EFG International Finance (Guernsey) Limited

# Annual Report and Audited Financial Statements

for the year ended 31 December 2018

# Contents

# Directors‘ Report

General Information

The Directors have the pleasure in presenting their annual report and audited financial statements (“the Financial Statements”) for the year ended 31 December 2018.

EFG International Finance (Guernsey) Limited (“EFGI Finance Guernsey” or the “Company”), began operations in November 2007 and is a registered limited share company incorporated in Guernsey (Registration Number 48057). EFGI Finance Guernsey is a wholly owned subsidiary of EFG International AG (“EFGI”) headquartered in Zurich.

Principal activities

EFGI Finance Guernsey’s primary business is the structuring, issuance and sale of financial products.

Results

The results for the year ending 31 December 2018 are shown on page 7.

Dividends

The directors proposed a final dividend of CHF 3.0 million for the 2018 year-end at a Board of Directors meeting held on 4 September, 2019. The 2017 proposed dividend of CHF 1 million was approved by shareholders and paid in 2018.

Going Concern

The Company has considerable financial resources and after making enquiries the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly the Directors continue to adopt the going concern basis in preparing these Financial Statements.

Directors

The Directors of the Company comprises:

- Kurt Haueter
- Stephen Watts
- Michael Rodel
- Richard Burwood

Company Secretary

EFG Secretaries Limited, Jersey, Channel Islands is the company secretary and has been the company secretary for the whole of the period then ended.

Independent Auditor

The appointed auditor, PricewaterhouseCoopers CI LLP have indicated their willingness to continue in office, and it is proposed to reappoint them as auditors to the Company for the year 2019 at the next annual general meeting.

Directors’ responsibilities statement

The Directors are responsible for preparing Financial Statements for each financial period which give a true and fair view, in accordance with applicable Guernsey law and International Financial Reporting Standards (“IFRS”), of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with The Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the Directors are aware, there is no relevant audit information of which the Company’s auditor is unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company’s auditor is aware of that information.

By order of the Board

Stephen Watts, Director

4 September 2019

Richard Burwood, Director

4 September 2019

# Auditor’s Report

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EFG INTERNATIONAL FINANCE (GUERNSEY) LIMITED

**Report on the audit of the financial statements**

## Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of EFG International Finance (Guernsey) Limited (the "Company") as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

## What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## Other information

The directors are responsible for the other information. The other information comprises all the information included in the Annual Report and Audited Financial Statements but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards, the requirements of Guernsey law and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Report on other legal and regulatory requirements

Under The Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

This report, including the opinion, has been prepared for and only for the members as a body in accordance with Section 262 of The Companies (Guernsey) Law, 2008 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers CI LLP
Chartered Accountants
Guernsey, Channel Islands

# Statement of Comprehensive Income for the year ended 31 December 2018

| *CHF thousands* | Note | 2018 | 2017 |
|---|---|---|---|
| Fee income | 6 | 30,882 | 25,137 |
| Fee expense | 7 | (30,882) | (25,137) |
| Net fee income | | - | - |
| Net trading income | 8 | 15 | 2,262 |
| Other operating income | 9 | 137,696 | 19,528 |
| Total operating income | | 137,711 | 21,790 |
| Other operating expenses | 10 | (134,821) | (20,483) |
| Total operating expenses | | (134,821) | (20,483) |
| Profit before tax | | 2,890 | 1,307 |
| Net profit | | 2,890 | 1,307 |
| Total comprehensive income | | 2,890 | 1,307 |

The notes on pages 13 to 30 form an integral part of these financial statements

# Statement of Financial Position at 31 December 2018

| CHF thousands | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| Assets | | | |
| Cash and cash equivalents | 11 | 106,048 | 85,125 |
| Cash collateral | 18 | 733,273 | 111,646 |
| Settlement receivables | 12 | 18,873 | 39,266 |
| Trading financial assets | 13 | 2,331 | 1,506 |
| Positive replacement values of derivative instruments | 14 | 54,656 | 104,380 |
| Financial assets at fair value through profit or loss | 15 | 3,406,007 | 3,498,675 |
| Other assets | 17 | 115,977 | 52,400 |
| Total assets | | 4,437,165 | 3,892,998 |
| Liabilities | | | |
| Short-term credit | | – | 1 |
| Settlement payables | 12 | 44,545 | 20,418 |
| Other liabilities | 19 | 116,844 | 54,220 |
| Negative replacement values of derivative instruments | 14 | 792,984 | 237,246 |
| Financial liabilities designated at fair value through profit or loss | 16 | 3,474,147 | 3,574,358 |
| Total liabilities | | 4,428,520 | 3,886,243 |
| Equity | | | |
| Share capital | 20 | 5,000 | 5,000 |
| Retained earnings | | 3,645 | 1,755 |
| Total shareholders' equity | | 8,645 | 6,755 |
| Total equity and liabilities | | 4,437,165 | 3,892,998 |

The Financial Statements on pages 7 to 30 were approved by the Board of Directors on 4 September 2019 and signed on its behalf by:

Stephen Watts, Director

Richard Burwood, Director

The notes on pages 13 to 30 form an integral part of these financial statements

# Statement of Changes in Equity for the year ended 31 December 2018

| CHF thousands | Share capital | Retained earnings | Total equity |
|---|---|---|---|
| Balance at 31 December 2016 | 5,000 | 1,448 | 6,448 |
| Dividend paid | | (1,000) | (1,000) |
| Net Profit | | 1,307 | 1,307 |
| Balance at 31 December 2017 | 5,000 | 1,755 | 6,755 |
| Dividend paid | | (1,000) | (1,000) |
| Net Profit | | 2,890 | 2,890 |
| Balance at 31 December 2018 | 5,000 | 3,645 | 8,645 |

