derivatives that are designated and qualify as fair value hedges are valued in the same manner as the underlying hedged transaction. The results from hedging derivatives are recorded in the same section of the Income Statement as the ones from the hedged asset or liability that are attributable to the hedged risk. The valuation result from hedging instruments is recorded in a compensation account, provided that no change in the value of the underlying transaction has been booked. The net balance of the compensation account is recorded via the section "Other assets" or "Other liabilities".

Hedge accounting is used for derivatives designated as such, provided certain criteria are met.

The Bank documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Bank will discontinue hedge accounting in the following scenarios:

- the Bank determines that a hedging instrument is not, or has ceased to be, highly effective as a hedge;
- the derivative expires or is sold, terminated or exercised;
- the hedged item matures, is sold or repaid.

# Notes to the Financial Statements for the year ended 31 December 2019

Hedge ineffectiveness represents the amount by which the changes in the fair value of the hedging instrument differ from changes in the fair value of the hedged item attributable to the hedged risk. If the hedge is deemed to no longer meet the hedging goals or exceeds the effect of the hedged positions, such hedging instruments cease to be disclosed as hedging derivatives and are transferred into trading derivatives and booked accordingly.

## Comparatives

Comparative figures, where necessary, are adjusted to conform to any changes in presentation in the current year.

## Changes of the accounting and valuation principles

No change of the accounting and valuation principles comparing to the previous year.

## C Risk management

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

### Importance of risk management

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.

For EFG Bank, 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 the bank 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 Bank operates

### Approach to risk management

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

- There are independent Risk Control and Compliance functions with clearly defined objectives

- There is a unique, 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 and directives 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 the Board of Directors Risk Committee of its parent company, EFG International AG (EFG International Group)

### Purpose and objectives of the risk management

The objectives of risk management are to:

- Provide transparency on the risks EFG Bank 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 Bank 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 Bank 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 Bank's core values and risk culture that is expected throughout the organisation 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 reviewed to ensure they do not encourage excessive risk-taking

The risk awareness & culture programme, which follows the above mentioned principles, during 2019 focused on the following activities:

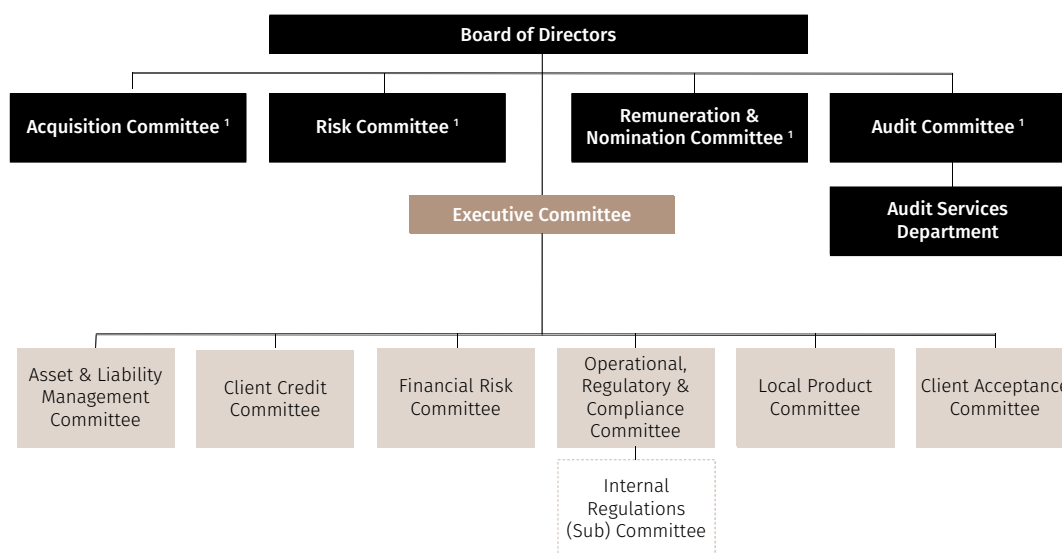
- Embedding of the risk management and risk appetite frameworks
- Performing comprehensive trainings in several risk and compliance topics

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

**Board of Directors & Committees 2019**



1 EFG International's Board Delegated Committees.

EFG Bank Board of Directors sets and approves the risk appetite statement and the risk management framework of EFG Bank, and monitors its risk profile versus the risk appetite, as well as the effectiveness of risk management. The Board of Directors supervises the activities of EFG Bank directly; it however benefits from the support and advice of the Risk and Audit Committee of EFG International Group.

EFG Bank 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 Bank vis-à-vis third parties in operational matters
- Approving the risk limits for each risk category, as proposed by EFG Bank risk management committees
- Monitoring and managing the risk profile of EFG Bank through regular reports from the Chief Risk Officer and the Group Head of Legal & Compliance 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

# Notes to the Financial Statements for the year ended 31 December 2019

- Submitting applications regarding transactions for which the Board of Directors is responsible

EFG Bank risk management committees, reporting to EFG Bank 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 Bank standards. Each EFG Bank risk management committee has dedicated terms of reference, which provide more detail on membership, scope and responsibilities. EFG Bank's risk management committees play an important role in the approval and review of risk limits and jointly ensures 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 Bank with regards to matters relating to regulatory, compliance activities and operational risks.

The Asset & Liability Management Committee is responsible for the management of EFG Bank's balance sheet and for the implementation of capital allocation across risk categories. In particular, it is responsible for the management of EFG Bank'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 Bank 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.

EFG Bank Local 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 process across EFG Bank.

The Client Credit Committee has responsibility for the management of client credit risk of EFG International Group (including EFG Bank).

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 Executive Committee, non-standard clients (PEPs, US persons, special high-risk and Tier 3 country clients) in line with relevant EFG Bank internal regulations. It is also responsible for keeping a record of all higher-risk clients.

The Chief Executive Officer of EFG Bank is responsible to the Board of Directors for the overall management and performance of EFG Bank. He manages the implementation and development of strategic and operational plans as approved by the Board of Directors. He represents EFG Bank 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 directly oversees the Litigation, Human Resources and Marketing & Communications functions.

The Deputy of the Chief Executive Officer has a direct reporting line to the the Chief Executive Officer of EFG Bank. He supports the Chief Executive Officer with the day-to-day management of EFG Bank and can take over his responsibilities in case of absence.

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 EFG Bank operates, by 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 Bank's relationship with rating agencies. He also has primary responsibility for the Investor Relations, Regulatory Affairs, and Group Corporate Office functions. In addition, he supervises the activities of Global Markets & Treasury, Financial Reporting and Financial Planning & Controlling.

The Chief Financial Officer is responsible for all financial, tax and prudential regulation matters of EFG Bank 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 Operating Officer is responsible for the management, coordination, supervision, planning and control of Operations, Central Filing & General Services and Client Tax Reporting of EFG Bank. He is also responsible for the cost management program across the organisation.

The Chief Risk Officer is accountable for enabling the efficient and effective risk governance. The Chief Risk Officer 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 Bank's capital and earnings. The responsibilities also include managing, identifying, evaluating, reporting and overseeing EFG Bank's risks externally and internally to ensure a functioning internal control system. In achieving this, further to the appointment of global risk officers within risk management responsible for each of these risks, he also collaborates with other central EFG Bank functions that also undertake risk oversight activities for their respective area of

responsibility, such as the Chief Financial Officer, Chief Operating Officer, Head of Legal & Compliance and Chief Technology Officer. 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. In this function, he also reports to the Risk Committee of EFG International.

The Chief Technology Officer is responsible for overseeing all aspects of EFG Bank'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.

