Illustrative Consolidated Financial Statements

Swiss Bank Group

January 2021

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1. Preliminary Remarks

The Swiss Financial Market Supervisory Authority (FINMA) has published the revised accounting rules for banks on 14 November 2019. Key accounting principles previously set out in FINMA Circ. 2015/1 were transferred in a new FINMA Accounting Ordinance. As a result, FINMA Circ. 2015/1 was replaced with the new FINMA Circ. 2020/1, which is significantly shortened and mainly contains FINMA's accounting and disclosure practices. Except for changes in the area of value adjustments for default risks, which will be further detailed in the next chapter, the content of FINMA Circ. 2015/1 remained broadly unchanged. It is to be noted that some detailed guidance was not transferred to the new standard but merely mentioned in the explanatory report to the consultation. Some appendices have been removed, like definitions and templates of notes to the financial statements.

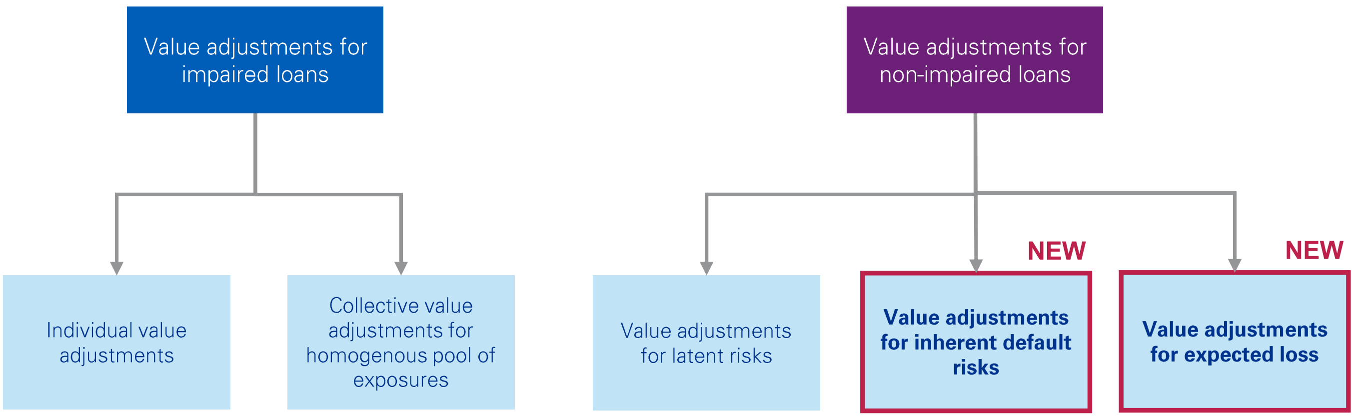
This KPMG publication aims to support companies in their first application of the revised accounting rules in regards to the presentation of the consolidated annual financial statements. These illustrative financial statements present the possible consolidated financial reporting for the year 2020, i.e. the first business year after entry into force of the revised accounting rules. The following illustrative financial statements are purely fictional and meant for illustrative purposes only (no claim for completeness). Any similarities with existing companies are purely coincidental. Therefore, the information contained in these illustrative financial statements cannot necessarily be applied to the circumstances of a specific company. In individual cases, the complete text of the revised accounting rules should be consulted.

The fictional company "Swiss Bank" is a medium-sized universal bank listed on the stock market with subsidiaries in and outside of Switzerland. These illustrative financial statements present the consolidated financial statements of the Swiss Bank Group. Requirements related to the management report (Article 961 CO), FINMA Circ. 2017/1 on corporate governance and FINMA Circ. 2016/1 on capital adequacy disclosures are not considered within this publication.

2. New accounting rules on value adjustments for default risks

2.1 Value adjustments for impaired and non-impaired loans

The previous accounting rules intended the application of a two-step approach. It was necessary to constitute individual value adjustments for impaired loans on the one hand and value adjustments for latent default risks on the other hand. The revised accounting rules introduce two new approaches to value adjustments for non-impaired loans (inherent risks of default and expected loss) while keeping the value adjustment models for impaired loans unchanged.



Our comments in the following sections will focus on the new value adjustments for non-impaired loans.

2.2 New proportional approach to value adjustments for default risks

The revised accounting rules are introducing a proportional approach to value adjustments for default risks according to the FINMA risk category for banks. An expected loss approach is mandatory for systemically important banks in categories 1 and 2. Category 3 banks, which operate primarily in the interest income business, are newly required to create value adjustments for inherent default risks. Banks in categories 4 and 5 and category 3 banks, which do not operate primarily in the interest income business, as well as securities firms, may continue to apply the current approach with value adjustments for latent default risks.

Non-impaired loans

Category of bank	Approach to value adjustments	Type of model
Categories 1 & 2	If internationally recognized standard is applied: In accordance with the respective accounting standard (i.e. IFRS or US GAAP)	**Expected loss**
	– Exposures from lending business: Internal ratings-based expected credit loss model taking into account long term loan loss history and residual maturity – Other exposures: Simplified approach like "loss rate"	**Expected loss**
Category 3 with significant interest rate business	The bank is free to choose its provisioning model. Value adjustments for inherent default risks cannot be zero. The provisioning model has to be disclosed in the notes.	**Inherent default risks**
Other banks	Value adjustments for latent risks. The provision shall cover risks that are present in a portfolio (incurred loss) but that will only be identified at a future date.	**Incurred loss**

All banks in categories 3, 4 and 5 as well as securities firms may optionally apply an approach to create value adjustments for default risks of a higher category. The group and individual companies must be considered independently of each other for categorization.

Significant interest rate business
A Category 3 bank with a share in the income statement position 1.5 "Gross result from interest operations" of more than a third of the sum of the positions 1.5 "Gross result from interest operations", 2.5 "Subtotal result from commission and service activities", 3 "Result from trading activities and the fair value option" and 4.6 "Subtotal result from other ordinary activities", during at least one of the three periods preceding the reference period, is considered to have a significant interest rate business.

	2017	2018	2019	Ref
1.5 Gross result from interest operations	310	780	120	A
2.5 Subtotal result from commission and service activities	1'000	1'000	900	B
3 Result from trading activities and the fair value option	500	500	100	C
4.6 Subtotal result from other ordinary activities	40	30	20	D
Total	**1'850**	**2'310**	**1'140**	**A+B+C+D**
Percentage interest rate business	**17%**	**34%**	**11%**	**A/(A+B+C+D)**

Illustrative example: significant interest rate business
As gross results from interest rate operations exceed one third of total gross revenues during at least one of the three preceding years, this category 3 bank is primarily engaged in interest rate business according to Art. 25 para. 1 let. b FINMA Accounting Ordinance.

2.3 Incurred loss vs. expected loss model

The incurred loss model underpins the approach to loan impairment under both FINMA Circ. 2015/1 and IAS 39 (later superseded by IFRS 9). The incurred loss models were criticized for delaying the recognition of losses, for the complexity of having multiple impairment approaches, and for being difficult to understand, apply and interpret. Both IFRS and US-GAAP replaced this model with an expected credit loss approach under which it is no longer necessary for a loss event to occur before an impairment loss is recognized and so, generally, all financial assets will carry a loss allowance.

Incurred loss under IAS 39

(IAS 39.59) A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only 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. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognized.

Latent default risks
FINMA Circ. 2015/1 did not further define the incurred loss model, however, it did define the notion of latent default risks (Mn 412): "Default risks are latent if experience shows them to be present in an apparently flawless credit portfolio on the balance sheet date but they do not become apparent until a later date. Latent default risks are determined using, for example, empirical data. The calculation may be carried out on a portfolio basis and / or individual basis". The explanatory report to the revised accounting rules provides the following definition of latent default risks: "Value adjustments for latent risks are value

adjustments for incurred losses that cannot be attributed to a single debtor. This definition corresponds to an incurred but not reported loss model". The latter is a reference to the "incurred but not reported" loss model of IAS 39 under which an entity should recognize an impairment on a group of loans if its loss expectation at initial recognition of the loans has not changed, but the entity could estimate reliably, based on past history, that loss events occurred after initial recognition, but before the reporting date.

FINMA has observed in recent years that the provisions concerning value adjustments for latent default risks were interpreted and applied in different ways. Therefore, many banks have constituted no corresponding value adjustment, while others have recognized sometimes significant amounts for these value adjustments. The revised accounting rules for latent default risks have to be applied strictly. Banks that have already made generous value adjustments for latent default risks under the previous accounting rules may retain them as value adjustments for inherent risks of default if they go beyond the strict definition of latent default risks.

Expected loss approach

Banks applying an internationally recognized accounting standard according to Art. 3 para. 1 FINMA Accounting Ordinance apply the expected loss approach from the respective standard. However, they must consider the Recommendations relating to credit risk and the recognition of expected credit losses published in December 2015 by the Basel Committee on Banking Supervision.

Banks presenting their financial statements in accordance with the FINMA Accounting Rules for Banks use a proportional expected loss approach, which is based on long-term average estimates taking into consideration the remaining term to maturity. In doing so, an expected loss approach based on a model is applied, with a separate calculation of the probability of default (PD), loss given default (LGD) and exposure at default (EAD) for all outstanding exposures subject to regulatory approach based on internal ratings (IRB). The banks may directly use existing calculations for prudential reporting to determine the expected losses, but an adaptation must nevertheless be made to take into account the remaining term to maturity. A simplified expected loss approach may apply to other outstanding exposures that fall under a standard approach at regulatory level. For example, loss rate approaches based on the opinion of experts can be used. The remaining term to maturity can be determined using simplified assumptions (e.g. average duration of a portfolio). Value adjustments for expected losses shall be created for the following items:

– 1.2 Due from banks
– 1.4 Due from customers
– 1.5 Mortgages
– 1.9 Financial investments - debt securities held to maturity
– 3.1 Contingent liabilities
– 3.2 Irrevocable commitments

Inherent risks of default

Category 3 banks which mainly carry out interest income business constitute value adjustments for inherent risks of default.

According to the Consultation report, value adjustments for inherent default risks are value adjustments for losses that have not yet occurred. The inherent default risks are risks implicitly arising from credit transactions, which cannot be equal to zero at whole-bank level. The banks themselves define the method of constituting value adjustments for inherent risks of default. This procedure allows banks that have already made significant value adjustments for latent risks of default to transfer this balance to the value adjustments for inherent default risks without adapting the method.

Some explanatory comments are required in the notes to the financial statements to allow a comparison despite this great methodological freedom. In addition, the methods applied as well as the data and assumptions used must be documented in an understandable way. The same positions as mentioned under the expected loss approach for category 2 banks may contain inherent risks of default.

Value adjustments for expected losses that are not based on an internationally recognized accounting standard, as well as the value adjustments for inherent risks of default can be used to cover individual value adjustments for impaired loans. Banks and securities firms have to define the parameters concerning the modalities of such utilization and the duration of reconstitution. The parameters must be disclosed in the notes to the financial statements.