The notes on pages 13 to 30 form an integral part of these financial statements

# Statement of Cash Flows
# for the year ended 31 December 2018

| CHF thousands | | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Net profit | | 2,890 | 1,307 |
| Reconciliation to net cash flow from operating activities | | 2,890 | 1,307 |
| Net (increase)/decrease in assets related to operating activities | | | |
| Financial assets at fair value | | (52,018) | (32,035) |
| Settlement balances, net | 12 | 44,520 | 29,492 |
| Cash collateral, net | 18 | (621,627) | 97,157 |
| Purchase of financial assets | | 143,861 | (531,514) |
| Other assets | 17 | (59,612) | (41,763) |
| Net increase/(decrease) in liabilities related to operating activities | | | |
| Financial assets at fair value | | (953,960) | 96,343 |
| replacement values, net | 14 | 605,463 | (88,009) |
| Short-term credit | | (1) | (1,881) |
| Purchase of financial liabilities | | 853,749 | 452,718 |
| Other liabilities | 19 | 58,658 | 42,391 |
| Cash flows from operating activities | | 21,923 | 24,206 |
| Cash flows from financing activities | | | |
| Dividend paid | 20 | (1,000) | (1,000) |
| Cash flows from financing activities | | (1,000) | (1,000) |
| Net increase in cash and cash equivalents | | 20,923 | 23,206 |
| Cash and cash equivalents at beginning of year | | 85,125 | 61,919 |
| Cash and cash equivalents at the balance sheet date | | 106,048 | 85,125 |

The notes on pages 13 to 30 form an integral part of these financial statements

# Notes to the Financial Statements

1. General information

EFGI Finance Guernsey's primary business is the structuring, issuance and sale of financial products.

EFGI Finance Guernsey, is a registered limited share company incorporated in Guernsey. The Company is domiciled in Guernsey, Channel Islands at EFG House, St Julian's Avenue, St Peter Port, Guernsey, GY1 4NN.

EFGI Finance Guernsey is a wholly owned subsidiary of EFG International AG ("EFGI") headquartered in Zurich. EFGI is the ultimate parent and ultimate controlling party of EFGI Finance Guernsey. EFGI publishes annual financial statements in accordance with International Financial Reporting Standards (IFRS).

These Financial Statements have been prepared on a stand-alone basis as required for statutory purposes. On 4 September 2019, the Board of Directors approved these Financial Statements for issue.

These Financial Statements have been prepared for the year ended 31 December 2018.

The Directors consider the Company to be a going concern and as such the Financial Statements are prepared on a going concern basis.

2. Critical accounting estimates and judgements in applying accounting policies

The application of certain of these accounting principles requires considerable judgment based upon estimates and assumptions that involve significant uncertainty at the time they are made. Changes in assumptions may have a significant impact on the Financial Statements in the periods where assumptions are changed. Accounting treatments where significant assumptions and estimates are used are discussed in this section, as a guide to understanding how their application affects the reported results.

The application of assumptions and estimates means that any selection of different assumptions would cause the reported results and/or disclosures to differ. The Company believes that the assumptions it has made are appropriate, and that the EFGI Finance Guernsey's Financial Statements therefore present the financial position and results fairly, in all material respects.

The most relevant areas of judgment for the Company include the application of assumptions with respect to the fair value of financial instruments, which are further discussed within Note 5, Financial risks and financial risk management.

3. Principal accounting policies

The principal accounting policies applied in the preparation of these Financial Statements are set out below. These policies have been consistently applied, unless otherwise stated.

EFGI Finance Guernsey prepares its Financial Statements in accordance with IFRS as issued by the International Accounting Standards Board (IASB). The Financial Statements are prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

**3.1 Financial assets and financial liabilities at fair value through profit or loss**

A financial instrument may only be designated at fair value through profit or loss at inception and this designation cannot subsequently be changed. Financial assets and financial liabilities designated at fair value are presented in separate lines in the Statement of Financial Position.

The conditions for applying the fair value option are met on the basis that they are hybrid instruments which consist of a debt host and an embedded derivative component, they are items that are part of a portfolio which is risk managed on a fair value basis and reported to senior management on that basis, or the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise.

Hybrid instruments which fall under the criterion above include structured products. These instruments generally include one or more embedded derivative components which refer to an underlying, e.g. equity price, interest rate, commodities price or index. Where a product has multiple embedded derivatives, the value of these derivatives may be dependent upon one another. EFGI Finance Guernsey has designated all of its issued hybrid instruments as financial liabilities designated at fair value through profit or loss.

In addition to structured products, the fair value option is also applied to all term deposits and bonds held by EFGI Finance Guernsey. The application of the fair value option to these instruments reduces an accounting mismatch that would otherwise arise from recognizing these assets using a different basis of accounting than the offsetting liabilities, the hybrid financial instruments, which are designated at fair value through profit or loss. Financial assets and liabilities meeting the definition of instruments held for trading are also recognised at fair value with changes in fair value recognised within net trading income. Financial assets held for trading include primarily debt securities.

EFGI Finance Guernsey uses trade date accounting when recording financial transactions. From the date the purchase transaction is entered into (trade date), EFGI Finance Guernsey recognizes a financial asset on the Statement of Financial Position at the fair value of the consideration given or received, including directly attributable transaction costs, which are expensed immediately. When EFGI Finance Guernsey becomes party to a sales contract of a financial asset, it derecognizes the asset.

**3.2 Derivative financial instruments**

The replacement values of all derivative instruments are reflected at the fair value on the Statement of Financial Position and are reported as positive replacement values or negative replacement values. As EFGI Finance Guernsey enters into derivatives for trading purposes, realized and unrealized gains and losses are recognised in net trading income.

A derivative may be embedded in a “host contract”. Such combinations are known as hybrid instruments and arise predominantly from the issuance of structured debt instruments. The values of the embedded derivatives are presented with the host debt as financial liabilities designated at fair value. Gains and losses from financial liabilities are reported in the income statement as net trading income.