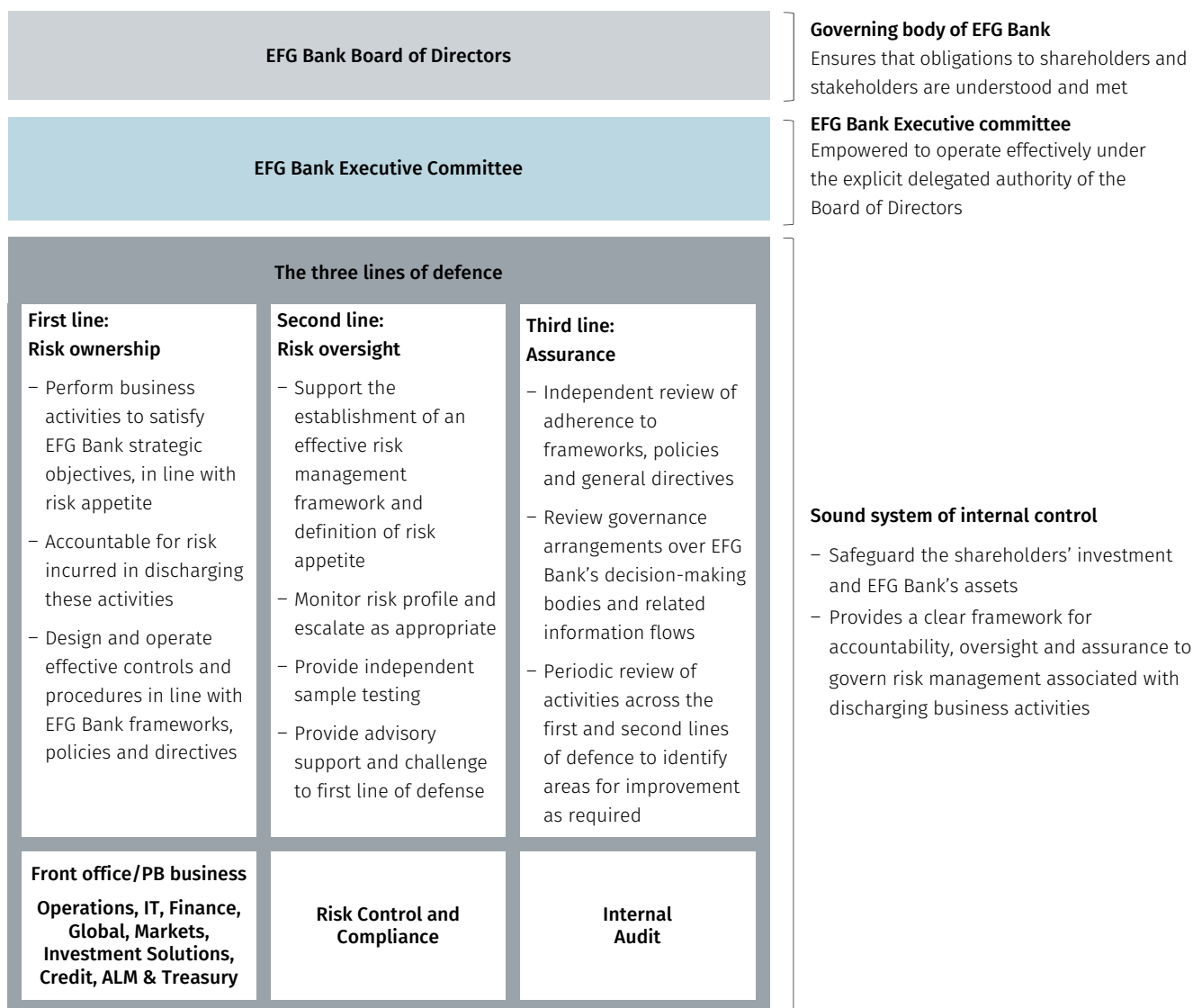
The Head of Legal & Compliance is responsible for legal matters as well as for the management, coordination and supervision of the consolidated compliance risks of EFG Bank. In this function, he also reports to the Risk Committee of EFG International.

# Notes to the Financial Statements for the year ended 31 December 2019

## The three-lines-of-defence model

EFG Bank 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 Bank’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 Bank's approach, governance and processes in relation to setting risk appetite and will be 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 Bank 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 a risk metric exceeding its predetermined threshold

### **Risk categories**

The strategic, market, liquidity, credit, operational and compliance risks of EFG Bank 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 Bank 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 Bank

### **Credit risk**

Credit risk is defined as the risk of loss resulting from the failure of EFG Bank's borrowers and other counterparties to fulfil their contractual obligations and that collateral provided (if any) does not cover EFG Bank's claims. The credit risk arises not only from EFG Bank's clients lending operations but also from its Treasury and Global Market activities. EFG Bank 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 Bank's risk appetite framework (being transposed as well for EFG Bank), and is based on four dimensions, as described below:

- Client type: EFG Bank'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 Bank extends credits to finance or refinance the purchase of real estate. EFG Bank may

# Notes to the Financial Statements for the year ended 31 December 2019

- extend credits to 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 Bank guarantees and life insurance policies. EFG Bank 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 Bank 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 Bank focuses on the profitability of the overall banking relationship

## Counterparty credit risk

EFG Bank incurs counterparty credit risk in its treasury activities, where credit risk derives from the financial assets and derivative instruments that EFG Bank 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 Bank 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 Bank actively monitors and manages the credit portfolio and consciously takes concentrations in certain sectors, countries and clients/counterparties
- EFG Bank engages and maintains relationships with counterparties that either have an explicit investment grade rating or are non-rated but fulfil comparable criteria
- EFG Bank accepts a speculative rating of counterparties within its trading portfolio activities
- EFG Bank targets collateralised transactions when interacting with counterparties or negotiates ISDA master agreement/credit support annexes limiting EFG Bank 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 underlying 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 Bank 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 Bank 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.

## Market risk

EFG Bank 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 Bank's balance sheet and off-balance sheet positions generate low foreign exchange risk and medium interest rate exposures. The management of EFG Bank'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 Bank 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 Bank
- To manage foreign exchange risk in order to control its impact on annual results

EFG Bank 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 EFG Bank's investment portfolios

EFG Bank is also exposed to market risk in relation to its holding of life insurance policies. The major market risk factors of these portfolios are longevity risk, increase in cost of insurance and increase in interest rate risk.

EFG Bank 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 Bank engages in trading of securities, derivatives, foreign exchange, money market paper and precious metals primarily on behalf of its clients. Moreover, it manages a fixed income, a foreign exchange delta, forward and options trading book on its own account, all the trading books being managed by dedicated Lugano trading desks.

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

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

### **Liquidity risk**

Liquidity reflects the ability of EFG Bank 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 Bank is not any more able to raise sufficient liquidity in case of need. If EFG Bank 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 Bank 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 Bank's own cash flow needs within all of its business entities. EFG Bank's customer deposit base, EFG Bank's capital and liquidity reserves position and EFG Bank's conservative gapping policy when funding customer loans ensure that EFG Bank 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

# Notes to the Financial Statements for the year ended 31 December 2019

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 Bank 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 Bank 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 Bank risk guidelines.

## Operational risk

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 Banks' activities.

EFG Bank 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.

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

The Operational Risk Management function works in collaboration with certain centralised EFG Bank's 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 and the Group Head of Legal & Compliance. The principal aim of the Operational Risk Management function is to ensure that EFG Bank has an appropriate operational risk management framework and programme in place for

identifying, assessing, mitigating, monitoring and reporting operational risk. The Operational Risk Management function reports to the Chief Risk Officer.