2.4 Disclosures in the notes

Institutions have to provide disclosures in the notes on the methods applied to identify the risks of default and to determine the need for value adjustments:

- these comments include the constitution of value adjustments for default risks as well as provisions for off-balance sheet transactions;
- indication on the approach applied by the institution to provide for its non-impaired loans (i.e. value adjustments for expected losses, for inherent risks of default or for latent risks of default);
- comments on the methods applied as well as data and assumptions used;
- institutions whose value adjustments for expected losses are not based on a recognized international standard explain how the residual durations are determined;
- parameters relating to the utilization of value adjustments for expected losses not established on the basis of a recognized international standard or value adjustments for inherent risks without immediate recovery, as well as indication of the recovery period;
- indication of utilization of such value adjustments without immediate recovery during the reference period;
- indication of any shortfall of such value adjustments as a result of utilization, as well as, by analogy, in the provisions for default risks on off-balance sheet exposures;
- significant dissolutions of value adjustments that are no longer necessary.

2.5 Transitional provisions

The articles on the constitution of value adjustments for default risks must be implemented at the latest in the financial statements starting on 1 January 2021 or during the year 2021. Therefore, banks shall implement the new provisions at the latest in the first published financial statements in 2021, in most cases in the June interim financial statements. Earlier implementation is permitted. For the 2020 financial year, value adjustments for default risks may still be constituted in accordance with FINMA Circ. 2015/1.

Banks and securities firms must constitute value adjustments for expected losses and for inherent risks of default at maximum in six years on a straight-line basis from the entry into force of the FINMA Accounting Ordinance (1 January 2020). Full recognition during the first financial year of implementation as well as full recognition of the outstanding amount during the following years is admitted until the end of the 2025 financial year at the latest.

Constitution of value adjustment for inherent default risks can occur with or without impact on profit and loss. For the individual statutory financial statements, both according to reliable presentation as well as true and fair view principles, the creation without profit and loss impact can only occur through reallocation from reserves for general banking risks. For the supplementary financial statements according to true and fair view principle as well as consolidated financial statements such constitution can also occur through retained earnings reserves.

Creation with profit and loss impact shall occur through the position "Changes in value adjustments for default risks and losses from interest operations". If the bank chooses to constitute the value adjustment in full in the first year or in another year after initial application, such creation can occur through "Extraordinary expenses".

According to the Consultation report, banks can choose between a static approach in which the transitional adjustment is calculated just once, at the point of transition, and a dynamic approach in which changes in the assessment of expected losses or inherent default risks during the transition period are also taken into account.

We refer to section 3.7 regarding restatement in the consolidated financial statements and supplementary individual financial statements according to the true and fair view principle.

3. Highlights - Changes in Disclosure Requirements

This section gives a brief overview of the disclosures that were changed with the new Accounting Rules for Banks. These changes are reflected and highlighted in green in the Illustrative Consolidated Financial Statements in chapter 4. The presentation of the elements not mentioned here has remained consistent with the preceding FINMA Circular 2015/1.

3.1 Accounting and valuation principles

This section has to be adapted to reflect the applicable changes in accounting and valuation principles (e.g. value adjustments for default risks).

3.2 Explanation of the methods used for identifying default risks and determining the need for value adjustments

This section has to be amended to reflect the applicable changes regarding the calculation of value adjustments for default risk. More specifically, banks using the inherent risk approach or the Swiss expected loss approach have to provide specific information in the notes. We refer to the overview of disclosure requirements in section 2.4.

3.3 Breakdown of financial investments

Crypto currencies have been added as a new category in the breakdown. Further, the category "Real estate" has been expanded to also contain other pledged goods that were seized as part of the lending operation.

As previously, for debt securities, a breakdown of counterparties by rating is to be presented. This information must only be disclosed if the holdings of debt securities are material.

3.4 Presentation of value adjustments and provisions, reserves for general banking risks, and changes therein during the current year

This note has been adjusted to disclose the different types of value adjustments and provisions that have been introduced with the revised accounting rules. The provisions on non-impaired off-balance sheet transactions are presented in the section "Provisions for default risks" (provisions for expected loss, for inherent default risks and for latent risks), while value adjustments on outstanding loans and mortgages are presented in the section "Value adjustments for default risks and country risks" (value adjustments for impaired loans, for expected loss, for inherent default risks and for latent risks).

As previously, provisions for impaired conditional engagements are also part of the "Provisions for default risks" and are now separately presented in the breakdown position "Provisions according to Art. 28 para. 1 FINMA Accounting Ordinance".

If a bank applies the option to account for frequently fluctuating loans according to margin numbers 16 - 20 of the FINMA Circ. 2020/1, this shall be disclosed in the notes.

3.5 Breakdown of all assets by credit rating of country groups (risk domicile view)

The presentation of the note remained the same. However, it was clarified that netting is only allowed if the conditions of Art. 8 FINMA Accounting Ordinance are met.

3.6 Breakdown of fiduciary transactions

Crypto currencies held as fiduciary on account of the customers form a new category of the breakdown. Only crypto currencies that can be separately identified in case of bankruptcy are disclosed in this category.

3.7 Restatement in the Consolidated financial statements and Supplementary individual financial statements according to the true and faire view princple

According to the principle of consistency in presentation and valuation (Arts. 69 and 87 FINMA Accounting Ordinance), the values of the previous year must be restated in the event of changes in accounting and valuation principles defined by the institution in the consolidated financial statements and supplementary individual financial statements according to the true and fair view principle. These adjustments must further be commented on in the notes to the financial statements. In its communications with the banks, FINMA has clarified that a restatement with respect to the adoption of the revised accounting rules is not mandatory.

4. Illustrative Consolidated Financial Statements

4.1 Abbreviations

The abbreviations used for the references in the Illustrative Consolidated Financial Statements are as follows:

BO	Banking Ordinance
AO	FINMA Accounting Ordinance
ARB	FINMA Circular 2020/1 “Accounting – Banks“
ER	FINMA Explanatory report dated 18 March 2019
CR	FINMA Consultation report dated 31 October 2019
A	Appendix (e.g. A4 = Appendix 4)

4.2 Notes not presented in the illustrative financial statements

Please note that the following tables are not required for consolidated financial statements and are thus not included in the Illustrative Consolidated Financial Statements (AO Appendix 3.3):

- Presentation of the bank's capital
- Disclosure of holders of significant participations
- Disclosures in accordance with the Ordinance against Excessive Compensation with respect to Listed Stock Corporations and Art. 663c para. 3 Code of Obligations (CO) for banks whose equity securities are listed

The Appendix further clarifies that for consolidated financial statements the details on share categories and the amount of non-distributable reserves do not have to be disclosed in the Disclosure of own shares.

A. Consolidated Balance Sheet

CHF million

BO A1.A
AO A3.1

	Notes	31.12.2020	31.12.2019
ASSETS			
Cash and other liquid assets		2'951	3'064
Due from banks		501	830
Due from securities financing transactions	1	323	187
Due from customers	2	2'609	2'312
Mortgage loans	2	11'696	10'743
Trading assets	3	531	362
Positive replacement values of derivative financial instruments	4	198	148
Other financial instruments at fair value	3	122	105
Financial investments	5	1'888	1'861
Accrued income and prepaid expenses		118	119
Non-consolidated participations	6,7	7	5
Tangible fixed assets	8	212	223
Intangible assets	9	40	45
Other assets	10	24	18
Capital not paid in			
Total assets		**21'220**	**20'022**
Total subordinated claims			
– *of which subject to mandatory conversion and / or debt waiver*			

A. Consolidated Balance Sheet (continued)

CHF million

	Notes	31.12.2020	31.12.2019
LIABILITIES AND EQUITY			
Due to banks		1'256	939
Liabilities from securities financing transactions	1	516	564
Customer deposits		12'696	11'863
Trading liabilities	3		
Negative replacement values of derivative financial instruments	4	182	227
Liabilities from other financial instruments at fair value	3, 14	118	107
Cash bonds		146	262
Bonds and mortgage-backed bonds	15	4'852	4'670
Accrued expenses and deferred income		109	122
Other liabilities	10	45	50
Provisions	16	62	60
Reserves for general banking risks	16	309	317
Bank's capital		50	50
Capital reserve		170	165
Retained earnings		523	437
Currency translation reserve		-1	-2
Own shares		-3	-7
Minority interests in equity		31	30
Consolidated profit		159	168
– *of which minority interests in consolidated profit*		*3*	*3*
Total liabilities and equity		**21'220**	**20'022**
Total subordinated liabilities			
– *of which subject to mandatory conversion and / or debt waiver*			

	Notes	31.12.2020	31.12.2019
OFF-BALANCE SHEET TRANSACTIONS			
Contingent liabilities	2, 25	385	388
Irrevocable commitments	2	684	663
Obligation to pay up shares and make further contributions	2		
Credit commitments	2, 26	10	15

B. Consolidated Income Statement

CHF million

BO A1.B
AO A3.2

	Notes	2020	2019
Interest and discount income	30	337	371
Interest and dividend income from trading portfolios			
Interest and dividend income from financial investments		34	35
Interest expense	30	-113	-126
Gross result from interest operations		**258**	**280**
Changes in value adjustments for default risks and losses from interest operations		-6	-4
Subtotal net result from interest operations		**252**	**276**
Commission income from securities trading and investment activities		143	141
Commission income from lending activities		27	30
Commission income from other services		47	40
Commission expense		-40	-39
Subtotal result from commission and service activities		**177**	**172**
Result from trading activities and the fair value option	29	**80**	**77**
Result from the disposal of financial investments		4	6
Income from non-consolidated participations		2	2
– *of which, from participations recognised using the equity method*		*2*	*2*
– *of which, from other non-consolidated participations*			
Result from real estate		35	28
Other ordinary income		12	8
Other ordinary expenses		-4	-3
Subtotal result from other ordinary activities		**49**	**41**
Personnel expenses	31	-236	-225
General and administrative expenses	32	-124	-123
Subtotal operating expenses		**-360**	**-348**
Value adjustments on participations, depreciation and amortization of tangible fixed assets and intangible assets		-26	-18
Changes to provisions and other value adjustments, and losses		-2	-2
Operating result		**170**	**198**
Extraordinary income	33	19	9
Extraordinary expenses	33		-6
Change in reserves for general banking risks	33		
Taxes	36	-30	-33
Consolidated profit		**159**	**168**
– *of which minority interests in consolidated profit*		*3*	*3*

C. Consolidated Cash Flow Statement

CHF million

BO A1.C /
ARB A5 /
BO 36(1)