In certain circumstances, EFGI Finance Guernsey uses derivative financial instruments to hedge risks associated with foreign exchange movements. At the inception of the transaction, EFGI Finance Guernsey documents the relationship between the hedging instruments and hedged items, as well as the risk management objectives and strategy for undertaking the hedging transactions. At inception and on an ongoing basis, EFGI Finance Guernsey documents the effectiveness of the hedge. For the hedge of fixed foreign currency denominated costs, the associated derivatives may be designated as cash flow hedges. Effective unrealised gains or losses on these instruments are recognised within the hedge accounting reserve in other comprehensive income. EFGI Finance Guernsey transfers the hedge accounting reserves into the statement of other comprehensive income when the hedged cash flows occur or when hedge accounting is terminated. EFGI Finance Guernsey does currently not apply hedge accounting.

**3.3 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

**3.4 Settlement positions**

Settlement receivables and payables are recognised at fair value and subsequently measured at amortized cost, less provision for impairment.

**3.5 Impairment**

For all financial assets not measured at fair value, the company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

**3.6 Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts, if applicable, are shown within other short term credit.

**3.7 Fee income**

Fee income represents sales fee income, the initial margin earned upon the issuance of structured investment products.

The adoption of IFRS 15 resulted in changes to the accounting policies applicable from 1 January 2018. The primary changes arise from the IFRS 15 requirements that fee and commission income is measured based on consideration specified in a legally enforceable contract and variable consideration that is contingent on an uncertain event can only be recognised to the extent that it is highly probable that a significant reversal will not occur.

Sales fee income related to the sale of an existing product is recognised immediately. Transaction costs that are directly attributable to the issuance of a structured investment product are presented net of any sales fee received.

**3.8 Fee expense**

A white-labelling service agreement is in place with Leonteq Securities AG (“Leonteq”). In accordance with this agreement, Leonteq services the portfolio of products issued by the Company including the lifecycle management of structured products issued by the entity. White-labelling fee expense represents amounts charged to the Company under this agreement. Services provided to the Company by Leonteq include but are not limited to the set-up and issuance of structured products, production of term sheets and documentation, settlement and listing of structured products on SIX, client services and other services including risk management and market making activities.

**3.9 Trading income**

Gains and losses from changes in fair value of financial assets and financial liabilities held at fair value, including the interest income on these financial assets and liabilities are recognised as trading income.

When a financial instrument is recognised for the first time, the transaction price provides the best indication of the fair value unless the fair value of the financial instrument can be evidenced by comparison with other observable current market transactions involving the same instrument (level 1 instrument) or is based on a valuation method that uses market data (level 2 instrument). If this is the case, the difference between the transaction price less initial margin earned and the fair value – referred to as “day 1 profit” – is recorded in trading income.

In the case of level 3 instruments, the day 1 profit is deferred and is not recognised in the Income Statement. It is only recorded as trading income when the fair value can be determined using observable market data.

During the financial years reported in these Financial Statements, no positions with deferred day 1 profit were recorded.

**3.10 Other Operating income**

Other operating income primarily represents guarantee fee income and expenses as detailed under financial guarantees and other loan interest income received on the asset-linked preferred equity certificates as explained within the accounting policies and Note 21, Related party transactions.

**3.11 Other Operating expenses**

Other operating expenses primarily represent banking fees as well as audit fees, listing fees and management administration charges.

**3.12 Foreign currency translation**

The functional and presentation currency of the Company is the Swiss franc (CHF).

Assets and liabilities of the Company that are denominated in a foreign currency are translated into Swiss francs at the closing exchange rates. Average exchange rates for the period under review are used for items in the income statements, statements of other comprehensive income and statements of cash flows. Exchange differences arising from the use of closing exchange rates and average exchange rates are recognised as currency translation adjustments in other comprehensive income.

**3.13 Income taxes**

The Company has been taxed at the company standard rate in Guernsey of 0%.

**3.14 Financial guarantees**

EFGI Finance Guernsey has issued an irrevocable financial guarantee to EFG Bank AG up to the maximum amount of the outstanding cash and term deposits of EFGI Finance Guernsey held with the EFG Bank AG in case predefined subsidiaries of EFGI fail to make payments to EFG Bank AG. EFGI Finance Guernsey’s term deposits are pledged to EFG Bank AG under this arrangement. At the same time, EFGI guarantees to the investors of EFGI Finance Guernsey in case of a default on products issued by EFGI Finance Guernsey. These guarantees were deemed to be economically equal and offsetting and therefore no cash consideration was exchanged by the parties and no fees are being paid by either entity with respect to these guarantees.

The guarantee issued to EFG Bank AG has been recognised at fair value in accordance with IFRS 9.

The financial guarantees have been recognised within other assets and other liabilities. The amortisation of the asset and liability are reflected net within other operating income.

**3.15 Share Capital**

EFGI Finance Guernsey has 5,000,000 shares authorised with a par value of CHF 1.00 per share. There is only one class of share.

**3.16 Dividends**

Subject to the Company's shareholders' approval, dividends are recognised as a liability until a disbursement takes place. A dividend of CHF 3.0 million was proposed in 2018 and approved at a Board of Directors meeting held on 4 September, 2019.

4. Changes in accounting policies, comparability and other adjustments

None of the new accounting standards, interpretations or amendments that have become effective in the current year have had a material impact on the Financial Statements. At the date of approval of these Financial Statements, there are a number of new standards, amendments to existing standards and interpretations, which have not been applied in these Financial Statements that were in issue but not yet effective and will be adopted from their effective date. Those which may have an effect on the Company's future Financial Statements are set out below.

**IFRS 9, Financial Instruments**

IFRS 9, "Financial Instruments" (relating to the classification and measurement of financial assets and liabilities, effective for periods commencing on or after 1 January 2018). This standard specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39 'Financial Statements: Recognition and Measurement' ("IAS 39").