Main tools 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
- Follow-up of actions taken to remedy key operational risk-related control issues
- Establishment of an operational risk awareness programme

EFG Bank designs and implements internal controls and monitoring mechanisms in order to mitigate key operational risks that EFG Bank inherently runs in conducting its business.

EFG Bank 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 within EFG Bank.

Considering the rapidly evolving risks relating to IT security and data confidentiality in the financial industry, EFG Bank 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 Bank establishes operational risk transfer mechanisms; in particular, EFG Bank is covered by insurance to hedge (subject to defined exclusions) potential low-frequency-high-impact events. This comprises three layers of insurance cover, being comprehensive crime insurance, professional indemnity insurance and directors, and officers, liability insurance. EFG Bank also manages general insurances.

The Cayman Branch of EFG Bank has outsourced certain administrative, operational and IT services to EFG Bank & Trust (Bahamas) Ltd. For all such outsourced activities, detailed service contracts, including banking confidentiality and business compliance agreements were signed between the two banks.

### **Compliance risk**

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation which EFG Bank 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 its banking activities.

The compliance risk is identified, measured, monitored, reported and mitigated by the Compliance department and is clearly distinguished in dedicated units in alignment with the roles and responsibilities defined in EFG Bank'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 Bank continuously invests in personnel and technical resources to maintain adequate compliance coverage.

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. Compliance implemented an integrated organisation on a common platform of tools and processes to ensure the consistent application of compliance guidelines.

Compliance risk in EFG Bank is managed in accordance with the 3LoD model, outlined in details in the risk management framework of EFG Bank. 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 Bank 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 Bank 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 Bank from loss or damage. It improves the way EFG Bank conducts business for its stakeholders and it is vital for long-term-oriented and sustainable growth.

A major focus of regulators around the world is the fight against money laundering and terrorism financing. EFG Bank has in place comprehensive directives on sanctions, 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 Bank Compliance ensures compliance with such directives in every EFG Bank's branch.

EFG Bank 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 behaviour or activity that could threaten consumer protection or market integrity and might subsequently damage the reputation of EFG Bank.

EFG Bank has directives on customer conduct, market conduct, cross border, suitability and conflicts of interest. The EFG Bank 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.

Group Head of Legal & Compliance and Litigation unit ensure that EFG Bank adequately manages and controls its legal risks. This includes supervising and giving strategic direction to all outside counsels advising EFG Bank on civil, regulatory and enforcement matters.

Any change in the legal environment can constitute a challenge for EFG Bank in its relations with competent authorities, clients and counterparties in Switzerland and globally. Group Head of Legal & Compliance is responsible for providing legal advice to EFG Bank'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 EFG Bank's management on significant civil litigation and all government enforcement matters involving EFG Bank.

# Notes to the Financial Statements for the year ended 31 December 2019

## **Reputational risk**

Reputational risk is defined as the risk of an activity performed by EFG Bank 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 additional regulatory oversight. Typically a result of other risk categories.

EFG Bank considers its reputation to be among its most important assets and is committed to protecting it.

Reputational risk for EFG Bank 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 malfeasance 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 Bank 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.

## **Disclosure of Capital requirements according to Circ. FINMA 2016/1**

Capital requirements as per Circ.-FINMA 2016/1 are disclosed in Pillar III presentation at EFG International Group level available at <https://www.efginternational.com/About-EFG/Investor-relations/Financial-reports.html>

For key ratios at Bank's level, refer to the Management Report.

## **D Events after balance sheet date**

No material events occurred after the balance sheet date that could have a material impact on the financial position of the bank as of 31 December 2019.

# Information relating to the Balance Sheet

## 1. Securities financing transactions (assets and liabilities)

	31 December 2019 CHF millions	31 December 2018 CHF millions
<b>Securities lending and borrowing transactions and securities repurchase and reverse-repurchase transactions</b>		
<b>Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions*</b>	<b>244.2</b>	<b>253.5</b>
<b>Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions*</b>	<b>19.7</b>	<b>20.1</b>
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	1,212.4	881.7
<i>of which with unrestricted right to resell or pledge</i>	19.9	20.1
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	1,524.3	1,145.0
<i>of which repledged securities</i>	1,131.2	858.9

\* Before netting agreements

# Notes to the Financial Statements for the year ended 31 December 2019

## 2. Collateral for loans/receivables and off-balance-sheet transactions, as well as impaired loans/receivables

	Secured by mortgage CHF millions	Other collateral CHF millions	Unsecured CHF millions	Total CHF millions
<b>Loans (before netting with value adjustments)</b>				
Due from customers*	486.7	8,642.0	291.0	9,419.7
Mortgage loans	3,041.6		6.8	3,048.4
<i>Residential property**</i>	2,923.8		6.8	2,930.6
<i>Commercial and industrial premises</i>	117.8	–	–	117.8
<b>Total loans (before netting with value adjustments)</b>				
<b>Total at 31 December 2019</b>	<b>3,528.3</b>	<b>8,642.0</b>	<b>297.8</b>	<b>12,468.1</b>
<b>Total at 31 December 2018</b>	<b>3,778.8</b>	<b>8,603.9</b>	<b>326.2</b>	<b>12,708.9</b>
<b>Total loans (after netting with value adjustments)</b>				
<b>Total at 31 December 2019</b>	<b>3,528.3</b>	<b>8,642.0</b>	<b>186.6</b>	<b>12,356.9</b>
<i>thereof mortgage loans</i>				3,046.2
<i>thereof due from customers</i>				9,310.7
<b>Total at 31 December 2018</b>	<b>3,778.8</b>	<b>8,603.9</b>	<b>218.2</b>	<b>12,600.9</b>
<b>Off-balance sheet</b>				
Contingent liabilities		936.2	51.7	987.9
Irrevocable commitments		43.7	22.6	66.3
<b>Total at 31 December 2019</b>	<b>–</b>	<b>979.9</b>	<b>74.3</b>	<b>1,054.2</b>
<b>Total at 31 December 2018</b>	<b>–</b>	<b>743.2</b>	<b>51.8</b>	<b>795.0</b>

	Gross debt amount CHF millions	Estimated liquidation value of collaterals (or pledges) CHF millions	Net debt amount CHF millions	Individual valuation adjustment CHF millions
<b>Impaired loans/receivables</b>				
<b>Total at 31 December 2019</b>	<b>257.2</b>	<b>145.7</b>	<b>111.5</b>	<b>111.2</b>
<b>Total at 31 December 2018</b>	<b>277.7</b>	<b>171.3</b>	<b>106.4</b>	<b>108.0</b>

\* "Due from customers" mainly consists of lombard loans in the form of advances and fixed term loans.

\*\* Thereof CHF 263 million subparticipations

Impaired loans include a gross exposure of USD 193.8 million (2018: USD 193.8 million) that EFG Bank AG disbursed in 2007 and on which a provision of CHF 81.6 million (2018: CHF 73.2 million) has been calculated.

EFG Bank is party to multi-jurisdictional legal proceedings relating to a client relationship with a Taiwanese insurance company, including arbitration proceedings in Taiwan. EFG Bank extended a loan of USD 193.8 million (excluding interest) to an affiliate of the insurance company, which was placed into receivership in 2014. The loan is secured by

the assets of another affiliate of the insurance company, domiciled in Singapore that was placed into receivership.

The former chairman of the insurance company who executed the loan documents (and who has been found guilty in Taiwan of various criminal offenses related to the misappropriation of company funds, including the proceeds of the bank loan) also gave EFG Bank a personal indemnity covering the loan. The overall relationship with the insurance company included accounts held at EFG in Hong Kong, Singapore and Switzerland.