	2020		2019	
	Source of Funds	**Use of Funds**	**Source of Funds**	**Use of Funds**
Cash flow from operating activities (internal financing)				
Result of the period	159		168	
Change in reserves for general banking risks		8		
Value adjustments on participation, depreciation and amortization of tangible fixed assets and intangible assets	26		18	
Provisions and other value adjustments	2		2	
Change in value adjustments for default risks and losses	6		4	
Accrued income and prepaid expenses	1			14
Accrued expenses and deferred income	-13		-6	
Other items		24		2
Previous year's dividend		82		79
Subtotal	**181**	**114**	**186**	**95**
Cash flow from shareholders' equity transactions				
Share capital				
Recognised in reserves				
Change in own equity securities	10	2	5	8
Subtotal	**10**	**2**	**5**	**8**
Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets				
Non-consolidated participations				
Real estate	29	10		
Other tangible fixed assets		10	16	18
Intangible assets				
Mortgage loans on proprietary real estate				
Subtotal	**29**	**20**	**16**	**18**
Cash flow from banking operations				
Medium and long-term operations (> 1 year)				
Due to banks	25		7	
Customer deposits	11		12	
Liabilities from other financial instruments at fair value				
Cash bonds		116		89
Bonds	15		20	
Mortgage-backed bonds	167		86	
Other liabilities		5	5	
Due from banks	15			10
Due from customers		79		61
Mortgage loans		953		759
Other financial instruments at fair value				
Financial investments		22		4
Other assets		6	2	

C. Consolidated Cash Flow Statement (continued)

CHF million

	2020		2019	
	Source of Funds	**Use of Funds**	**Source of Funds**	**Use of Funds**
Short-term operations				
Due to banks	292		86	
Liabilities from securities financing transactions		48	26	
Customer deposits	822		916	
Trading liabilities				
Negative replacement values of derivative financial instruments		45		8
Liabilities from other financial instruments at fair value	11		14	
Due from banks	314			200
Due from securities financing transactions		136		19
Due from customers		218		172
Trading assets		169	100	
Positive replacement values of derivative financial instruments		50		11
Other financial instruments at fair value		17		7
Financial investments		5		1
Liquidity				
Cash and other liquid assets	113			19
Subtotal	**1'785**	**1'869**	**1'274**	**1'360**
Total	**2'005**	**2'005**	**1'481**	**1'481**

D. Consolidated Statement of Changes in Equity

CHF million

BO A1.E / ARB A3

	Bank's capital	Capital reserve	Retained earnings reserve	Reserves for general banking risks	Currency translation reserves	Own shares/ (negative item)	Minority interests	Result of the period	Total
Equity at 01.01.2020	**50**	**165**	**437**	**317**	**-2**	**-7**	**30**	**168**	**1'158**
Effect of any restatement									
Equity at 01.01.2020, after restatement	**50**	**165**	**437**	**317**	**-2**	**-7**	**30**	**168**	**1'158**
Transfer of profits to retained earnings			165				3	-168	
Employee participation schemes / recognition in reserves		1							1
Capital increase / decrease									
Other contributions / other capital paid in									
Acquisition of own shares						-2			-2
Disposal of own shares						6			6
Profit (loss) on disposal of own shares		4							4
Currency translation differences					1				1
Dividends and other distributions			-80				-2		-82
Other allocations to (transfers from) the reserves for gerneral banking risks				-8					-8
Other allocations to (transfers from) the other reserves			1						1
Consolidated profit								159	159
Equity at 31.12.2020	**50**	**170**	**523**	**309**	**-1**	**-3**	**31**	**159**	**1'238**

E. Notes to the Consolidated Financial Statements

I. Name of the bank, its legal form and domicile

BO A1.E (a)

Swiss Bank AG (hereafter "the Bank") was registered on 1 January 2000 and is domiciled in Rue du Rhône in Geneva. Swiss Bank AG and its subsidiaries constitute the Swiss Bank Group (hereafter "the Group"). The Group is listed on the Swiss stock exchange (domestic segment).

II. Accounting and valuation principles

BO A1.E (b,1)

General accounting and valuation principles

The consolidated financial statements of the Group have been prepared in accordance with the provisions of the Swiss Code of Obligations, the Federal Act on Banks and Savings Banks, its Ordinance, the Ordinance on Accounting of the Swiss Financial Market Supervisory Authority (FINMA Accounting Ordinance) and the Swiss Financial Market Supervisory Authority (FINMA) Circular 2020/1 "Accounting – banks". The Group's consolidated financial statements have been prepared in accordance with the true and fair view principle. The Group's accounting policies follow the accounting and valuation principles defined in the FINMA Accounting Ordinance and FINMA Circ. 2020/1.

Changes in accounting principles

BO A1.E (b,3)

Effective as of 1 January 2020, the Group adopted the FINMA Accounting Ordinance and FINMA Circ. 2020/1 "Accounting – banks" (hereafter "Accounting Rules for Banks" or "ARB").

AO 25

Under the revised Accounting Rules for Banks the Group applies a new approach to value adjustments and provisions for default risks. Previously, so-called value adjustments and provisions for latent risks were applied (incurred loss model). The Group introduced value adjustments and provisions for inherent default risks. Although the new adjustments and provisions for non-impaired loans and off-balance sheet exposures shall become applicable for the reporting period beginning 1 January 2021, the Group elected to early adopt these requirements in the current reporting period.

AO 99

Value adjustments and provisions for inherent default risks are estimated using the methodology described in section IV "Explanations of the methods used for identifying default risks and determining the need for value adjustments". As at 1 January 2020, value adjustments and provisions for inherent default risks amount to CHF 14 million. The Group has opted for a full recognition of the value adjustments and provisions for inherent default risks as of 1 January 2020 by withdrawing CHF 8 million from the "Reserves for general banking risks". The remaining amount of CHF 6 million was reclassified from the balance of value adjustments and provisions for latent risks. The bank has elected not to restate prior year comparatives.

AO 98 (1&2) /
ER 5.11
AO 69 / AO 87

Recognition principles

BO A1.E (b,4)

All transactions are recognized according to the trade-date principle.

Consolidation principles

Companies in which the Bank directly or indirectly holds a majority of the voting rights, has the power to appoint or revoke the majority of the members of the Board of Directors or the management, or exercises control in another way, are fully consolidated using the purchase method. Intra-group assets and liabilities as well as expenses and income from intra-group transactions are eliminated, as is the internal result from them.

BO 34
AO 82

Companies over which the Group can exert a significant influence but not control are valued using the equity method. Influence is deemed to be significant where the Group holds 20% or more of the voting rights. The equity method is also used for participations of 50% in joint ventures.

AO 83 / AO 79

Entities that are not material to the Group's consolidated financial statements or for which a sale can be expected within the next 12 months are not consolidated. They are stated at cost less appropriate impairment.

BO 35

Foreign currencies
The Group's functional and presentation currency is Swiss francs.

BO A1.E (b,6)

Transactions in single-entity financial statements of each Group company that are recorded in a foreign currency are converted at the rate prevailing at the time of the transaction. Assets and liabilities are translated at the exchange rate prevailing on the balance sheet date, except for "Non-consolidated participations", "Tangible fixed assets" and "Intangible assets" which are translated at historical rates. Transactions in foreign currencies during the year are translated at the exchange rates prevailing at the time of the transaction.

AO 40

Balance sheet items of foreign operations to be consolidated are converted into Swiss francs at year-end exchange rates, with the exception of participations which are translated at historical rates.

AO 85

Income statement items are translated at the average exchange rate for the period. Differences arising from the translation are recorded directly in shareholders' equity ("Currency translation reserve").

AO 85

	2020		2019	
	closing rate	**average rate**	**closing rate**	**average rate**
EUR/CHF	1.08	1.08	1.09	1.13
USD/CHF	0.88	0.95	0.97	1.00

Cost of refinancing securities in the trading assets
The cost of refinancing securities held as part of the trading assets is netted against interest and dividend income from these portfolios and recorded under "Result from trading activities and the fair value option".

BO A1.E (b,7)
AO 9(2,f) /
ARB A2 Mn. 6 & 9

Financial instruments
a) Cash and other liquid assets
Cash and cash equivalents comprise ordinary coins and banknotes as well as deposits held with central banks. Cash and other liquid assets are recognized at their nominal value.

ARB A1 Mn. 2 - 8
BO 27

b) Securities financing transactions
Securities sold subject to a repurchase agreement (repo) and those lent (securities lending) remain on the balance sheet as long as the Group maintains the economic ownership of the rights associated with the securities. Cash amounts received for the sale of these securities or as collateral are presented under "Liabilities from securities financing transactions" at their nominal value.

ARB A1 Mn. 88 /
AO 11

Securities acquired under commitments to sell back (reverse repos) and those borrowed (securities borrowing) are not recognized on the balance sheet as long as the ownership right remains with the seller. Cash amounts paid for the purchase of these securities or as collateral are presented under "Due from securities financing transactions" at their nominal value.

ARB A1 Mn. 16 /
AO 11

c) Due from banks, due from customers and mortgage loans
"Due from banks", "Due from customers" and "Mortgage loans" are recognized at their nominal value less any necessary value adjustments. Amounts due in respect of precious metal account deposits are valued at fair value if the precious metal concerned is traded on a price-efficient and liquid market.

ARB A1 Mn. 9 - 15
& 17 - 27 / BO 27 /
AO 12

Impaired loans, defined as loans for which it is unlikely that the debtor will be able to fulfill his future obligations, are valued on an individual basis and the impairment is booked as individual value adjustments. Impairment of value corresponds to the difference between the notional value of the loan and the amount which the Bank expects to recover, with due consideration of the counterparty risk and the net proceeds from the realization of any collateral held. Value adjustments are directly deducted from the corresponding assets.

AO 24
BO 27

A loan is considered impaired when there are conclusive signs that future contractual payments of principal and/or interest are unlikely or, at the latest, when these payments are more than 90 days overdue. Any interest overdue by more than 90 days is considered non-performing. Any non-performing or

BO A1.E (b,5) /
AO 26
ARB Mn. 14 - 15

impaired interest is no longer credited to the profit and loss account but directly to "Value adjustments and provisions".

A loan is no longer considered as impaired if capital and interest in arrears are repaid, the servicing of the debt has resumed normally, additional tangible guarantees have been obtained for a value in excess of the existing unsecured debt and/or other solvency criteria have been met. The release of value adjustments for default risks that are no longer considered as necessary is recorded in the income position "Changes in value adjustments for default risks and losses from interest operations".