Based on a detailed analysis, it has had the following significant impact:

EFGI Finance Guernsey will recognize the impact of the change in own credit risk in the other comprehensive income (OCI). Subsequently, the OCI changes in own credit risk are transferred within equity into retained earnings reserves. Any fair value impact not related to changes in own credit risk is recorded in the Statement of Comprehensive Income.

**IFRS 15, Revenue from Contract with Customers**

The framework of IFRS 15 must be applied consistently across transactions, industries and capital markets. The Standard aims to improve comparability in the revenue section of the Financial Statements of companies globally. The recognition of revenues from contracts with customers is based on a five step approach:

1. Identify the contract with the customer
2. Identify the separate performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to separate performance obligations
5. Recognise revenue when a performance obligation is satisfied

IFRS 15 contains new guidelines on whether revenue should be recognised at a certain point in time or over time. For cases involving variable consideration, a new recognition threshold was introduced. Under this reporting standard, variable amounts are only included in revenue if it is highly probable that a significant revenue reversal will not occur in the future as a result of re-estimation.

The adoption of the above amended standard has had no material impact on the Financial Statements of the Company.

**IFRS 16, Leases**

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The adoption of this amended standard will have no material impact on the Financial Statements of the Company.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

5. Financial risk assessment and management

EFGI Finance Guernsey's activities expose it to a variety of financial risks including market risk, credit risk, operational risk and liquidity and funding risk. These risks primarily arise through the issuance of structured products, the related investment of cash proceeds and the hedging of market risks through the purchase of derivative products.

EFGI Finance Guernsey's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance. The Board of Directors regularly assesses the main risk factors of EFGI Finance Guernsey. It is the strict policy of EFGI Finance Guernsey to hedge all of its outstanding liabilities in the form of financial products by congruent investments in underlying instruments or derivatives. The residual risk due to imperfect hedging of outstanding financial products is measured and limited by appropriate methods and limits.

Risk management is outsourced to the Risk Control department of Leonteq Securities AG under policies approved by management and the Board of Directors.

**Measurement methodologies**

Derivative instruments, traded financial assets and liabilities, financial assets designated at fair value and financial liabilities designated at fair value are recorded at fair value in the Statement of Financial Position. Changes in the fair values of these instruments are recorded as net trading income in the income statement.

Fair values are determined using quoted prices in active markets when these are available. In other cases, fair value is determined using a valuation model. Valuation models use market observable inputs and rates derived from market-verifiable data, such as interest rates and foreign exchange rates, when available. Valuation models are primarily used for valuation and hedging of issued structured products and derivatives.

The output of a model is typically an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions held. Significant risks arise when models are used to value financial securities and calculate hedging ratios. The consequence of an inadequate model could be a wrong valuation leading to an incorrect risk assessment and a wrong hedging position, both of which could lead to a financial loss.

All models are validated before they are used as a basis for financial reporting, and periodically reviewed thereafter, by qualified personnel independent of model developers and users. Whenever possible, valuations derived from models are compared with prices of similar financial instruments and with actual values when realised in order to further validate and calibrate the models.

Valuation models are generally applied consistently across products and from one period to the next, ensuring comparability and continuity of valuations over time. However, models are changed or adapted to market developments where appropriate, and the Company considers additional factors to ensure that the valuations are appropriate. The factors considered include uncertainties in relation to models used, parameters used, liquidity risks and in the case of structured products the risk of early redemption. The adjustments reflect the inherent uncertainty in model assumptions and input parameters in relation to the valuation method used. The adjustments relating to the liquidity risk consider the expected cost of hedging open net risk positions. The Company believes that it is necessary and appropriate to take these factors into account to determine the fair value of these instruments.

There were no other significant changes in the valuation models used for the year ending 31 December 2018.

All financial instruments carried at fair value are categorized into one of three fair value hierarchy levels at year-end depending on how fair value has been determined:

- level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities
- level 2 – valuation techniques for which all significant inputs are market-observable, either directly or indirectly
- level 3 – valuation techniques which include significant inputs that are not based on observable market data

Transfers between levels resulting from changes due to the availability of market prices or market liquidity are made when the change of market liquidity occurs.

## Fair value hierarchy

| CHF thousands | 31 December 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets | | | | |
| Trading financial assets | 2,331 | | | 2,331 |
| Positive replacement values of derivative instruments | | 54,656 | | 54,656 |
| Financial assets designated at fair value through profit or loss | | 3,406,007 | | 3,406,007 |
| Total financial assets | 2,331 | 3,460,663 | | 3,462,994 |
| Financial liabilities | | | | |
| Negative replacement values of derivative instruments | | (792,984) | | (792,984) |
| Financial liabilities designated at fair value through profit or loss | | (3,474,147) | | (3,474,147) |
| Total financial liabilities | | (4,267,131) | | (4,267,131) |

| CHF thousands | 31 December 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets | | | | |
| Trading financial assets | 1,506 | | | 1,506 |
| Positive replacement values of derivative instruments | | 104,380 | | 104,380 |
| Financial assets designated at fair value through profit or loss | | 3,498,675 | | 3,498,675 |
| Total financial assets | 1,506 | 3,603,055 | | 3,604,561 |
| Financial liabilities | | | | |
| Negative replacement values of derivative instruments | | (237,246) | | (237,246) |
| Financial liabilities designated at fair value through profit or loss | | (3,574,358) | | (3,574,358) |
| Total financial liabilities | | (3,811,604) | | (3,811,604) |

### Offsetting financial assets and liabilities

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements. The net amount shown reflects the net credit exposure per asset class.