In January 2018, an arbitration tribunal in Taiwan concluded that the transaction was invalid under the law of Taiwan as a result of the insurance company's non-compliance with Taiwanese insurance regulations. Based on that reasoning, the arbitral tribunal ruled that EFG Bank must return the USD 193.8 million in assets held by the affiliate of the insurance company and used as collateral for the loan, plus interest.

EFG Bank fundamentally disagrees with the arbitral tribunal's reasoning and the result. It is vigorously challenging in court the validity of the award and is currently resisting an attempt in Hong Kong to enforce it, which will be considered by the Hong Kong courts in 2020. Moreover, the

arbitral tribunal did not opine on the validity of the pledge of the loan collateral under the governing laws of Singapore. EFG Bank had already commenced legal proceedings to confirm the validity of the pledge of the loan collateral in Singapore, which are now progressing. In addition, EFG Bank is considering how most appropriately to enforce the personal indemnity of the former chairman, secured through successful legal proceedings in Singapore and to take steps to recover assets from the former chairman.

The Bank has assessed a multitude of potential outcomes in regards to the recoverability of this loan and has recorded the discounted probability weighted provision.

# Notes to the Financial Statements for the year ended 31 December 2019

## 3. Trading portfolios and other financial instruments at fair value

	31 December 2019 CHF millions	31 December 2018 CHF millions
<b>Assets</b>		
<b>Trading portfolio assets</b>		
Debt securities, money market securities/transactions	764.4	737.1
<i>of which, listed</i>	711.5	648.7
Equity securities	16.5	20.8
Precious metals and commodities	76.6	46.8
Other trading portfolio assets	2.0	2.3
<b>Total trading portfolio assets</b>	<b>859.5</b>	807.0
<b>Other financial instruments at fair value</b>		
Equity securities		
Life insurance related	153.0	156.3
<b>Total financial instruments at fair value</b>	<b>153.0</b>	156.3
<b>Total assets</b>	<b>1,012.5</b>	963.3
<i>of which, determined using a valuation model</i>	153.0	156.3
<i>of which, securities eligible for repurchase agreement transactions     in accordance with liquidity requirements</i>	0.3	0.2
<b>Liabilities</b>		
<b>Trading portfolio liabilities</b>		
Debt securities, money market securities/transactions	77.8	185.8
<i>of which, listed</i>	75.5	185.8
Equity securities	21.4	2.8
Other trading portfolio liabilities	4.0	0.1
<b>Total trading portfolio liabilities</b>	<b>103.2</b>	188.7
<i>of which, securities eligible for repurchase agreement transactions     in accordance with liquidity requirements</i>		
<b>Other financial instruments at fair value</b>		
Structured products	265.6	165.2
Life insurance related	182.0	190.0
<b>Total other financial instruments at fair value</b>	<b>447.6</b>	355.2
<b>Total liabilities</b>	<b>550.8</b>	543.9
<i>of which, determined using a valuation model</i>	182.0	190.0



#### 4. Derivative financial instruments (assets and liabilities)

	Held for trading			Held for hedging		
	Positive replacement values CHF millions	Negative replacement values CHF millions	Contract volume CHF millions	Positive replacement values CHF millions	Negative replacement values CHF millions	Contract volume CHF millions
<b>Interest-rate instruments</b>						
Swaps	18.3	24.2	1,989.3	0.1	25.0	1,395.7
Futures	6.1	0.2	31.0			
<b>Currencies/Precious metals</b>						
Forward contracts	12.7	15.8	2,225.0			
Combined Interest/Currency Swaps	205.3	230.6	29,939.0	0.7	2.2	94.0
Options (OTC)	16.9	14.1	7,294.8			
<b>Equity securities/Indices</b>						
Options (exchange traded)	0.3	6.0	403.7			
Options (OTC)	5.1	3.7	397.0			
<b>Credit derivatives</b>						
Credit default swaps	0.1	16.2	600.6			
Total return swap	53.7		130.4			
<b>Total 31 December 2019</b>	<b>318.5</b>	<b>310.8</b>	<b>43,010.8</b>	<b>0.8</b>	<b>27.2</b>	<b>1,489.7</b>
<b>Total 31 December 2018</b>	<b>377.7</b>	<b>358.0</b>	<b>43,076.9</b>	<b>1.0</b>	<b>3.0</b>	<b>235.8</b>

# Notes to the Financial Statements for the year ended 31 December 2019

	Positive replacement values (cumulative) CHF millions	Negative replacement values (cumulative) CHF millions
<b>Total before netting contracts:</b>		
<b>Total 31 December 2019</b>	<b>319.3</b>	<b>338.0</b>
<i>of which, determined using a valuation model</i>	312.9	331.8
<b>Total 31 December 2018</b>	<b>378.7</b>	<b>361.0</b>
<i>of which, determined using a valuation model</i>	378.5	341.9
<b>Total after netting contracts:</b>		
<b>Total 31 December 2019</b>	<b>319.3</b>	<b>338.0</b>
<b>Total 31 December 2018</b>	<b>378.7</b>	<b>361.0</b>

	Central clearing houses	Banks and securities dealers	Other customers	Total
<b>Breakdown by counterparties:</b>				
Positive replacement values (after netting agreements)		224.2	95.1	319.3

## 5. Financial investments

	Book value		Fair value	
	31 December 2019 CHF millions	31 December 2018 CHF millions	31 December 2019 CHF millions	31 December 2018 CHF millions
<b>Debt securities</b>	4,609.3	4,648.1	4,635.3	4,681.4
of which, intended to be held to maturity	1,561.6	1,488.9	1,563.0	1,486.3
of which, not intended to be held to maturity (available for sale)	3,047.7	3,159.2	3,072.3	3,195.1
<b>Equity securities</b>	44.0	10.0	44.0	10.0
of which, qualified participations*	–	–	–	–
<b>Precious metal</b>	129.0	159.3	129.0	159.3
<b>Real estate</b>	14.2	10.6	14.5	10.6
<b>Life insurance related</b>	1,089.6	917.4	800.3	564.7
of which, intended to be held to maturity	1,089.1	916.9	799.8	564.2
of which, not intended to be held to maturity (available for sale)	0.5	0.5	0.5	0.5
<b>Total</b>	<b>5,886.1</b>	<b>5,745.4</b>	<b>5,623.1</b>	<b>5,426.0</b>
of which, securities eligible for repurchase agreements transactions in accordance with liquidity requirements	526.1	837.6	679.1	869.6

### Breakdown of counterparties by rating\*\*

	AAA to AA– CHF millions	A+ to A– CHF millions	BBB+ to BBB– CHF millions	BB+ to B– CHF millions	Below B– CHF millions	Unrated CHF millions	Total CHF millions
Book value							
Debt securities	3,554.7	820.7	96.5			137.4	4,609.3
Equity securities						44.0	44.0
Precious metals		98.2				30.8	129.0
Real estate						14.2	14.2
Life insurance related	792.8	169.0	68.9	49.2		9.7	1,089.6
<b>Total</b>	<b>4,347.5</b>	<b>1,087.9</b>	<b>165.4</b>	<b>49.2</b>	<b>–</b>	<b>236.1</b>	<b>5,886.1</b>

\* At least 10% of capital or voting rights

\*\* Based on Standard & Poor's ratings

### Carrying value of life insurance related (held-to-maturity portfolio)

The bank holds 354 life insurance policies as of 31 December 2019 valued at amortised cost (227 in 2018) which are classified in the held-to-maturity category and measured at amortised cost, subject to impairment test at each reporting date if there is factual evidence of impairment.