As a FINMA Category 3 Banking Group with a significant interest rate business according to Art. 25 para. 1 let. b FINMA Accounting Ordinance, the Group applies value adjustments and provisions for inherent risks on non-impaired loans and other credit exposures. For the methodology on such value adjustments and provisions refer to section IV "Explanations of the methods used for identifying default risks and determining the need for value adjustments". Further, specific country allowances based on external agency ratings are established where exposures are subject to country-specific risk. AO 25

d) Due to banks and customer deposits

"Due to banks" and "Customer deposits" are recognized at their nominal value. ARB A1 Mn. 85 - 87 & 89 - 90 / BO 27

Amounts due in respect of precious metal account deposits are valued at fair value if the precious metal concerned is traded on price-efficient and liquid markets. AO 12

Crypto currencies held on account of the customer that cannot be separately identified in case of bankruptcy are valued at fair value. AO 27(2)

e) Trading assets and trading liabilities

"Trading assets" comprises positions in equity securities, debt securities and precious metals held with a trading intent. ARB A1 Mn. 28 - 33

"Trading liabilities" comprises securities sold short as part of the trading business. ARB A1 Mn. 91 - 92

Trading positions are measured at fair value with reference to quoted market prices. For positions that are not traded on price-efficient and liquid markets, the fair value is determined using a valuation model. AO 13
Trading results are recognized through "Result from trading activities and the fair value option". ARB A2 Mn. 41 - 48

f) Positive and negative replacement values of derivative financial instruments

These positions comprise the replacement values for all derivative financial instruments. Derivative financial instruments are used for trading as well as hedging activities. ARB A1 Mn. 34 - 44 & 93 - 94

Transactions entered into for trading purposes can either be assigned to proprietary trading activities or client transactions. Both are valued at fair value (replacement values) and the results are presented in the position "Net result from trading activities and the fair value option". AO 14

Client transactions in exchange traded derivatives are only accounted for in case the Bank carries a risk of loss. This is the case, when the margin provided is not sufficient to cover the current loss on a position. The uncovered part is recognized. ARB A1 Mn. 42 - 43

Derivatives entered into as part of a hedging relationship are valued the same as the hedged item. The result of hedging instruments is recorded in the compensation account if the hedged item is not revalued. The net compensation account is presented in either the position "Other assets" or "Other liabilities". The result from the ineffective part of the hedge is reported in the "Net result from trading activities and the fair value option". AO 19

Positive and negative replacement values as well as corresponding cash collateral exchanged with the same counterparty are netted if respective netting agreements are entered into and are enforceable under the relevant jurisdictions. AO 8

g) Other financial instruments and liabilities from other financial instruments held at fair value

These items comprise the assets and liabilities arising from the issuance of structured products for which the Bank has elected to apply the fair value option in accordance with Art. 15 FINMA Accounting Ordinance. Any impact due to a change in the Group's own credit rating is recorded in the compensation account.

ARB A1 Mn. 45 & 95

ARB Mn. 4

For structured products which are separated and valued individually, the underlying instrument is valued and reported according to the valuation principles applicable to the respective instrument. The derivative is valued at fair value and reported within the positive or negative replacement values of derivative financial instruments.

ARB Mn. 6 - 9

h) Financial investments

"Financial investments" comprises securities and precious metals acquired for medium-term and long-term investment purposes, as well as equity securities held neither for trading nor as a long-term investment. The caption further contains real estate and other goods available for sale that were acquired in connection with credit operations. Proprietary crypto currencies not held for trading as well as crypto currencies on account of the customers that cannot be separately identified in case of bankruptcy are also included in this position.

ARB A1 Mn. 46 - 55

Interest-bearing securities held to maturity are carried at cost, with premiums or discounts amortized over the term of the instrument using the amortized cost method. Changes in book value related to default risk are recognized immediately through the income statement item "Changes in value adjustments for default risks and losses from interest operations", while value adjustments due to market movements are recognized under "Other ordinary expenses" or "Other ordinary income". Gains and losses arising from the sale or early redemption of held-to-maturity instruments are recorded on a straight-line basis over the remaining maturity of the securities.

AO 16 / ARB A2 Mn. 18, 59 & 62

Interest-bearing securities not intended to be held until maturity are valued at the lower of cost or market value. Adjustments in value are recorded under "Other ordinary expenses" or "Other ordinary income".

AO 16 / ARB A2 Mn. 58 & 61

Equity securities, own physical precious metal holdings, real estate and other goods that have been acquired as a result of credit activities and are intended for resale, commodities and crypto currencies are valued at the lower of cost or market value. In the case of real estate and other goods acquired through credit activities and intended for resale, the lower of cost or market value is deemed to be the lower of the acquisition value or the liquidation value.

AO 16 / ER 5.3.6

Realised gains and losses from the sale of financial investments held at lower of cost or market value are presented in the position "Result from the disposal of financial investments".

ARB A2 Mn. 49

Own physical precious metal holdings included in financial investments that serve to secure obligations arising from precious metal accounts are valued at fair value if the precious metal concerned is traded on a price-efficient and liquid market. Changes in book value are recognized net through the captions "Other ordinary expense" or "Other ordinary income", as appropriate.

AO 16

Crypto currencies that cannot be separately identified and that serve to secure obligations arising from client's crypto currency accounts are held at fair value. Changes in book value are recognized net through the captions "Other ordinary expense" or "Other ordinary income", as appropriate.

AO 16 / ARB A2 Mn. 60 & 63

i) Non-consolidated participations

"Non-consolidated participations" comprises equity securities of non-consolidated companies which are held as a long-term investment. These participations are recognized at acquisition cost less required impairment.

ARB A1 Mn. 57-59/ AO A3.1 (a) / BO 27

Potential value adjustments are determined following the principle of individual valuation. At the end of each reporting period the Group assesses, whether there is any indication that a participation may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. A higher book value is reduced to the recoverable amount.

AO 23

Impairments are recognized in the position "Value adjustments on participations and depreciation and amortization of tangible fixed and intangible assets"

Tangible fixed assets

"Tangible fixed assets" are recognized at acquisition cost or production cost (IT developed by the Group for its own use), less accumulated depreciation in subsequent periods. Depreciation is calculated on a straight-line basis over the estimated useful life of the tangible assets but not more than: ARB A1 Mn. 60-65/ BO 27 / AO 20

- 50 years for real estate;
- 15 years for technical facilities;
- 5 years for machinery, furniture and fittings;
- 5 years for computer software and hardware.

At the end of each reporting period the Group assesses, whether there is any indication that tangible fixed assets may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. A higher book value is reduced to the recoverable amount. If there is a change in the useful life, the book value of the respective asset is depreciated over the new remaining estimated useful life of the asset. AO 23

Any depreciation recorded over the remaining estimated useful life and additional write-offs made subsequent to impairment reviews are credited to the income statement for the period, under "Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets". ARB A2 Mn. 95 - 100

Intangible assets

Assets and liabilities of business units or companies are valued at fair value at the time of acquisition. If the acquisition costs are higher than the net assets identified during the purchase price allocation, the difference is considered as goodwill and is recognized as an intangible asset. Any negative goodwill (badwill) is immediately recognized through extraordinary income. Other intangible assets are recognized at acquisition cost or production cost. ARB A1 Mn. 66-69/ BO 27 / AO 22 / AO 84

Goodwill is recognized on the balance sheet at cost and depreciated on a straight-line basis over 5 years. Other intangible assets are depreciated over 3 to 5 years depending on their estimated useful life. AO 22

At the end of each reporting period the Group assesses, whether there is any indication that intangible assets may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. A higher book value is reduced to the recoverable amount. If there is a change in the useful life, the book value of the respective asset is depreciated over the new remaining estimated useful life of the asset. AO 23

Any depreciation recorded over the remaining estimated useful life and additional write-offs made subsequent to impairment reviews are credited to the income statement for the period, under "Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets". ARB A2 Mn. 95 - 100

Accrued income/expenses and prepaid expenses/deferred income

These items mainly consist of accrued interest, taxes payable and other accruals and deferrals. ARB A1 Mn. 56 & 100 - 104

Other assets and other liabilities

These items comprise mainly coupons, indirect taxes, settlement account balances and the compensation account. ARB A1 Mn. 70 - 84 & 105 - 119

Cash bonds

This item consists of cash bonds issued by the Bank. They are carried at nominal value. BO 27

Bonds and mortgage-backed bonds
This caption comprises loans from the Pfandbriefbank schweizerischer Hypothekarinstitute AG, as well as bonds issued by the Group companies. They are stated at nominal value with any discount or premium amortized over the maturity of the instrument using the amortized cost method. ARB A1 Mn. 96-99 / BO 27 / AO 27

Pension benefit obligations
Pension benefit obligations are all plans, schemes and arrangements that provide benefits for retirement, death or disability. ARB A1 Mn. 70 & 122 / AO 29

The economic impact of pension plans is deemed to be either an economic benefit (excess coverage) or an obligation (funding shortfall). In the case of excess coverage, an economic benefit arises if there is a potential positive effect on future cash flows and if it is permissible and intended to either use the surplus or lower the employer's contributions. Future economic benefits are always capitalized when recognition criteria are satisfied. In the case of a funding shortfall, an economic obligation exists if the conditions for creating a provision are met. ER 5.3.17

Determining the economic impact of the pension plan is based on the financial situation of the pension funds at their latest annual financial reporting date but not more than 12 months ago. AO 29

Pension benefit obligations are carried on the balance sheet under "Provisions", while benefits are recognized under "Other assets". Changes from the corresponding value in the previous financial year are recognized for each pension fund under "Personnel expenses". The same accounting method applies to adjusted contributions for the period. ARB A2 Mn. 69

Provisions
Provisions are created to cover legal and factual obligations existing at the balance sheet date that relate to a past event for which an outflow of funds seems probable and which can be estimated reliably. At each balance sheet date, the previously created provisions are reassessed. ARB A1 Mn. 120 - 125 / AO 28

Provisions are not used as value adjustments of assets.

Default risks in connection with off-balance sheet transactions in the positions "Contingent liabilities" and "Irrevocable commitments" that are not considered as impaired are accounted for through provisions for inherent default risks. AO 25

The bank applies the option to account for loans with frequent and high balance fluctuations in accordance with margin nos. 16 – 20 of FINMA Circ. 2020/1. For such loans the bank recognizes necessary value adjustments in the amount of the credit limit. The current utilization is directly adjusted on the balance sheet, while the limit made available but currently not utilized is booked as a provision. Changes in the utilization are considered reclassifications. ARB Mn. 16 - 20

Taxes
The income statement item "Taxes" comprises current and deferred income taxes as well as capital tax. ARB A2 Mn. 123 - 125 / AO 30

Current income taxes are calculated on the income for the year at the tax rate applicable in the respective tax jurisdiction of the respective legal entity. Current income taxes are recorded under "Accrued expenses and deferred income". ARB A1 Mn. 102

Deferred income taxes are calculated on the differences between the relevant tax value and the book value. Any deferred tax effects are calculated using the tax rate applicable to the respective legal entity. The annual recognition of deferred taxes is based on a balance sheet perspective and considers all future income tax effects. The actual expected tax rates or, if they are not known, the tax rates applicable at the balance sheet date are relevant. Deferred income tax assets on temporary differences and for losses carried forward are only recorded if they are likely to be realized through sufficient taxable profits in the future. AO 45, 58, 75 & 93

Lease transactions

Lease transactions are to be differentiated between finance and operating leases according to the substance over form principle. Transactions meeting the criteria mentioned in Art. 21 para. 1 FINMA Accounting Ordinance qualify as finance leases. All lease transactions which do not qualify as finance leases are accounted for as operating leases. AO 21

Assets obtained under a financial lease are reported in the position "Tangible fixed assets". Depending on the counterparty, liabilities arising from leases are either reported in the caption "Due to banks" or "Other liabilities". At the start of the lease term, the asset's book value is determined at the lower of the purchase value, the net market value or the net present value of the future lease payments. The asset is depreciated over its useful life. Payments related to the lease transaction are split into interest and amortizing components. The amortizing component is deducted from the lease liability and the interest and other components are recorded in the respective results of the period. AO 21 / ARB A1 Mn. 64, 86 & 111