| CHF thousands<br>At 31 December 2018 | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities set off in the Statement of financial position | Net amounts of financial assets as reported in IFRS Statement of financial position | Effect of Master Netting Agreements | Effect of collateral received | Net amount |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 106,048 | | 106,048 | | | 106,048 |
| Settlement receivables | 18,873 | | 18,873 | (4,599) | | 14,274 |
| Cash collateral paid | 733,273 | | 733,273 | | (733,273) | - |
| Positive replacement values of derivative instruments | 54,656 | | 54,656 | (54,656) | | - |
| Financial assets designated at fair value | 3,406,007 | - | 3,406,007 | | | 3,406,007 |
| Total financial assets | 4,318,857 | - | 4,318,857 | (59,255) | (733,273) | 3,526,329 |

| At 31 December 2017 | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities set off in the Statement of financial position | Net amounts of financial assets as reported in IFRS Statement of financial position | Effect of Master Netting Agreements | Effect of collateral received | Net amount |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 85,125 | | 85,125 | | | 85,125 |
| Settlement receivables | 39,266 | | 39,266 | (20,418) | | 18,848 |
| Cash collateral paid | 111,646 | | 111,646 | | (111,646) | - |
| Positive replacement values of derivative instruments | 104,380 | | 104,380 | (104,380) | | - |
| Financial assets designated at fair value | 3,498,675 | | 3,498,675 | | | 3,498,675 |
| Total financial assets | 3,839,092 | - | 3,839,092 | (124,798) | (111,646) | 3,602,648 |

# Notes to the financial statements
# EFG International Finance (Guernsey) Limited

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

| CHF thousands<br>At 31 December 2018 | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial assets set off in the Statement of financial position | Net amounts of financial liabilities as reported in IFRS Statement of financial position | Financial liabilities subject to netting agreements | Effect of collateral received | Net amount |
|---|---|---|---|---|---|---|
| Settlement payables | 44,545 | | 44,545 | (4,599) | | 39,946 |
| Negative replacement values of derivative instruments | 792,984 | | 792,984 | (54,656) | (733,273) | 5,055 |
| Financial liabilities designated at fair value | 3,474,147 | | 3,474,147 | | | 3,474,147 |
| Total financial liabilities | 4,311,676 | - | 4,311,676 | (59,255) | (733,273) | 3,519,148 |

| At 31 December 2017 | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial assets set off in the Statement of financial position | Net amounts of financial liabilities as reported in IFRS Statement of financial position | Financial liabilities subject to netting agreements | Effect of collateral received | Net amount |
|---|---|---|---|---|---|---|
| Other short-term liabilities | 1 | | 1 | | | 1 |
| Settlement payables | 20,418 | | 20,418 | (20,418) | | - |
| Negative replacement values of derivative instruments | 237,246 | | 237,246 | (104,380) | (111,646) | 21,220 |
| Financial liabilities designated at fair value | 3,574,358 | | 3,574,358 | | | 3,574,358 |
| Total financial liabilities | 3,832,023 | - | 3,832,023 | (124,798) | (111,646) | 3,595,579 |

For the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements above, each agreement between the Company and the counterparty allows for net settlement of the relevant financial asset and financial liability when both parties elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis; however, each party to the master netting arrangement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

## Market risk

EFGI Finance Guernsey takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates, commodities and equity prices. EFGI Finance Guernsey has market risks arising from its derivatives, trading financial assets, financial assets and financial liabilities designated at fair value. Regular reports are submitted by the outsourced Risk Control department to management and the Board of Directors.

Market risks arising from the issuances of hybrid financial liabilities and from therein embedded derivatives are fully hedged by offsetting OTC derivative transactions on product and transaction level, respectively. The market risk is therefore transferred to the outsourcing partner Leonteq Securities AG. The outsourcing partner takes over the market risk and hedges such risk with derivatives, equities and bonds.

As a result, EFGI Finance Guernsey has no significant remaining market risk exposure related to the issuance of the hybrid financial liabilities as the market risk is fully transferred to the outsourcing provider, i.e. the counterparty of the OTC derivative transactions. It is management's policy to economically hedge market risk in this way and market risk exposures are controlled by monitoring this hedging process. No sensitivity analysis in accordance with IFRS 7 has been performed as the market risk has been transferred to the outsourcing partner Leonteq Securities AG

## Credit risk

Credit risk is the risk of suffering financial loss, should any of the companies, clients or market counterparties fail to fulfil their contractual obligations to EFGI Finance Guernsey. Credit risk arises mainly from receivables balances related to financial assets including its term deposits with EFG Bank, Cayman Branch and its trading exposures, primarily derivatives and settlement balances with Leonteq Securities AG. The credit risk management and controls are outsourced to the Risk Control department of Leonteq Securities AG, which reports to the Board of Directors regularly. There have been no significant past due or impaired receivables.

With the exception of credit derivatives which hedge embedded derivatives of issued hybrid financial liabilities. The maximum exposure to credit risk for financial assets recognised on the Statement of Financial Position is represented by the amounts shown on the Statement of Financial Position.

The maximum exposure to credit risk in respect of financial guarantees is equal to the notional amount of the guarantee, as disclosed in Note 21. The exposures under the financial guarantee are not subject to any collateral or other credit enhancements. EFGI Finance Guernsey is exposed to the credit quality of a number of selected counterparties within EFGI. The credit rating of EFGI is considered an appropriate representation of the overall credit quality of the related group of counterparties.

EFGI was rated A3 by Moody’s as at 31 December 2018 and as at 31 December 2017. EFG Bank AG was rated A1 by Moody’s as at 31 December 2018 and as at 31 December 2017.

EFGI Finance Guernsey’s most significant credit exposure is with EFG Bank AG. Refer to Note 21 for further details.