The number of policies has increased, as in 2019 a loan collateralised by life insurance policies was restructured and the Bank took possession of the collateral.

These life insurance policies are issued by US life insurance companies. The Bank pays a periodic premium to the life insurance company to keep the policy valid. If the Bank did not pay this premium, the insurance policy would laps and

# Notes to the Financial Statements for the year ended 31 December 2019

then the Bank would not receive the death benefit when the insured individual died. When the insured individual (US based individuals) die, the life insurance company pays a lump sum death benefit to the Bank.

The insured individuals have an average age of 91.3 years and have an implied average life expectation of 4.5 years based on the life expectations derived from the 2015 Valuation Basic Table. The total death benefit receivable is CHF 1,760 million (USD 1,822 million).

The carrying value of these investments is CHF 1,089.1 million (USD 1,127.3 million) at 31 December 2019 (31 December 2018: CHF 916.9 million; USD 931.6 million) and is derived from an acquisition value, premiums paid and a revenue accrual.

The determination of the realisable value of these financial assets requires management's most complex and subjective judgements. The realisable value of these policies is primarily exposed to:

- changes in longevity, and
- changes in the premium streams (cost of insurance).

The Bank applies a probabilistic valuation approach in the assessment of future cash flows in the amortised cost model. This includes a range of scenarios and critical assumptions about longevity and the cost of insurance which should be paid to maintain these life policies in force.

## **(a) Longevity assumptions in realisable value**

The Bank relies on the Valuation Basic Table ("VBT") last published by the Society of Actuaries in 2015 and adjusted by an external life insurance underwriter and by actuaries to reflect the individual medical characteristics of the referenced insureds. There is a risk that actual dates of collection of death benefits may vary significantly, compared to initial estimates

## **(b) Cost of insurance in realisable value**

The determination of the appropriate level of increase of cost of insurance in the underlying policies is one of the

most important assumptions applied by management in the valuation model. Increases in cost of insurance considers the aging of the insured persons and increases in pricing levels of premiums imposed by certain carriers that issued these policies. The majority of life insurance policies have increasing annual premiums payable. In certain instances additional increases have been announced by the insurance companies. The Bank considers the increases in cost of insurance to be unjustified and is challenging their implementation in US courts. Where the insurance companies have communicated extraordinary and unprecedented increases, which management believes are not justified under the policies, management has set its own best estimates taking into account the factors outlined above.

The Bank uses management's best estimate considering historic information and relying on specialised opinions and information from external service providers about trends and market developments. Management also considers the outcome of disputes involving significant increases in premiums observed in the US market affecting the life insurance policies in the portfolio.

For sensitivity purposes the Bank has made an assessment of the potential impact of the use of the full level of these communicated extraordinary and unprecedented cost of insurance increases, rather than management's best estimate. In this scenario, the net carrying value would have been higher than the estimated future net cash flows, potentially requiring impairment. Management's assessment of the potential impact (assuming the full level of these extraordinary and unprecedented cost of insurance increases had been applied for the purposes of this sensitivity assessment) is that the carrying value would have exceeded the net cash flows from the total death benefits receivable less the future notified premiums required to be paid (in the absence of a successful claim against the three insurance carriers), and this would potentially result in an impairment of approximately CHF 128 million (USD 133 million).

## 6. Other assets and other liabilities

	<b>Other Assets</b> 31 Dec 2019 CHF millions	Other Assets 31 Dec 2018 CHF millions	<b>Other Liabilities</b> 31 Dec 2019 CHF millions	Other Liabilities 31 Dec 2018 CHF millions
Compensation account	15.0	3.6		
Indirect taxes	6.9	9.3	9.5	6.6
Clearing accounts	18.6	11.7	2.6	1.1
Other	4.8	2.6	11.5	5.0
<b>Total</b>	<b>45.3</b>	<b>27.2</b>	<b>23.6</b>	<b>12.7</b>

## 7. Assets pledged or assigned to secure own commitments and assets under reservation of ownership\*

	<u>31 December 2019</u>		<u>31 December 2018</u>	
	<b>Book value of pledged assets CHF millions</b>	<b>Effective Commitments CHF millions</b>	Book value of pledged assets CHF millions	Effective Commitments CHF millions
<b>Pledged/assigned assets</b>				
Due from banks	320.3	243.1	307.2	228.4
Financial investments	509.3	467.6	562.0	544.9
Other financial instruments at fair value	153.0	34.3	156.4	53.1
<b>Total</b>	<b>982.6</b>	<b>745.0</b>	1,025.6	826.4

\* Excluding securities financing transactions

Mainly represents assets subject to ownership reservation guaranteeing nostro commitments

# Notes to the Financial Statements for the year ended 31 December 2019

## 8. Liabilities relating to own pension schemes, and number and nature of equity instruments of the bank held by own pension schemes

	31 December 2019 CHF millions	31 December 2018 CHF millions
Due to customers, other	57.5	92.1
<b>Total liabilities towards own pension funds</b>	<b>57.5</b>	<b>92.1</b>

The employees of EFG Bank employed in Switzerland are insured with the pension fund foundation for the staff of EFG Bank. The retirement age is between 64 and 65 years. However, the insured have the option of taking early retirement from the age of 58 to 60 depending on the plan, resulting in a reduction in their pension. The pension fund foundation for the staff of EFG Bank provides comprehensive benefits (the minimum mandatory benefits

prescribed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans, LPP, and supplementary benefits) through a system of financing based on a defined contribution scheme.

No equity instruments of the Bank are held by the pension fund foundation.

## 9. Economic situation of own pension schemes

The financial statements of the pension fund foundations for the Swiss based staff of EFG Bank (drawn up in accordance with Swiss GAAP FER 26) reveal the following coverage ratios (2019 unaudited, 2018 audited):

	31 December 2019 Coverage ratio as %	31 December 2018 Coverage ratio as %
Pension Fund of EFG Group (FCT Trianon)	106.3	99.9
Fondazione di Previdenza EFG SA	105.5	98.4
Fondo Complementare di Previdenza di EFG SA	111.8	100.5

The reserves for fluctuations in the value of the pension fund foundations have not yet reached the target level as per funds' Investment regulations. As a result, there is no surplus in coverage as defined by Swiss GAAP FER 16.

The employees of Hong Kong are insured via a mandatory provident fund (the "MPF scheme"). The assets of the MPF Scheme are held separately from those of the company in an independently administrated fund.

The Fondo Complementare di Previdenza EFG SA included in 2018 an employer contribution reserve amounting to CHF 2.1 million. The reserve has been dissolved in 2019.

Details of the contributions to the pension fund are provided in note 23 Personnel expenses (CHF 26.6 million in 2019 and CHF 26.6 million in 2018).

The employees of EFG Bank Singapore are insured via a defined contribution plan.