Operating leases are not capitalized. Operating lease payments are recognized in the income statement under "General and administrative expenses". AO 21 / ARB A2 Mn. 78 & 80

Reserves for general banking risks

Reserves for general banking risks are created on a prudent basis to protect the Bank against general business risks. The formation and release of such reserves is recognized through the position "Change in reserves for general banking risks". Reserves for general banking risks are not taxed. The impact on deferred taxes is considered. ARB A1 Mn. 126 / AO 59 & 94 / ARB A2 Mn. 121

Employee participation schemes

The Group operates a long-term incentive plan under which eligible employees are awarded restricted share units. Each restricted share unit represents a non-transferable right to receive one registered share of Swiss Bank Ltd after the vesting period. The Group has no share option plan. AO 80 & 97

Shares granted are valued at fair value at grant date and recognized as "Personnel expenses" through "Capital reserve" over the vesting period. Any difference on the settlement is recognized through "Capital reserve". The Group's employee participation scheme is a true equity plan and in principle, no subsequent valuation is to be carried out unless there are changes in the exercise or subscription conditions. AO 80 & 97 / ARB A1 Mn. 135 / ARB A2 Mn. 73

Off-balance sheet transactions

Contingent liabilities are recorded at their maximum amount that could be claimed in case of a potential triggering event. Other off-balance sheet transactions are recorded at nominal value ARB A1 Mn. 145 - 159

As necessary, default risks on off-balance sheet transactions are accounted for through provisions for inherent default risks. AO 25 & 28

III. Explanations of risk management, in particular on the treatment of interest rate risk, other market risks and credit risk

BO A1.E (c)

Risk Management Framework

The Group has exposure to the following risks:

- Interest rate risk and other market risks;
- Credit risk;
- Liquidity risk; and
- Operational risks.

This note presents information about the Group's objectives, policies and processes for measuring and managing risks.

The Bank's Board of Directors has the overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has delegated some of its risk management and control tasks to the Group Audit and Risk Committee.The Group Audit and Risk Committee further oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. It is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures and reports the results to the Group Audit and Risk Committee. The Group Executive Committee has the overall responsibility for the implementation of the Group's strategy. It is supported by several risk committees and functions at both Group and legal entity level (e.g. Asset and liability management committee (ALCO)).

The Group's risk management policies are established to identify and analyze the risks and require adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Interest rate risk and other market risks

Market risks denote the risks of a loss as a result of revaluation of a position due to a change in prices such as interest rates, share and commodity prices, exchange rates and their corresponding volatilities. The objective of the Group's Market Risk management is to manage and control market risk exposures within acceptable parameters to ensure the Group's solvency while optimizing its return on risk.

Management of market risks

The Group separates its exposures to market risk between trading book and banking book. The trading book includes positions arising from market making and proprietary position taking, together with financial assets and financial liabilities that are managed on a fair value basis.

The overall authority for market risks is vested in the ALCO. The ALCO sets up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios. The Group Market Risk Committee is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation.

The Group employs a range of tools to monitor and limit market risk exposures. These are discussed below, separately for trading and banking book.

Exposure to market risks – Trading book

The principal tool used to measure and control market risk exposures within the Group's trading book is Value-at-Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based on a 99% confidence level and assumes a 10-day holding period. The VaR model used is based mainly on historical simulation. Taking account of market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risks, the assumptions on which the model is based give rise to some limitations, including the following:

- A 10-day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for illiquid assets or in situations in which there is severe market illiquidity.
- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a 1% probability that losses could exceed the VaR.

The Group uses VaR limits for total market risks and specific foreign exchange, interest rate, equity, credit spread and other price risks. The overall structure of VaR limits is subject to review and approval by ALCO. VaR limits are allocated to trading portfolios. VaR is measured at least daily for more actively traded portfolios. Daily reports of utilization of VaR limits are submitted to Group Market Risk and regular summaries are submitted to ALCO.

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. The analysis of scenarios and stress tests is reviewed by ALCO.

The Group VaR models are subject to regular validation by Group Market Risk to ensure that they continue to perform as expected, and that assumptions used in the model developments are still appropriate. As part of the validation process, the potential weaknesses of the models are analyzed using statistical techniques, such as back-testing.

Exposure to market risks – Banking book

The principal risk to which the banking book is exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved cash flows and fair value impact limits for repricing bands. In addition, the Group uses a wide range of stress tests to model the financial impact of exceptional variations in the yield curve. The ALCO is the monitoring body for compliance with these limits and is assisted by Central Treasury in its day-to-day monitoring activities. Interest rate risks in the banking book are managed using micro and marcro hedging strategies.

Equity price risk is subject to regular monitoring by Group Market Risk but is not currently significant in relation to the Group's overall risk exposure.

In addition to monitoring VaR in respect of foreign currency, the Group monitors any concentration risk in relation to any individual currency with regard to the translation of foreign currency transactions and monetary assets and liabilities into the functional currency of Group entities, and with regard to the translation of foreign operations into the presentation currency of the Group.

Credit risk

Credit risk is the risk of a financial loss to the Group if a counterparty fails to meet its contractual obligations or the credit quality deteriorates. Credit risk arises principally from the Group's loans and advances to customers and other banks, and financial investments in debt securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

The Group Credit Committee has the responsibility for the oversight of credit risk. A separate Group Credit department, reporting to the Group Credit Committee, is responsible for managing the Group's credit risk, including the following:

– Issuance of credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
– Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Credit Officers. Larger facilities require approval by the Head of Group Credit, the Group Credit Committee or the Board of Directors as appropriate.
– Reviewing and assessing credit risk: The Group Credit department assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by issuer, credit rating range, market liquidity and country (for investment securities).
- Developing and maintaining the Group's risk gradings to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by the Group Risk department.
- Reviewing compliance with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to the Group Credit department, which may require appropriate corrective action.

The Group Chief Credit Risk officer reports to management and the Group Credit Committee on all credit-related matters. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolio, including those subject to central approval.

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits are part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free-settlement trades requires transaction-specific or counterparty-specific approval from the Group Risk Committee.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The ALCO is responsible for the oversight of the implementation of the Group's policy for managing liquidity risk. Central Treasury manages the Group's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of both the Group and the operating subsidiaries. A summary report, including any exceptions and remedial actions taken, is submitted regularly to the ALCO.

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Central Treasury receives information from other business units regarding the liquidity profile of their financial assets and financial liabilities and details of other projected cash flows arising from future business. Central Treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units and subsidiaries are met through loans from Central Treasury to cover any short-term fluctuations and long-term funding to avoid any liquidity shortfalls.

If a subsidiary is subject to a liquidity limit imposed by its local regulator, then the subsidiary is responsible for managing its overall liquidity within the regulatory limit in coordination with Central Treasury. Central Treasury monitors compliance of all operating subsidiaries with local regulatory limits on a daily basis.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The scenarios are developed taking into account Group-specific events (e.g. rating downgrade) and market-related events (e.g. prolonged market illiquidity, reduced fungibility of currencies etc.).

Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation.

The Group Operational Risk Committee is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and processional development;
- ethical and business standards;
- risk mitigation, including insurance where this is cost effective; and
- the Group maintains at least 95% of its crypto currency holdings in offline, air-gapped, geographically distributed cold storage facilities.

IV. Explanations of the methods used for identifying default risks and determining the need for creating value adjustments

BO A1.E (d)

Methods used for identifiying default risks

A counterparty is in default when a payment obligation is past due for more than 90 days or when the Group expects that an exposure will not be fully recovered. The Group identifies default risks based on the occurrence of loss events. A loss event occurs when there are conclusive signs that future contractual payments of principal and/or interest becomes unlikely or, at the latest, when these payments are more than 90 days overdue. Exposures for which a loss event has occurred are generally considered as impaired. Value adjustments for default risks are deducted from the corresponding assets, except for off-balance sheet exposures, for which a provision is recorded.

AO 26

AO 25 & 28

Value adjustments and provisions for impaired exposures

AO 24

Value adjustments on impaired loans are determined individually by counterparty according to Art. 24 para. 4 FINMA Accounting Ordinance. Impaired exposures and any collateral are valued at their liquidation value taking into consideration the counterparties' creditworthiness.

Value adjustements and provisions for non-impaired exposures

AO 25

Value adjustments on non-impaired credit exposures are determined individually or on a portfolio basis according to Art. 25 para. 1 let. b FINMA Accounting Ordinance. Value adjustments for inherent risks of default correspond to the expected loss over a period of 12 months. The calculation method takes into consideration the probability of default of the counterparty based on internal and external default history, the loss given default based on expert judgement, as well as the value of collateral provided and the estimated exposure at default. Probability of default and loss given default are average values measured through the cycle without point in time adjustments. Value adjusments and provisions for inherent risks are determined for all credit exposures arising from mortgage loans, due from customers, due from banks and held to maturity financial investments, except for derivatives and securities financing transactions. Off-balance sheet exposures comprise contingent liabilities and irrevocable commitments like unused credit facilities. Non-cash exposures are converted into cash exposures using regulatory credit conversion factors.

AO 28

Value adjustments and provisions for inherent risks of default can be used in the event of a major crisis to cover individually impaired loans without immediately restoring them to the required level. In such a case, the shortfall must be reconstituted gradually over a period of maximum 5 years.

ARB A4 Mn. 14 & 15

V. Explanations of the valuation of collateral, in particular key criteria for the calculation of the current market value and the lending value

BO A1.E (e)

The Group has set out the methods, procedures and responsibilities for the valuation of collateral for loans in specific directives and procedures. The valuation of mortgage collateral is based on recognized valuation methods including hedonic models, discounted cash flow models and expert appraisals depending on the property type and transaction. The models used and critical valuation parameters are regularly reviewed.

Loan-to-value ratios for mortgage lending are based on the marketability of the property including additional parameters like location or type of property (residential, commercial etc.). For loans secured by financial assets, loan-to-value ratios are based on the risks of the collateral (volatility, liquidity etc.). Financial assets are valued at the current market price or at a price determined by a valuation model.

VI. Explanations of the Group's business policy regarding the use of derivative financial instruments, including explanations relating to the use of hedge accounting

BO A1.E (f)

Derivative financial instruments
Derivative financial instruments are used for trading and risk management purposes.

Most derivatives in the trading book are related to customer transactions. The bank offers over-the-counter derivatives on interest rates, foreign exchange, precious metals, commodities and equity. The Group does not trade in credit derivatives. For its proprietary trading activities, the Group applies equity and foreign exchange derivatives.

For risk management purposes the bank uses derivatives to hedge the interest rate and foreign exchange risks in the banking book. Further, customer transactions are partially hedged back-to-back with a third party.