## Liquidity and funding risk

Liquidity risk is the risk that EFGI Finance Guernsey may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

EFGI Finance Guernsey manages its exposure to liquidity risk by investing the cash proceeds from the issuance of hybrid financial liabilities in offsetting term deposits and derivatives with the same maturity date as the liability (as further discussed in the market risk section above). Therefore each liability falling due for payment is aiming to match a corresponding receipt on a maturing asset. Management monitors liquidity risk by monitoring this hedging process.

The following table analyses EFGI Finance Guernsey's financial instruments based on the remaining period at the balance sheet date to the contractual maturity date.

Balances equal their carrying balances as the impact of discounting is not significant.

| CHF thousands | Up to 1 month | 1–3 months | 3–12 months | Over 12 months | Total |
|---|---|---|---|---|---|
| 31 December 2018 | | | | | |
| Assets | | | | | |
| Cash and cash equivalents | 106,048 | | | | 106,048 |
| Cash collateral | 733,273 | | | | 733,273 |
| Settlement receivables | 18,873 | | | | 18,873 |
| Trading financial assets | 1,528 | | | 803 | 2,331 |
| Positive replacement values of derivative instruments | 441 | 722 | 8,177 | 45,316 | 54,656 |
| Financial assets designated at fair value through profit of loss | 338,517 | 423,718 | 1,988,365 | 655,407 | 3,406,007 |
| Other assets | 1 | | 112,011 | | 112,012 |
| Total Assets | 1,198,681 | 424,440 | 2,108,553 | 701,526 | 4,433,200 |
| Liabilities | | | | | |
| Other short term credit | | | | | – |
| Settlement payables | 44,545 | | | | 44,545 |
| Other liabilities | | | 112,879 | | 112,879 |
| Negative replacement values of derivative instruments | 12,177 | 42,630 | 171,465 | 566,712 | 792,984 |
| Financial liabilities designated at fair value through profit or loss | 176,642 | 141,398 | 785,233 | 2,370,874 | 3,474,147 |
| Total Liabilities | 233,364 | 184,028 | 1,069,577 | 2,937,586 | 4,424,555 |

| CHF thousands | Up to 1 month | 1–3 months | 3–12 months | Over 12 months | Total |
|---|---|---|---|---|---|
| 31 December 2017 | | | | | |
| Assets | | | | | |
| Cash and cash equivalents | 85,125 | | | | 85,125 |
| Cash collateral | 111,646 | | | | 111,646 |
| Settlement receivables | 39,266 | | | | 39,266 |
| Trading financial assets | 652 | | | 854 | 1,506 |
| Positive replacement values of derivative instruments | 2,470 | 3,442 | 16,756 | 81,712 | 104,380 |
| Financial assets designated at fair value through profit of loss | 479,347 | 493,056 | 1,890,417 | 635,855 | 3,498,675 |
| Other assets | 41,789 | | 10,611 | | 52,400 |
| Total Assets | 760,295 | 496,498 | 1,917,784 | 718,421 | 3,892,998 |
| Liabilities | | | | | |
| Other short term credit | 1 | | | | 1 |
| Settlement payables | 20,418 | | | | 20,418 |
| Other liabilities | 43,609 | | 10,611 | | 54,220 |
| Negative replacement values of derivative instruments | 4,828 | 10,394 | 50,732 | 171,292 | 237,246 |
| Financial liabilities designated at fair value through profit or loss | 229,589 | 187,954 | 878,602 | 2,278,213 | 3,574,358 |
| Total Liabilities | 298,445 | 198,348 | 939,945 | 2,449,505 | 3,886,243 |

Capital risk management

EFGI Finance Guernsey's objective for managing capital is to hold a sufficient amount to be able to continue and grow the business. Management considers capital to be equal to the IFRS equity of the entity. There are no externally imposed capital requirements.

EFGI Finance Guernsey aims to maintain a sound capital structure and it therefore considers not only the current situation but also projected developments. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company's objective when managing capital is to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

**Risk concentrations**

Management considers that a risk concentration exists when an individual or a group of financial instruments are exposed to changes in the same risk factor, and that such exposure could result in a significant loss based on plausible adverse future market developments.

Management has identified four risk concentrations, being exposures with EFG Bank, Cayman Branch, EFG International Finance (Luxembourg) Sarl, Leonteq Securities AG and exposures to various related parties of EFGI under the financial guarantee. The exposures to EFG Bank AG, Cayman Branch, EFG International Finance (Luxembourg) Sarl and to the EFGI related parties are considered to be concentrations due to their size and credit risk. The exposure to Leonteq Securities AG is considered to be a risk concentration due to its size, as it provides liquidity to EFGI Finance Guernsey and as it is the main counterparty to all derivative trades.

Management reviews risk concentrations on a regular basis to ensure exposures are limited to an acceptable level and remain within specific limits. Aggregated credit exposure to any single counterparty or a group of related counterparties must bear an adequate relationship to the bank's eligible capital, taking into account counterparty risks and risk mitigating instruments.

## 6. Fee income

| **CHF thousands** | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Sales fee income | 30,882 | 25,137 |
| Total fee income | 30,882 | 25,137 |

Deferred fee income amounted to zero for the period ending 31 December 2017 and 2018.

## 7. Fee expense

| **CHF thousands** | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Fee expense | (30,882) | (25,137) |
| Total fee expense | (30,882) | (25,137) |

## 8. Net trading income

| CHF thousands | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Net (loss)/gain on trading financial assets at fair value through profit or loss | (2) | 84 |
| Net gain on financial assets at fair value through profit or loss | 52,018 | 32,035 |
| Net gain on financial assets at fair value | 52,016 | 32,119 |
| Net gain/(loss) on financial liabilities designated at fair value through profit or loss | 953,960 | (96,344) |
| **Total net gain/(loss) on financial liabilities designated at fair value** | 953,960 | (96,344) |
| Net (loss)/gain from changes in replacement values of derivative instruments | (1,005,961) | 66,487 |
| **Total net (loss)/gain from changes in replacement values of derivatives** | (1,005,961) | 66,487 |
| Total net trading income | 15 | 2,262 |

## 9. Other operating income

| CHF thousands | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Pledge guarantee income | | 646 |
| Other financial guarantee income | 108,906 | 3,942 |
| Other fee income (Issuance Facility) | 2,500 | |
| Other loan interest income (ALPECS) | 23,640 | 14,808 |
| Other income (Interest income on cash deposits) | 2,650 | 132 |
| Total other operating income | 137,696 | 19,528 |

Other financial guarantee income relates to the premiums earned by EFGI Finance Guernsey related to the issuance of a financial guarantee contract with EFG Finance (Luxembourg) S.a.r.l. and EFG Bank AG, a related party.