## 10. Issued structured products

	31 December 2019 Book value Valued as a whole		31 December 2019 Book value Valued separately	
	Booked in trading portfolio CHF millions	Booked in other financial instruments at fair value CHF millions	Host instrument CHF millions	Derivative CHF millions
<b>Underlying risk of the embedded derivative</b>				
Foreign currencies (without own debenture component)			841.3	
Equity securities		265.6		(14.2)
<b>Total structured products issued</b>	<b>–</b>	<b>265.6</b>	<b>841.3</b>	<b>(14.2)</b>

## 11. Bonds outstanding and mandatory convertible bonds

Subordinated loans with PONV* clause received from:	Fixed interest rate %	Year of issue	Due dates (1 <sup>st</sup> Call Date)	Maturity	31 December 2019 CHF millions
EFG International AG – Switzerland USD 190 million subordinated loan	7.97	2014	2 March 2020	> 5 years (perpetual)	183.6
EFG International AG – Switzerland EUR 65 million subordinated loan	6.65	2014	2 March 2020	> 5 years (perpetual)	70.6
EFG International AG – Switzerland EUR 15 million subordinated loan	6.57	2015	2 March 2021	> 5 years (perpetual)	16.3
EFG International AG – Switzerland USD 90 million subordinated loan	8.56	2016	2 March 2022	> 5 years (perpetual)	87.0
EFG International Finance – Luxembourg USD 40 million subordinated loan	8.08	2017	7 June 2022	> 5 years (perpetual)	38.6
EFG International Finance – Luxembourg GBP 32.5 million subordinated loan	6.87	2017	7 June 2022	> 5 years (perpetual)	41.5
<b>Total</b>					<b>437.6</b>

\* PONV: Point of non-viability

The subordinated loans are shown in the balance sheet line “Amounts due in respect of customer deposits”. The capital (including interest) outstanding under the loans need not be repaid, except at the discretion of the borrower. The borrower may prepay the loan without premium or

penalty, in whole, on the interest reset dates, upon tax events or regulatory capital events.

The loans were granted in order to improve the Bank’s Tier 1 Capital and include a contingent write-down feature.

# Notes to the Financial Statements for the year ended 31 December 2019

The contingent write-down feature is activated if the FINMA Common Equity Tier 1 Capital ratio falls below 7%, in which case part or all of the subordinated loans cease to be repayable by the borrower. Any redemption, substitution, variation or purchase of the loan is subject to the Bank having received the consent of the FINMA (if then required)

and none of the following having occurred: (a) the regulator notified the Bank that the subordinated loans should be written down in order for the Bank to remain solvent or (b) the Bank has obtained support from central bank or the government in order to remain solvent. Any notice of prepayment and cancellation shall be irrevocable.

## 12. Valuation adjustments and provisions, reserves for general banking risks, and changes therein during the current year

	Balance at 31 December 2018 CHF millions	Use in conformity with designated purpose CHF millions	Currency differences CHF millions	Past due interest, recoveries CHF millions	New provisions charged to income statement CHF millions	Releases to income statement CHF millions	Balance at 31 December 2019 CHF millions
Provisions for deferred taxes							
Provisions for other business risks	28.1	(16.1)	(0.4)	0.1	33.6	(2.1)	43.2
<b>Total provisions</b>	<b>28.1</b>	<b>(16.1)</b>	<b>(0.4)</b>	<b>0.1</b>	<b>33.6</b>	<b>(2.1)</b>	<b>43.2</b>
<b>Reserve for general banking risks</b>	<b>0.4</b>						<b>0.4</b>
<b>Valuation adjustments for default and country risks</b>	<b>109.1</b>	<b>(11.4)</b>	<b>(0.2)</b>	<b>0.8</b>	<b>16.1</b>	<b>(2.2)</b>	<b>112.2</b>
<i>of which, valuation adjustments for default risks in respect of impaired loans/receivables</i>	109.1	(11.4)	(0.2)	0.8	16.1	(2.2)	112.2

### Provision for litigation risks

The Bank is involved in various legal and arbitration proceedings in the normal course of its business operations. The Bank establishes provisions for current and pending legal proceedings if management is of the opinion that the Bank is more likely than not to face payments or losses and if the amount of such payments or losses can be reliably estimated.

A provision of CHF 6.5 million (2018: CHF 6.0 million) relates to several client claims, following the discovery of irregularities in the management of clients' accounts by a former employee. The overall position is unlikely to be resolved within a year.

Other provisions of CHF 3.8 million remain for various small litigation cases.



### Other provisions

A provision of CHF 8.2 million (2018: CHF 5.2 million) has been made for claims arising from fraudulent activity by an ex-CRO. In addition, the Bank has been made aware that additional claims of approximately CHF 12.5 million may arise, against which the Bank is not able to assess the potential loss (see contingent liabilities). The Bank is assessing the legal and factual merits of all these claims. The overall position is likely to be resolved within a year.

The Bank has a provision of CHF 13.3 million (2018: CHF 6.8 million) which represents the amount that would have to be paid to if the Bank succeeds in recovering excess life insurance premiums from insurers who increased premiums. The overall position is unlikely to be resolved within a year.

The Bank has a provision of CHF 10.2 million (2018: CHF 0 million) for restructuring costs. Other provisions of CHF 1,2 million remains for other business risk.

### Contingent liabilities

EFG Bank is involved in various legal and arbitration proceedings in the normal course of its business operations. The Bank establishes provisions (per above) for current and threatened pending legal proceedings if management is of the opinion that the Bank is more likely than not to face payments or losses and if the amount of such payments or losses can be reliably estimated.

The Bank has differentiated the contingent liabilities into two categories as follows:

- a) Bank does not expect a material cash outflow
- b) Bank cannot reliably measure the obligation

#### (a) Bank does not expect a material cash outflow

The following contingent liabilities that management is aware of relate to legal proceedings which could have a material effect on the Bank. However, based on presently available information and assessments, the Bank currently does not expect that any of these contingent liabilities will result in material provisions or other liabilities.

The Bank is engaged in certain litigation proceedings mentioned below and is vigorously defending the cases. The Bank believes it has strong defences to the claims. The Bank does not expect the ultimate resolution of any of the below mentioned proceedings to which the Bank is party to have a significantly adverse effect on its financial position.

- i) The Bank has been named as a defendant in lawsuits by the liquidators of Fairfield Sentry Ltd. and Fairfield Sigma Ltd. asserting that redemption payments received by the Bank on behalf of clients should be returned. The amount claimed is uncertain, but the Bank believes the amount claimed is approximately USD 217 million. The Bank maintains its vigorous defence of the remaining lawsuits and believes itself to have strong defences to the claims.
- ii) The Trustee of Bernard L Madoff Investment Securities LLC (BLMIS) has filed a complaint asserting that redemption payments totalling USD 411 million allegedly received by the Bank on behalf of clients should be returned to BLMIS. This action includes the redemptions claimed by the Fairfield liquidators (see previous paragraph). The claims against the Bank were dismissed in 2018 by the District Court in New York based on jurisdictional and international comity grounds. On 25 February 2019, however, the Court of Appeals for the Second Circuit issued an opinion reversing the decision of the District Court which had dismissed the claims made against the Bank. The Bank is seeking review of the Second Circuit's decision before the Supreme Court of the United States. Notwithstanding the decision of the Second Circuit, the Bank believes itself to have strong defences to the claims and maintains its vigorous defence of the lawsuits.
- iii) The Bank has been named as a co-defendant in litigation brought against certain individuals who have allegedly diverted approximately CAD 127 million from their employer for their own benefit. The plaintiffs allege that an employee of the Bank acted on behalf of the alleged fraudsters and executed numerous potentially fraudulent transactions while being fully aware of the wrong doings, and by doing so participated in causing damage to the plaintiffs. The plaintiffs also claim approximately CAD 13 million as compensation for incurred for reputational damage. In 2019, the Superior Court of Quebec dismissed the plaintiffs' claims on jurisdictional grounds. The plaintiffs have appealed. The Bank is vigorously defending the case and believes it has strong defences to the claims.
- iv) The liquidator of an investment company has brought a claim against the Bank in the Commercial Court of Paris. The liquidator alleges that the Bank is liable for processing a specific transfer of USD 50 million. A first judgment was favourable to the Bank, and the liquidator appealed. In 2019 the Appeal Court condemned the Bank to pay USD 25 million. The Bank made an appeal to the French Supreme Court at the end

# Notes to the Financial Statements for the year ended 31 December 2019

of December 2019. The Bank is vigorously defending the claim and believes it has strong defences to the claim.