Hedge accounting
The Group uses interest rate swaps to hedge interest rate risks in the banking book arising from the asset and liability duration mismatch in different time buckets (macro hedging). It also uses interest rate swaps to hedge the interest rate risks arising from certain assets or liabilities positions (micro hedging). Only derivative financial instruments concluded with external counterparties qualify as hedging instruments.

ARB A4 Mn. 17 - 22 /
AO 19
ER 5.3.9

The results from the hedging transactions are recognized in the same income statement item as the corresponding results form the hedged item. For macro hedges of interest rate risks, the net result is reported in the item "Interest and discount income." Changes in the fair value of hedging instruments are recognized in the compensation account under "Other assets" or "Other liabilities". For hedging transactions valued in accordance with the accrual method, the accrued interest is reclassified from accruals and deferrals to the "Compensation account".

At the inception of the hedge relationship, the Group documents its long-term risk management and hedging strategy. The documentation specifically designates the hedging instrument, the hedged item and the methods used to measure hedge effectiveness. The Group performs regular effectiveness testing but at least at each balance sheet date.

In order for a hedge relationship to be deemed highly effective there must be an economic connection between the hedging instrument and the hedged item. Changes in the fair value of the hedging instrument and the hedged item with respect to the hedged risk have to offset each other. The hedging relationship has to be highly effective, both prospectively and retrospectively. The results of the effectiveness test have to be in a range between 80-125% for the hedge relationship to be deemed highly effective.

When the change in fair value of the hedging instrument exceeds the change in fair value of the hedged item which is due to the hedged risk, the ineffective portion is recognized through "Result from trading activities and the fair value option".

VII. Explanation of material events occurring after the balance sheet date

BO A1.E (g)

No event occurred after the balance sheet date that might have a significant influence on the Group's consolidated financial statements.

VIII. Reasons that led to the premature resignation of the auditor

BO A1.E (h)

KPMG has been elected as statutory auditor at the last Annual General Meeting of Shareholders. The statutory auditor did not resign prematurely from its function.

E. Notes to the Consolidated Financial Statements (continued)

CHF million

IX. Information on the balance sheet

1. Breakdown of securities financing transactions (assets and liabilities)

BO A1.E (i,1)
ARB A4.1

	31.12.2020	31.12.2019
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	323	187
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions	516	564
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	568	620
- of which, those with unrestricted right to resell or pledge	*568*	*620*
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with secutities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	355	206
- of which repledged securities		
- of which resold securities		

E. Notes to the Consolidated Financial Statements (continued)

CHF million

2. Presentation of collateral for loans / receivables and off-balance sheet transactions, as well as impaired loans / receivables

BO A1.E (i,2)
ARB A4.2

		Type of collateral			
Loans (before netting with value adjustments)		**Secured by mortgage**	**Other collateral**	**Unsecured**	**Total**
Amounts due from customers		573	677	1'415	2'665
Mortgage loans		11'727			11'727
– *Residential property*		*9'361*			*9'361*
– *Office and business premises*		*828*			*828*
– *Commercial and industrial premises*		*1'180*			*1'180*
– *Other*		*358*			*358*
Total loans (before netting with value adjustments)	**31.12.2020**	**12'300**	**677**	**1'415**	**14'392**
	31.12.2019	*11'260*	*638*	*1'231*	*13'129*
Total loans (after netting with value adjustments)	**31.12.2020**	**12'245**	**674**	**1'386**	**14'305**
	31.12.2019	*11'205*	*638*	*1'212*	*13'055*
Off-balance-sheet					
Contingent liabilities		8	69	308	385
Irrevocable commitments		123	14	547	684
Obligation to pay up shares and make further contributions					
Credit commitments				10	10
Total off-balance-sheet	**31.12.2020**	**131**	**83**	**865**	**1'079**
	31.12.2019	*129*	*82*	*855*	*1'066*

Impaired loans / receivables		**Gross debt amount**	**Estimated liquidation value of collateral**	**Net debt amount**	**Individual value adjustments**
Balance as of	**31.12.2020**	**255**	**174**	**81**	**74**
	31.12.2019	*225*	*159*	*66*	*69*

The increase in impaired loans is predominantly due to the adverse developement of a group of related counterparties.

E. Notes to the Consolidated Financial Statements (continued)

CHF million

3. Breakdown of trading portfolios and other financial instruments at fair value (assets and liabilities)

BO A1.E (i,3)
ARB A4.3

	31.12.2020	31.12.2019
Assets		
Trading assets		
Debt securities, money market securities / transactions	266	199
– *of which, listed*	*212*	*189*
Equity securities	159	54
Precious metals and commodities	106	109
Other trading portfolio assets		
Total trading assets	**531**	**362**
Other financial instruments at fair value		
Debt securities	89	90
Structured products		
Other	33	15
Total other financial instruments at fair value	**122**	**105**
Total assets	**653**	**467**
– *of which, determined using a valuation model*		
– *of which, securities eligible for repo transaction in accordance with liquidity requirements*	*180*	*173*
Liabilities		
Trading liabilities		
Debt securities, money market securities / transactions		
– *of which, listed*		
Equity securities		
Precious metals and commodities		
Other trading portfolio liabilities		
Total trading liabilities		
Liabilities from other financial instruments at fair value		
Debt securities		
Structured products	118	107
Other		
Total liabilities from other financial instruments at fair value	**118**	**107**
Total liabilities	**118**	**107**
– *of which, determined using a valuation model*	*118*	*107*

E. Notes to the Consolidated Financial Statements (continued)

CHF million

BO A1.E (i,4)
ARB A4.4

4. Presentation of derivative financial instruments (assets and liabilities)

		Trading instruments			Hedging instruments		
		Positive replacement values	Negative replacement values	Contract volume	Positive replacement values	Negative replacement values	Contract volume
Interest rate instruments							
– Forward contracts incl. FRAs							
– Swaps		21	20	890	56	87	3’955
– Futures							
– Options (OTC)							
– Options (exchange-traded)							
Foreign exchange / precious metals							
– Forward contracts		43	40	6’391			
– Combined interest rate / currency swaps		112	66	12’175			
– Futures							
– Options (OTC)		12	11	312			
– Options (exchange-traded)							
Equity securities / indices							
– Forward contracts							
– Swaps							
– Futures				71			
– Options (OTC)		33	31	498			
– Options (exchange-traded)				56			
Credit derivatives							
– Credit default swaps							
– Total return swaps							
– First-to-default swaps							
– Other credit derivatives							
Other							
– Forward contracts							
– Swaps							
– Futures							
– Options (OTC)							
– Options (exchange-traded)							
Total before netting agreements	**31.12.2020**	**221**	**168**	**20’393**	**56**	**87**	**3’955**
– *of which, determined using a valuation model*		*66*	*62*		*56*	*87*	
	31.12.2019	97	135	20’679	51	92	4’304
– *of which, determined using a valuation model*		*58*	*55*		*51*	*92*	

E. Notes to the Consolidated Financial Statements (continued)

CHF million

4. Presentation of derivative financial instruments (assets and liabilities) (continued)

		Positive replacement values (cumulative)	Negative replacement values (cumulative)
Total after netting agreements	**31.12.2020**	**198**	**182**
	31.12.2019	*148*	*227*

Breakdown by counterparty		Central clearing houses	Banks and securities firms	Other customers	Total
Positive replacement values (after netting agreements)	31.12.2020	44	41	113	**198**
	31.12.2019	*19*	*31*	*98*	***148***

E. Notes to the Consolidated Financial Statements (continued)

CHF million

5. Financial investments

BO A1.E (i,5)
ARB A4.5

Breakdown of financial investments	**Book value**		**Fair value**	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
Debt instruments	1'848	1'824	1'892	1'910
– *of which, intended to be held to maturity*	*1'825*	*1'797*	*1'868*	*1'883*
– *of which, not intended to be held to maturity (available for sale)*	*23*	*26*	*24*	*27*
Equity securities	25	27	52	55
– *of which, qualified participations*	*8*	*7*	*8*	*7*
Precious metals				
Real estate and goods repossessed from credit operations available for sale	14	10	16	12
Crypto currencies	1		1	
Total	**1'888**	**1'861**	**1'961**	**1'977**
– *of which, securities eligible for repo transactions in accordance with liquidity requirements*	*1'789*	*1'767*	*1'795*	*1'782*

Breakdown of counterparties by rating	**31.12.2020**	**31.12.2019**
– AAA to AA-	924	912
– A+ to A-	832	821
– BBB+ to BBB-	74	55
– BB+ to B-		
– Lower than B-		
– Not rated	18	36
Total debt instruments	**1'848**	**1'824**

Rating for debt instruments according to S&P

E. Notes to the consolidated financial statements (continued)

CHF million

BO A1.E (i,6)
ARB A4.6
AO 62
AO 86

6. Presentation of non-consolidated participations

				2020					31.12.2020	
	Aquisition cost	Accumulated value adjustments and changes in book value (valuation using the equity method)	Book value 31.12.2019	Reclassifi-cations	Additions	Disposals	Value adjustments	Changes in book value in the case of participations valued using the equity method / depreciation reversals	Book value	Market value
Participations valued using the equity method										
– with listed price										
– without listed price	3	2	5					2	7	
Other participations										
– with listed price										
– without listed price										
Total non-consolidated participations	**3**	**2**	**5**					**2**	**7**	

E. Notes to the consolidated financial statements (continued)

CHF million

BO A1.E (i,7)
ARB A4.7
AO 86
BO 35(2)

7. Disclosure of companies in which the Group holds a permanent direct or indirect significant participation

				Share of		Held	
Company name and domicile	Business activity	Company capital		Capital in %	Votes in %	directly	indirectly
		Currency	Amount				
Consolidated subsidiaries							
Swiss Bank Ltd, Nassau	Bank	USD	10	75%	75%	75%	
Swiss Asset Management Ltd, Jersey	Asset management	GBP	0.5	100%	100%	100%	
Interests in associates (equity method)							
BPO AG, Zürich	Service company	CHF	1	30%	30%	30%	
Non-consolidated participations							
Swiss Fiduciary Services SA, Geneva [1]	Dormant company	CHF	0.1	100%	100%	100%	

There are no outstanding commitments or options to purchase or sell participating interests.

[1] Swiss Fiduciary Services SA, Geneva is a dormant company with total assets of CHF 0.25 million and a negative equity of CHF 0.05 million as of 31 December 2020. Swiss Bank granted a subordinated loan of CHF 0.10 million to the entity. The Group's intention is to liquidate this subsidiary.