These guarantees and the other loan interest income received on the asset-linked preferred equity certificates are further described within the accounting policies and Note 21, Related party transactions.

## 10. Other operating expenses

| CHF thousands | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Financial guarantee expenses (ALPECS) | (23,139) | (13,990) |
| Other financial guarantee expenses | (108,906) | (3,942) |
| Other fee expenses | (821) | (68) |
| White Labelling Fee Expenses | (1,872) | (2,395) |
| Other administrative expenses | (83) | (88) |
| Total operating expenses | (134,821) | (20,483) |

White Labelling fee expense was made up of CHF 1.87m relating entirely to the new White Labelling agreement (2017: CHF 2.14m with a further CHF 255k expenses relating to the 2015 agreement).

The agreement is calculated based on 0.15% per annum of the average notional amount of the structured products pertaining to the new business in the calculation period, less any fees directly attributable to the issuance and distribution of the structured products which have not already been reimbursed, less any negative return of existing business in the relevant calculation period.

Other financial guarantee expense relates primarily to the expense on the offsetting LFS guarantee provided by EFG International.

Financial guarantees are further explained in note 21, Related party transactions.

## 11. Cash and cash equivalents

| **CHF thousands** | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Unrelated financial institutions | 2,851 | 520 |
| Related parties | 103,197 | 84,605 |
| Total cash and cash equivalents | 106,048 | 85,125 |

## 12. Settlement positions

| CHF thousands | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Settlement receivables** | | |
| Unrelated financial institutions | 4,599 | 14,718 |
| Related parties | 14,274 | 24,548 |
| **Total settlement receivables** | 18,873 | 39,266 |
| **Settlement payables** | | |
| Unrelated financial institutions | 43,623 | 20,403 |
| Related parties | 922 | 15 |
| **Total settlement payables** | 44,545 | 20,418 |

Settlement balances arise in the normal course of trading activities and represent the receivable and payable of cash. Settlement balances are recognised gross unless there is a legally enforceable right to offset the recognised with a counterparty and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. Unrelated financial institutions comprise of Leonteq Securities AG.

## 13. Trading financial assets

| CHF thousands | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Bonds issued by banks | 803 | 854 |
| Precious metal securities | 1,528 | 652 |
| Total trading financial assets | 2,331 | 1,506 |

Financial assets held for trading comprise bonds issued by banks and precious metals securities and are purchased to offset the economic exposures of EFGI Finance Guernsey's issued products.

## 14. Replacement values of derivatives

| CHF thousands | 31 December 2018 | 31 December 2017 |
|---|---|---|
| OTC derivatives | | |
| Positive replacement values of derivatives | 54,656 | 104,380 |
| Negative replacement values of derivatives | (792,984) | (237,246) |
| Net negative replacement values | (738,328) | (132,866) |

EFGI Finance Guernsey purchases OTC derivatives from Leonteq Securities AG. These derivatives are used to offset the economic risks it is exposed to from the issuance of its structured products.

## 15. Financial assets at fair value through profit or loss

| **CHF thousands** | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Term deposits | 1,824,836 | 722,460 |
| Asset-linked preferred equity certificates | 1,581,171 | 2,776,215 |
| Total financial assets designated at fair value through profit or loss | 3,406,007 | 3,498,675 |

Financial assets designated at fair value through profit or loss include term deposits held with EFG Bank, Cayman Branch and EFG International Finance Luxembourg as well as Asset-linked preferred equity certificates issued by EFG International Finance Luxembourg and guaranteed by EFGI. The financial assets are used to offset the exposures to similar term 'host debt' components of EFGI Finance Guernsey's issued products.

## 16. Financial liabilities designated at fair value through profit or loss

| CHF thousands | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Hybrid financial instruments | 3,474,147 | 3,574,358 |
| Total financial liabilities designated at fair value through profit and loss | 3,474,147 | 3,574,358 |

Financial liabilities designated at fair value include EFGI Finance Guernsey Issued Products. These issuances are hybrid financial instruments, containing debt hosts and embedded derivatives. Some issuances contain multiple embedded derivatives whose values may be interdependent. The contractual amounts to be paid at maturity of the structured products may differ from the fair values recognised at the respective balance sheet dates.

EFGI Finance Guernsey's own credit changes are reflected in financial liabilities designated at fair value, where the Company's own credit risk would be considered by market participants. There was no impact of change in own credit risk recognised in trading income for the period ending 31 December 2018 and 2017.

## 17. Other assets

| CHF thousands | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Related party guarantee | 6,214 | 10,610 |
| Receivable from related parties (ALPECS) | | 2,000 |
| Other assets | 1 | 2 |
| Receivables from Leonteq Securities AG | 2,000 | |
| Guarantee Provision | 107,762 | 39,788 |
| Total other assets | 115,977 | 52,400 |

Related party guarantee includes a guarantee asset of USD 109.5m (CHF107.8m) (2017: CHF39.8m). EFG International Finance (Guernsey) Limited has received a guarantee from EFG International to offset the equal exposure it has to a guarantee made to EFG International Finance (Luxembourg) Limited. There is an additional CHF6.2m (2017: CHF10.6m) relating to the guarantee to investors in structured products.