- v) An Irish family (not a client of the Bank) sued several unrelated defendants claiming they refused to return monies in the amount of EUR 6.9 million. The Bank and several other parties were joined to these primary proceedings as a third party by one of the defendants. The allegation seems to be misrepresentation, negligent misstatement, breach of duty, negligence and unjust enrichment. The Bank is vigorously defending against these claims and believes it has strong defences to the claims.

## (b) Bank cannot reliably measure the obligation

The following contingent liabilities that management is aware of could have a material effect on the Bank. However, based on presently available information and assessments, the Bank is not able to reliably measure the possible obligation.

- i) The Bank had two accounts in the name of an institutional client. This institutional client was designated by the Office of Foreign Assets Control ("OFAC") of the US Department of the Treasury as Specially Designated Nationals on account of assisting drug trafficking groups in money laundering. When an issue was raised as to whether the Bank violated OFAC sanctions after the client's OFAC designation because of subsequent transactions and interactions between US persons at the Bank and the institutional client, the Bank promptly initiated an internal investigation of this and other potential OFAC violations, which covered all the Bank's booking centres. The investigation has concluded and the Bank is actively cooperating with OFAC on the matter.
- ii) The Bank has launched an investigation into possible fraudulent activities by a former employee. Certain claims have been provided for above, whilst investigations are ongoing related to additional potential claims of approximately CHF 12.5 million. The Bank is assessing the legal and factual merits of these claims, however currently there is no reliable estimate of the potential loss on these potential claims.
- iii) The Italian tax authority, Agenzia Entrate, has sent questionnaires to the Bank. The questionnaires request information for the period from 01 January 2012 to 31 December 2017 regarding (1) income from loans to Italian clients, and (2) the financial dealings the Bank had with clients residing in Italy and the activities of the Bank in the Italian market, geared toward assessing whether the

Bank has a "permanent establishment" in Italy. This would subject the Bank to taxation on revenues from their Italian-related activities. At this point, the Italian tax authorities have not brought any proceedings against the Bank, and there is no reliable estimate of the potential loss on any potential claims.

- iv) In 2019 the Bank was named as a defendant in a claim brought against over twenty defendants in the Commercial Court in London by the Public Institution for Social Security (PIFSS) of Kuwait. The allegations centre on the former Director General of PIFSS, who is alleged to have been paid secret commissions, and to have been an account holder at EFG beginning in 2008. The claim against the Bank centres on allegations that between 1995 and 2012, the former Director General of PIFSS procured the payment to another defendant of approximately USD 332.1 million of secret commissions, as well as USD 44.6 million in other payments representing proceeds of other schemes alleged in the claim. EFG is investigating the factual and legal merits of the claim. At present, the Bank cannot reliably estimate its potential liability in the matter.
- v) The Bank is engaged in litigation proceedings initiated by a client claiming that he has been misled insofar as he thought that his investments were capital protected, that the agreed investment strategy has not been followed and that unauthorised transactions were performed. The amount claimed is approximately EUR 49 million plus interest. Although the Bank is vigorously defending the case and believes it has strong defences to the claims, it is difficult to determine at this stage whether the matter will ultimately result in liability to and there is no reliable estimate of what losses might be sustained on the claims.
- vi) The Bank (through the acquisition of BSI) was the counterparty in a shareholder agreement, where the Bank sold their holding in a company that was also a supplier of services to the Bank. The buyer of the shareholding has brought a claim for losses of CHF 90 million allegedly suffered as a result of the Bank terminating its contract with that supplier. In 2019 the Zurich Commercial Court rendered a judgment dismissing the claim in its entirety. The matter is currently on appeal.
- vii) A client has brought legal claims against the Bank for CHF 54 million in purported actual and consequential damages, alleging that the Bank did not manage the account in accordance with the mandate. The Bank is vigorously defending against these claims and believes it has strong defences to the claims.

### 13. Bank's capital

	31 December 2019			31 December 2018		
	Total par value CHF millions	No. of shares '000	Capital eligible for dividends CHF millions	Total par value CHF millions	No. of shares '000	Capital eligible for dividends CHF millions
Registered shares	162.4	162.41	162.4	162.4	162.41	162.4
<b>Total bank's capital</b>	<b>162.4</b>	<b>162.41</b>	<b>162.4</b>	162.4	162.41	162.4
Voting shares	162.4	162.41	162.4	162.4	162.41	162.4

### 14. EFG International AG's equity securities or options on equity securities held by all executives and directors and employees

	Number of Equity securities		Value of Equity securities		Number of restricted stock units		Value of restricted stock units	
	'000 31 Dec 2019	'000 31 Dec 2018	CHF millions 31 Dec 2019	CHF millions 31 Dec 2018	'000 31 Dec 2019	'000 31 Dec 2018	CHF millions 31 Dec 2019	CHF millions 31 Dec 2018
Members of the Board of Directors					61	126	0.3	0.7
Members of executive bodies					3,570	713	22.9	4.2
Employees	4,780.0	4,559	30.5	26.2	5,028	9,049	29.5	51.0
<b>Total</b>	<b>4,780.0</b>	<b>4,559</b>	<b>30.5</b>	<b>26.2</b>	<b>8,659</b>	<b>9,888</b>	<b>52.7</b>	<b>55.9</b>

\*The composition of the board of directors is the same for the Bank and its parent company, EFG International AG, Zurich. The members of executive bodies of the Bank that are not represented as members of the executive bodies of EFG International AG, do not hold any equity securities. Therefore the figures disclosed in the table above are related to members of the executive bodies at Bank's level only.

The Bank is 100% owned by EFG International AG. Directors, members of executive bodies and employees own shares in EFG International AG as disclosed above.

The Bank has adopted an Equity Incentive Plan for employees and executive officers of the Bank in order to strengthen the Bank's ability to furnish incentives for members of the Executive Committee and other key employees.

The different classes have earliest exercise dates generally varying from three to five years from the grant date and ending seven years from the grant date. In the Plans 2016 and 2017 a pro-rated exercise period has been introduced for non-risk taker positions: the first third being exercisable after one year from the grant date, the second after two years; and the last third after three years.

# Notes to the Financial Statements for the year ended 31 December 2019

## 15. Due from and due to related parties

	Amounts due from		Amount due to	
	31 December 2019 CHF millions	31 December 2018 CHF millions	31 December 2019 CHF millions	31 December 2018 CHF millions
Qualified participations	376.1	502.7	541.0	402.9
Group companies	113.8	119.9	1,801.9	1,480.9
Affiliated companies	924.7	865.2	4,259.7	3,365.9
Banks' governing bodies	3.4	9.2	2.2	2.2

The services given to the affiliated parties (securities transactions, money transfers, lending activities, deposits, remuneration) have been invoiced at the same tariff as to that applied to third parties.

## 16. Holders of significant participations

	31 December 2019		31 December 2018	
	Nominal CHF millions	Equity interest %	Nominal CHF millions	Equity interest %
<b>Significant shareholders and groups of shareholders with pooled voting rights</b>				
EFG International AG, Zurich	162.4	100	162.4	100
<b>Total</b>	<b>162.4</b>	<b>100</b>	162.4	100

## 17. Composition of equity capital – non distributable reserve

	31 December 2019 CHF millions	31 December 2018 CHF millions
Statutory capital reserve	81.2	81.2
<b>Total</b>	<b>81.2</b>	81.2

The non-distributable reserve (composed of part of the statutory capital reserve and statutory retained earnings reserve) amounts to at least half of the Banks' capital. This

amount may be used only to cover losses or for measures designated to sustain the Bank through difficult times to prevent unemployment and to mitigate its consequences.