E. Notes to the consolidated financial statements (continued)

CHF million

BO A1.E (i,8)
ARB A4.8
AO 86
AO 21(5)

8. Presentation of tangible fixed assets

	Aquisition cost	Accumulated depreciation	Book value 31.12.2019	2020 Reclassifcations	Additions	Disposals	Depreciation	Reversals	Book value 31.12.2020
Bank buildings	120	-35	85		10	-10	-3		82
Other real estate	80	-26	54				-2		52
Proprietary or separately acquired software	55	-35	20		6		-9		17
Other tangible fixed assets	77	-43	34		4		-5		33
Tangible assets aquired under financial leases:	40	-10	30				-2		28
– *of which, bank buildings*	*40*	*-10*	*30*				*-2*		*28*
– *of which, other real estate*									
– *of which, other tangible fixed assets*									
Total tangible fixed assets	**372**	**-149**	**223**		**20**	**-10**	**-21**		**212**

Operating leases		within 1 year	from 1 to 3 years	from 3 to 5 years	> 5 years	Total[1]
Future lease payments	31.12.2020	10	10	5	3	**28**
	31.12.2019	*11*	*11*	*4*	*4*	***30***

[1] of which, commitments which can be terminated within one year: CHF 12 million (2019: CHF 10 million)

BO A1.E (i,9)
ARB A4.9
AO 86

9. Presentation of intangible assets

	Cost value	Accumulated amortization	Book value 31.12.2019	2020 Additions	Disposals	Amortization	Book value 31.12.2020
Goodwill	50	-5	45			-5	40
Patents							
Licenses							
Other intangible assets							
Total intangible assets	**50**	**-5**	**45**			**-5**	**40**

E. Notes to the Consolidated Financial Statements (continued)

CHF million

10. Breakdown of other assets and other liabilities

BO A1.E (i,10)
ARB A4.10

	Other assets		Other liabilities	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Compensation account	8	7		
Deferred income taxes recognised as assets	3	4		
Amount recognized as assets in respect of employer contribution reserves	4	4		
Amount recognized as assets relating to other pension schemes				
Indirect taxes	3	2	15	17
Neative goodwill				
Others	6	1	30	33
Total	**24**	**18**	**45**	**50**

11. Disclosure of assets pledged or assigned to secure own commitments and of assets under reservation of ownership

BO A1.E (i,11)
ARB A4.11

	31.12.2020		31.12.2019	
	Book value	Effective commit-ments	Book value	Effective commit-ments
Assets pledged or assigned as collateral for own liabilties				
Assets pledged or assigned to SNB	100		80	
Mortgage pledged or assigned to the central mortgage loan institution	4’950	3’713	4’730	3’548
Other	97	92	110	100
Total assets pledged or assigned as collateral for own liabilities	**5’147**	**3’805**	**4’920**	**3’648**
Assets under reservation of ownership				

E. Notes to the Consolidated Financial Statements (continued)

CHF million

12. Disclosure of liabilities relating to own pension schemes, and number and nature of equity instruments of the Group that are held by own pension schemes

BO A1.E (i,12)
ARB A4.12

	31.12.2020	31.12.2019
Customer deposits	32	21
Cash bonds	4	3
Total liabilities to own pension schemes	**36**	**24**

The Group's employee's pension fund holds 2'530 Swiss Bank shares with a market value of CHF 0.4 million (2019: 2'600 valued at CHF 0.5 million).

E. Notes to the consolidated financial statements (continued)

CHF million

BO A1.E (i,13)
ARB A4.13
AO 44

13. Disclosure of the economic situation of own pensions schemes

Employer contribution reserves (ECR)	31.12.2020			31.12.2019	Influence of the ECR on personnel expenses	
	Nominal value	Waiver of use	Net amount	Net amount	2020	2019
– Swiss Bank Group Employees Pension Fund						
– Patronal Fund	4		4	4		
Total	**4**		**4**	**4**		

The employer contribution reserves correspond to the nominal amount of the reserve (undiscounted). Interest income received on the employer contribution reserve is recognizsed through "Result from interest operations".

Presentation of the economic benefit / obligation and the pension expenses	Overfunding / (underfunding)	Economic interests of the bank / financial group		Change in economic interest (economic benefit / obligation) versus previous year	Contributions paid for the reporting period	Pension expenses in personnel expenses	
	31.12.2020	31.12.2020	31.12.2019		2020	31.12.2020	31.12.2019
Pension plan with overfunding							
– Swiss Bank Group Employees Pension Fund	11				7	7	8
– Patronal fund	6				0.5	0.5	0.5
Total	**17**				**7.5**	**7.5**	**8.5**

The overfunding in a pension plan will be used for the benefit of the employees. As a result, there will be no economic benefit to the Group of an overfunding.

Switzerland
Swiss Bank Group employees in Switzerland are members of the Swiss Bank Group Employees Pension Fund. Its purpose is to insure its members against the economic consequences of retirement, disability and death by guaranteeing benefits in accordance with the terms of the pension fund regulations. In addition, senior executives are affilitated to the Patronal Fund supplementing the benefits they receive from the base pension fund. The overfunding or underfunding in a pension fund is based on its unaudited accounts as of 31 December 2020. The coverage rate in the Swiss Bank Group Employees Pension Plan at that date was 106% (2019: 105%). The coverage rate in the Patronal fund at the same date was 120% (2019: 117%).

Other locations
The employees of the Nassau subisdiary have voluntary membership in a specific pension plan. There is not economic benefit / obligation with respect to this pension plan.

E. Notes to the consolidated financial statements (continued)

CHF million

BO A1.E (i,14)
ARB A4.14

14. Presentation of issued structured products

Underlying risks of the embedded derivative

		Book value					
		Valued as a whole		Valued seperately		Total	
		Booked in trading portfolio	Booked in other financial instruments at fair value	Value of the host instrument	Value of the derivative	31.12.2020	31.12.2019
Interest rate instruments	With own debenture component (oDC)						
	Without oDC						
Equity securities	With oDC		80			80	74
	Without oDC						
Foreign currencies	With oDC		38			38	33
	Without oDC						
Commodities / precious metals	With oDC						
	Without oDC						
Total			**118**			**118**	**107**

E. Notes to the consolidated financial statements (continued)

CHF million

BO A1.E (i,15)
ARB A4.15
AO 86

15. Presentation of bonds outstanding and mandatory convertible bonds

Presentation of cash bonds by maturity

	Maturity						Total	
Rates	within one year	>1-≤2 years	>2-≤3 years	>3-≤4 years	>4-≤5 years	>5 years	31.12.2020	31.12.2019
up to 2%	28	19	12	4	4	6	73	131
2% - 3%	19	13	10	5	3	2	52	93
3% - 3.5%	8	6	4	3			21	38
Total outstanding bonds	**55**	**38**	**26**	**12**	**7**	**8**	**146**	**262**

Bonds and mortgage-backed bonds

	Issues	Year of issues	Nominal value	Maturity	Group held	Interest rate in %	Amount outstanding	
							31.12.2020	31.12.2019
	Bond 1	2016	125	30.06.2026	10	2.05	115	111
	Bond 2	2017	100	31.03.2027	5	2.12	95	84
Total bonds							**210**	**195**
						Average interest rate in %		
Total mortgage-backed bonds						**2.30**	**4'642**	**4'475**
Total bonds and mortgage-backed bonds							**4'852**	**4'670**
– of which non-subordinated							*4'852*	*4'670*
– of which subordinated without PONV clause								
– Subordinated with PONV clause								
– of which with early termination clause								

Overview of maturity of bonds outstanding

		Maturity						Total	
		within one year	>1-≤2 years	>2-≤3 years	>3-≤4 years	>4-≤5 years	>5 years	31.12.2020	31.12.2019
Swiss Bank	Bonds						210	210	195
Swiss Bank	Mortgage-backed bonds	**85**	**112**	**205**	**344**	**550**	3'346	4'642	4'475
Total		**85**	**112**	**205**	**344**	**550**	**3'556**	**4'852**	**4'670**

E. Notes to the consolidated financial statements (continued)

CHF million

BO A1.E (i,16)
ARB A4.16

16. Presentation of value adjustments and provisions, reserves for general banking risks, and changes therein during the current year

	Balance at 31.12.2019	Utilized for designated purpose	Reclassifi-cations	Foreign exchange translation differences	Interest past due, recoveries	New charges to income statement	Releases to income statement	Balance at 31.12.2020
Provisions for deferred taxes	51	-1						50
Provisions for pension benefit obligations								
Provisions for default risks	3					2		5
– *of which, provisions according to Art. 28 para. 1 FINMA Accounting Ordinance*	*2*		*-1*			*1*		*2*
– *of which, provisions for expected loss*								
– *of which, provisions for inherent default risks*			*2*			*1*		*3*
– *of which, provisions for latent risks*	*1*		*-1*					
Provisions for other business risks								
Provisions for restructuring								
Other provisions	6					1		7
Total provisions	**60**	**-1**				**3**		**62**
Value adjustments for default risks from impaired receivables	69		1			4		74
Value adjustments for expected loss								
Value adjustmentsfor inherent default risks			12			1		13
Value adjustments for latent risks	5		-5					
Total Value adjustments for default and country risks	**74**		**8**			**5**		**87**
Reserves for general banking risks	**317**		**-8**					**309**

Under the revised Accounting Rules for Banks the Group changed their approach to account for default risks by introducing value adjustments and provisions for inherent default risks. The Group has opted for a full recognition of the value adjustments and provisions for inherent default risks as of 1 January 2020 by withdrawing CHF 8 million from the "Reserves for general banking risks".

The remaining amount of CHF 6 million was reclassified from the balance of value adjustments and provisions for latent risks.

The "Reserves for general banking risks" are not taxed. The withdrawal therefore led to a utilization of CHF 1 million in provisions for deferred taxes.

E. Appendix to the consolidated financial statements (continued)

BO A1.E (i,18)
ARB A4.18

17. Number and value of equity securities or options on equity securities allocated to executives, directors and employees, and disclosures on any employee participation scheme

	Equity securities				Options			
	Quantity		Value		Quantity		Value	
	2020	2019	2020 CHF mio.	2019 CHF mio.	2020	2019	2020	2019
Members of the Board of Directors	380	370	0.1	0.1				
Members of Executive management	2’234	1’888	0.4	0.4				
Employees	6’590	8’700	1.1	1.6				
Total	**9’204**	**10’958**	**1.6**	**2.1**				

The Group operates a long-term incentive plan under which eligible employees are awarded restricted share units. Each restricted share unit represents a non-transferable right to receive one share of Swiss Bank AG following the vesting date. The restricted share units have been valued at the price of CHF 160 per unit (2019: CHF 182). For the members of the Board of Directors and Executive Board the rights to restricted share units vest after 5 years. Employee's rights vest after 3 years.

The number and value of restricted share units granted to the members of the Board of Directors and Executive Board as well as employees during the year are dislcosed in the table above. The total cost for the year of the employee share participation plan amounts to CHF 1.7 million (2019: CHF 2.0 million).

E. Appendix to the Consolidated Financial Statements (continued)

CHF million

18. Disclosure of amounts due from / to related parties

BO A1.E (i,19)
ARB A4.19

	Amounts due from		Amounts due to	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
Shareholders with a qualified participations				
Group companies				
Affiliated companies	2.0	2.0	0.2	0.3
Members of governing bodies	0.2	0.1	0.2	0.2
Other related parties				

All balance sheet and off-balance-sheet transactions have been granted at arm's length.