## 18. Cash collateral

| **CHF thousands** | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Assets** | - | - |
| Cash collateral paid | 733,273 | 11,646 |
| Net cash collateral paid | 733,273 | 11,646 |

EFGI Finance Guernsey enters into securities borrowing and securities lending transactions and derivative transactions that may result in credit exposure in the event that the counterparty to the transaction is unable to fulfil its contractual obligations. EFGI Finance Guernsey controls credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited or returned when deemed necessary..

## 19. Other liabilities

| **CHF thousands** | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Related party guarantee | 6,214 | 12,510 |
| Payable to Leonteq Securities | 1,872 | |
| Guarantee Provision | 107,762 | 39,788 |
| Accounts payable | 26 | 689 |
| Accrued expenses | 970 | 1,233 |
| Total other liabilities | 116,844 | 54,220 |

A guarantee provision of USD 109.5m (CHF107.8m) (2017: CHF 39.8m ) is included under other liabilities. This guarantees to cover the losses that EFG International Finance (Luxembourg) Limited would incur if certain underlying loans were to default. EFG International Finance (Guernsey) Limited has received an equal offsetting guarantee from EFG International. Related party guarantees includes a guarantee liability of CHF6.2m (2017: CHF10.6m) relating to the guarantee to investors relating to the ALPEC facility agreement as outlined in note 21.

## 20. Share capital

The total authorized and issued number of ordinary shares is 5,000,000 shares with a par value of CHF 1.00 per share. All shares are fully paid up.

A dividend of CHF 1 million paid in 2018 (2017: CHF 1 million). The directors propose a dividend of CHF 3 million for the year ended 2018. This was approved at a Board of Directors meeting held on 4 September, 2019

## 21. Related party transactions

EFGI Finance Guernsey entered into various transactions and agreements with its related parties. The significant transactions and agreements can generally be categorized into financial agreements, service level agreements and general operating activities.

**Financial agreements**

During the year, the Management of EFGI booked a provision under other liabilities for USD 109,493,227 (2017: CHF 39,787,710) against a guarantee provided by EFGI Finance Guernsey to EFGI Finance (Luxembourg) S.a.r.l. This covers the potential loss that EFGI Finance (Luxembourg) S.a.r.l. could make if certain loans default as these loans are sub-participated to EFGI Finance (Luxembourg) S.a.r.l. EFG International Finance (Guernsey) Limited has received an equal offsetting guarantee from EFG International which is included under other assets.

EFGI and EFG bank provides a guarantee to investors in structured products issued by EFGI Finance Guernsey. Although EFGI Finance Guernsey is not a legal counterparty to this guarantee, which is between EFGI and the investors, EFGI Finance Guernsey benefits from this guarantee through a lower cost of funding. In economic terms, the EFGI guarantees are deemed to be equal and offsetting to the guarantee EFGI Finance Guernsey provides to EFG Bank AG as described above. Nevertheless these separate legal contracts with counterparties within the EFGI Group are both recognised within EFGI Finance Guernsey's Statement of Financial Position. The guarantee provided by EFGI has been recognised at fair value and is amortized over the life of the guarantee provided. The guarantee asset is presented within other assets, for further details see Note 17.

In September 2015, EFGI Finance Guernsey entered into an asset-linked preferred equity certificates facility agreement (ALPEC) with EFG International Finance (Luxembourg) S.A.R.L. This agreement gives EFG International Finance (Luxembourg) S.A.R.L the right to draw, within the limits of the facility provided, advances, by issuing interest bearing ALPECs at Par Value to EFGI Finance Guernsey.

To eliminate the risks associated with holding the ALPECs, EFGI Finance Guernsey entered into a Guarantee Agreement with EFG International AG whereby EFG International AG agreed to cover that risk in return for a guarantee fee amounting to the yield on the ALPECs less the cost of the funds plus 65 basis points plus an additional margin of 4.6 basis points.

The net effect of this transaction is that EFGI Finance Guernsey would earn an additional yield of 4.6 basis points on any ALPECS issued by EFG International Finance (Luxembourg) S.A.R.L that it subscribes for.

**Service level agreements**

EFGI Finance Guernsey entered into a white-labeling service agreement with Leonteq Securities AG pursuant to which Leonteq Securities AG continues to service the legacy portfolio of products issued by EFG FP Guernsey, including the lifecycle management of both structured products issued by EFG FP Guernsey prior to its sale to EFGI and issued by EFGI Finance Guernsey subsequent to the sale.

The parties have committed in the white-labeling agreement, subsequently amended and restated on the 29 April 2016, to cooperate in each and every aspect involving structured products, including the structuring, issuance, distribution, hedging, market making and settlement of structured products issued previously by EFG FP Guernsey or subsequently by EFGI Finance Guernsey.

**Operating activities**
EFGI Finance Guernsey entered into transactions with EFGI and its subsidiaries in the normal course of its business as discussed below.

Fee Income earned from related parties amounted to CHF 8.4m in 2018 (2017: CHF 4.8m).

Cash and cash equivalents held with EFG Bank AG and EFGI entities totaled CHF 103.2m and CHF 84.6m as of 31 December 2018 and 2017, respectively.

Term deposits and ALPECs are held with EFG Bank AG and EFGI entities, and are used to economically hedge the host debt portion of EFGI Finance Guernsey's structured products. Term deposits and ALPECs are recognised as financial assets designated at fair value.

Trading financial assets held with EFG Bank Cayman branch amounted to CHF 1.5m and CHF 0.7m as of 31 December 2018 and 2017, respectively.

In the years ending 31 December 2018 and 2017, EFGI Finance Guernsey paid CHF 19,899 and CHF 12,038 respectively, for various company administration services.

22. Subsequent events

There have been no material subsequent events.

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