## 18. Total assets by credit rating of country groups (risk domicile view)

	Rating according to the FINMA Mapping Table	Net foreign exposure 31 December 2019		Net foreign exposure 31 December 2018	
		CHF millions	Share as %	CHF millions	Share as %
AAA, AA-	1 & 2	12,084.9	67.4	12,412.1	66.5
A+, A-	3	1,071.6	6.0	1,218.5	6.5
BBB+, BBB-	4	1,883.6	10.5	2,243.7	12.0
BB+, BB-	5	759.0	4.2	510.2	2.7
B+, B-	6	395.1	2.2	602.1	3.2
CCC+, C	7	88.7	0.5	40.9	0.2
Unrated	Unrated	1,644.6	9.2	1,636.1	8.9
<b>Total</b>		<b>17,927.5</b>	<b>100.0</b>	18,663.6	100.0

### Rating system used:

According to the FINMA “mapping tables linking the credit rating categories and risk weightings in accordance with the Basel Minimum standards” (Circular 2012/01 – cm 63), the above table uses Standard & Poor’s/Moodys/Fitch second worst country rating convert to FINMA credit rating. This table is based on client’s collateral countries of domicile, banking counterparties and issuers.

## 19. Fiduciary transactions

	31 December 2019 CHF millions	31 December 2018 CHF millions
Fiduciary transactions with third-party banks	1,146.4	1,252.4
Fiduciary transactions with affiliated banks	39.9	22.1
<b>Total</b>	<b>1,186.3</b>	1,274.5

# Notes to the Financial Statements for the year ended 31 December 2019

## 20. Managed assets and their development

	31 December 2019 CHF millions	31 December 2018 CHF millions
<b>Type of managed assets</b>		
Assets in collective investment schemes managed by the Bank	88.6	63.5
Assets under discretionary management agreements	9,020.2	7,538.9
Other managed assets	52,414.4	50,325.8
<b>Total managed assets (including double counting)</b>	<b>61,523.2</b>	<b>57,928.2</b>
<i>of which, double counting</i>	88.6	63.5
Loans	12,271.6	12,117.9
<b>Total client funds generating revenues</b>	<b>73,794.8</b>	<b>70,046.1</b>
<b>Net (outflows) / new money (including double counting)</b>	<b>(371.9)</b>	<b>(3,827.4)</b>

	31 December 2019 CHF millions	31 December 2018 CHF millions
<b>Development of managed assets</b>		
Total managed assets (including double counting) at beginning of year	57,928.2	65,739.3
Net new money (outflow)	(371.9)	(3,827.4)
Price gains/losses, interest, dividends and currency gain/losses	3,966.9	(3,596.1)
Other effects	-	(387.6)
<b>Total managed assets (including double counting) at end of year</b>	<b>61,523.2</b>	<b>57,928.2</b>

Net new money consists of new client acquisitions, client departures and inflows or outflows attributable to existing clients (whether in cash or securities). New or repaid client loans and overdrafts are not included in the net new money. Interest and dividend income from assets under management, market or currency movements as well as fees and commissions are not included in net new money. Effects resulting from any acquisition or disposal of Group companies are not included in the net new money.

Total managed assets do not include client assets under a "custody-only" relationship (where "custody-only" is defined as assets held exclusively for the purposes of transactions/administration) for which the Bank only assumes custody, without offering any supplementary services. The Bank has entered into custody-only relationships with certain affiliated companies.

The item "Total managed assets" comprises only client assets under "more-than-custody-only" relationships.

## Information relating to Income Statement

### 21. Result from trading activities and the fair value option

	31 December 2019 CHF millions	31 December 2018 CHF millions
<b>(a) Breakdown by business area</b>		
Direct private banking activities	36.7	52.7
Treasury activities	88.2	94.3
Life insurance	4.9	1.9
<b>Total result from the trading activities and the fair value option</b>	<b>129.8</b>	<b>148.9</b>
<b>(b) Breakdown by underlying risk and based on the use of the fair value option</b>		
Result from the trading activities from		
Interest rate instruments (including funds)	(45.5)	(7.9)
Equity securities (including funds)	62.0	13.0
Foreign currencies	108.4	141.9
Life insurance	4.9	1.9
<b>Total result from the trading activities and the fair value option</b>	<b>129.8</b>	<b>148.9</b>
<i>of which, from fair value option on assets</i>	<i>38.1</i>	<i>12.2</i>
<i>of which, from fair value option on liabilities</i>	<i>(10.0)</i>	<i>(11.0)</i>

### 22. Material refinancing income in the item interest and discount income as well as material negative interest

#### Material refinancing income

There are no refinancing costs for trading portfolios.

#### Material negative interest

Negative interest on Swiss Francs deposits placed by the Bank at the Swiss National Bank amounts to CHF 24.5 million in the year ended 31 December 2019 (2018: CHF 24.5 million) and are disclosed in reduction of "Interest and discount income".

Negative interest charged to customers on deposits of CHF 0.3 million (2018: CHF 0.9 million) are included in "interest expenses".

# Notes to the Financial Statements for the year ended 31 December 2019

## 23. Personnel expenses

	31 December 2019 CHF millions	31 December 2018 CHF millions
Salaries	(319.9)	(300.6)
<i>of which variable compensation and equity incentives</i>	(70.0)	(48.5)
Social security expenses	(19.6)	(20.8)
Contributions to pension plans	(26.6)	(26.6)
Other personnel expenses	(8.8)	(6.3)
<b>Total</b>	<b>(374.9)</b>	<b>(354.3)</b>

## 24. General and administrative expenses

	31 December 2019 CHF millions	31 December 2018 CHF millions
Premises and real estate expenses	(24.4)	(30.6)
Expenses for communication and network expenses	(21.1)	(22.5)
Expenses for computer services	(13.4)	(15.4)
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	(2.2)	(2.2)
Fees of audit firms	(2.8)	(5.1)
<i>of which, for financial and regulatory audits</i>	(2.3)	(3.2)
<i>of which, for other services</i>	(0.5)	(1.9)
Other operating expenses	(86.1)	(120.6)
<i>of which, other operating expenses paid to EFGI sister companies or parent company</i>	(21.0)	(17.4)
<b>Total</b>	<b>(150.0)</b>	<b>(196.4)</b>

## 25. Material losses, extraordinary income and expenses, as well as material release of value adjustments and provisions no longer required

	31 December 2019 CHF millions	31 December 2018 CHF millions
Extraordinary income	6.7	30.0
Extraordinary expenses	(0.2)	(0.3)

Extraordinary income of CHF 6.7 million mainly relate to:  
– the gain from the sale of shares in Six Group  
(CHF 2.8 million).

– the reversal of miscellaneous unclaimed provisional  
amounts (CHF 2.0 million).  
– the sale of a building in Ticino (CHF 1.7 million).



## 26. Taxes

	31 December 2019 CHF millions	31 December 2018 CHF millions
Current taxes	(2.8)	2.3
Deferred taxes		0.3
<b>Total taxes</b>	<b>(2.8)</b>	<b>2.6</b>
Average tax rate weighted on the basis of the operating results	9.84%	n/a

In 2018, the calculation of an average tax based on a negative operating result is not relevant. The negative tax charges relates primarily to a reversal of previously over-provided taxes. In 2019, the tax charges relates to the capital taxes, business taxes and real estate taxes payable in Switzerland.

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