19. Disclosure of own shares

BO A1.E (i,21)
ARB A4.21

As at 31. December 2020, the Group holds 15'459 own ordinary shares (2019: 45'000 ordinary shares). The Group has disposed of 35'650 and acquired 6'109 own shares in 2020 for an average transaction price of CHF 268 and CHF 253 respectively. The Group has realized a gain of CHF 4 million on disposal of own shares, which was recognised through capital reserves. Transactions in own shares have been executed at fair value. Own shares are not held for trading purposes. There are no contingent liabilities associated with own shares purchased or sold.

Own shares are principally held for the purpose of managing the Group's long-term incentive plan. As of 31. December 2020, 13'750 shares were held as part of the employee share participation plan (2019: 32'350).

No group companies or related parties hold equity instruments of the Group.

Transactions with shareholders in their capacity as shareholders
No specific transaction has been concluded with shareholders in 2020 with a settlement other than in cash or outside of usual market conditions.

E. Notes to the consolidated financial statements (continued)

CHF million

BO A1.E (i,23)
ARB A4.23
AO 86

20. Presentation of the maturity structure of financial instruments

	At sight	Callable	Due					Total
Assets / financial instruments			*within 3 months*	*in 3 to 12 months*	*in 12 months to 5 years*	*after 5 years*	*no maturity*	
Cash and other liquid assets	2'951							2'951
Due from banks	315		154	9	23			501
Due from securities financing transactions			323					323
Due from customers	80	905	767	166	389	302		2'609
Mortgage loans	202	214	1'910	1'123	5'084	3'163		11'696
Trading assets	531							531
Positive replacement values of derivative financial instruments	198							198
Other financial instruments at fair value	122							122
Financial investments	44		143	162	798	727	14	1'888
Total 31.12.2020	**4'443**	**1'119**	**3'297**	**1'460**	**6'294**	**4'192**	**14**	**20'819**
31.12.2019	*4'086*	*1'111*	*2'832*	*1'605*	*6'736*	*3'232*	*10*	*19'612*
Liabilities / financial instruments								
Due to banks	434		672	50	100			1'256
Liabilities from securities financing transactions			516					516
Customer deposits	6'368	5'747	355	56	140	30		12'696
Trading liabilities								
Negative replacement values of derivative financial instruments	182							182
Liabilities from other financial instruments at fair value	118							118
Cash bonds			20	47	72	7		146
Bonds and mortgage-backed bonds			239	481	1'584	2'548		4'852
Total 31.12.2020	**7'102**	**5'747**	**1'802**	**634**	**1'896**	**2'585**		**19'766**
31.12.2019	*7'195*	*6'426*	*1'364*	*667*	*1'523*	*1'457*		*18'632*

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E. Notes to the Consolidated Financial Statements (continued)

CHF million

BO A1.E (i,24)
ARB A4.24
AO 86
AO 32(1&6)

21. Presentation of assets, liabilities and equity by domestic and foreign origin in accordance with the domicile principle

	31.12.2020		31.12.2019	
ASSETS	**Domestic**	**Foreign**	**Domestic**	**Foreign**
Cash and other liquid assets	2'945	6	3'058	6
Due from banks	219	282	506	324
Due from securities financing transactions	323		187	
Due from customers	2'197	412	1'929	383
Mortgage loans	11'696		10'743	
Trading assets	370	161	272	90
Positive replacement values of derivative financial instruments	140	58	107	41
Other financial instruments at fair value	105	17	87	18
Financial investments	1'605	283	1'561	300
Accrued income and prepaid expenses	89	29	90	29
Non-consolidated participations	5	2	3	2
Tangible fixed assets	212		223	
Intangible assets	40		45	
Other assets	14	10	10	8
Total assets	**19'960**	**1'260**	**18'821**	**1'201**

LIABILITIES AND EQUITY				
Due to banks	1'006	250	781	158
Liabilities from securities financing transactions	516		564	
Customer deposits	11'985	711	11'208	655
Trading liabilities				
Negative replacement values of derivative financial instruments	132	50	168	59
Liabilities from other financial instruments at fair value	13	105	16	91
Cash bonds	146		262	
Bonds and mortgage-backed bonds	4'620	232	4'350	320
Accrued expenses and deferred income	80	29	81	41
Other liabilities	29	16	34	16
Provisions	88	-26	83	-23
Reserves for general banking risks	309		317	
Bank's capital	50		50	
Capital reserve	170		165	
Retained earnings	494	29	348	89
Currency translation reserve	-1		-2	
Own shares	-3		-7	
Minority interests in equity		31		30
Consolidated profit	133	26	152	16
Total liabilities and equity	**19'767**	**1'453**	**18'570**	**1'452**

E. Notes to the Consolidated Financial Statements (continued)

CHF million

BO A1.E (i,25)
ARB A4.25
AO 86
AO 32(1&6)

22. Breakdown of total assets by country or country groups (domicile principle)

	31.12.2020		31.12.2019	
ASSETS	**absolute**	**%**	**absolute**	**%**
Switzerland	19’960	94.1	18’821	94.0
Rest of Europe	660	3.1	581	2.9
North America	318	1.5	320	1.6
South America	106	0.5	180	0.9
Africa	87	0.4	60	0.3
Asia	46	0.2	40	0.2
Australia / Oceania	43	0.2	20	0.1
Total assets	**21’220**	**100.0**	**20’022**	**100.0**

BO A1.E (i,26)
ARB A4.26
AO 32(1&6)

23. Breakdown of total assets by credit rating of country groups (risk domicile view)

		Net foreign exposure			
		31.12.2020		31.12.2019	
Internal rating system	**S&P**	**absolute**	**%**	**absolute**	**%**
1	AAA	552	43.8	443	36.9
2	AA+ to AA-	407	32.3	478	39.8
3	A+ to A-	152	12.1	151	12.6
4	BBB+ to BBB-	130	10.3	93	7.7
5	BB+ to B-	19	1.5	36	3.0
6	CCC and below		0.0		0.0
Total		**1’260**	**100.0**	**1’201**	**100.0**

The Group is using an internal rating system to manage country risks. For the purpose of this disclosure, the Group's net foreign exposure has been presented according to the Group's internal rating and corresponding sovereign foreign currency long-term rating from Standard and Poor's (S&P).

E. Notes to the consolidated financial statements (continued)

CHF million

BO A1.E (i,27)
ARB A4.27
AO 86
AO 32(2&6)

24. Presentation of assets, liabilities and equity broken down by the most significant currencies for the Group

	31.12.2020				
ASSETS	**CHF**	**EUR**	**USD**	**GBP**	**Others**
Cash and other liquid assets	2'898	39	9	3	2
Due from banks	128	204	139	12	18
Due from securities financing transactions		149	98	76	
Due from customers	1'871	365	218	155	
Mortgage loans	11'696				
Trading assets	247	160	56	36	32
Positive replacement values of derivative financial instruments	84	62	14	16	22
Other financial instruments at fair value	102	12		8	
Financial investments	1'366	232	176	114	
Accrued income and prepaid expenses	102	3	4	2	7
Non-consolidated participations	7				
Tangible fixed assets	179		26	7	
Intangible assets	40				
Other assets	17	3	1	2	1
Total assets recognized in the balance sheet	**18'737**	**1'229**	**741**	**431**	**82**
Delivery entitlements from foreign exchange spot and forward transactions and foreign exchange options	13'218	5'231	5'201	530	168
Total assets	**31'955**	**6'460**	**5'942**	**961**	**250**

E. Notes to the consolidated financial statements (continued)

CHF million

BO A1.E (i,27)
ARB A4.27
AO 86
AO 32(2&6)

24. Presentation of assets, liabilities and equity broken down by the most significant currencies for the Group (continued)

	31.12.2020				
LIABILITIES AND EQUITY	**CHF**	**EUR**	**USD**	**GBP**	**Others**
Due to banks	301	522	356	31	46
Liabilities from securities financing transactions	-	238	157	121	
Customer deposits	11'273	468	395	560	
Trading liabilities					
Negative replacement values of derivative financial instruments	77	57	13	15	20
Liabilities from other financial instruments at fair value	49	26	18	21	4
Cash bonds	146				
Bonds and mortgage-backed bonds	4'011	345	496		
Accrued expenses and deferred income	94	3	4	2	6
Other liabilities	32	6	2	4	1
Provisions	44	11	5	2	
Reserves for general banking risks	309				
Bank's capital	50				
Capital reserve	170				
Retained earnings	523				
Currency translation reserves	-1				
Own shares	-3				
Minority interests in equity	31				
Consolidated profit	159				
Total liabilities and equity recognized in the balance sheet	**17'265**	**1'676**	**1'446**	**756**	**77**
Delivery obligations from foreign exchange spot and forward transactions and foreign exchange options	15'336	4'568	4'000	269	175
Total liabilities and equity	**32'601**	**6'244**	**5'446**	**1'025**	**252**
Net position per currency	**-646**	**216**	**496**	**-64**	**-2**

E. Notes to the Consolidated Financial Statements (continued)

CHF million

X. Information on the off-balance sheet transactions

25. Breakdown of contingent liabilities and contingent assets

BO A1.E (j,28)
ARB A4.28
AO 86

	31.12.2020	31.12.2019
Contingent liabilities		
Guarantees to secure credits and similar	295	321
Performance guarantees and similar		
Irrevocable commitments arising from documentary letters of credit	90	67
Other contingent liabilities		
Total contingent liabilities	**385**	**388**
Contingent assets		
Contingent assets arising from tax losses carried forward		
Other contingent assets	2	2
Total contingent assets	**2**	**2**

26. Breakdown of credit commitments

BO A1.E (j,29)
ARB A4.29
AO 86

	31.12.2020	31.12.2019
Commitments arising from deferred payments		
Commitments arising from acceptances		
Other credit commitments	10	15
Total credit commitments	**10**	**15**

27. Breakdown of fiduciary transactions

BO A1.E (j,30)
ARB A4.30

	31.12.2020	31.12.2019
Fiduciary deposits with third-party companies	102	135
Fiduciary investments with Group companies and affiliated companies		
Fiduciary loans		
Fiduciary transactions arising from securities lending and borrowing, which the bank conducts in its own name on account of the customers		
Crypto currencies held as fiduciary on account of the customer, which can be seperately identified in case of bankruptcy	7	6
Other fiduciary financial transactions		
Total fiduciary transactions	**109**	**141**

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E. Notes to the Consolidated Financial Statements (continued)

CHF million

28. Breakdown of managed assets and presentation of their development

BO A1.E (j,31)
ARB A4.31
AO 32(3&6)

Breakdown of managed assets	31.12.2020	31.12.2019
Assets in collective investment schemes managed by the Group	10’058	9’482
Assets under discretionary asset management agreements	5’102	5’080
Other managed assets	26’030	24’688
Total managed assets (including double counting)	**41’190**	**39’250**
– of which, double counting	4’127	3’872

Managed assets comprise all assets for which investment advisory and/or discretionary portfolio management services are provided. Assets that are held exclusively for custody and transaction settlement processes (custody assets) are not included in the table above.

Assets under discretionary asset management agreements comprise assets subject to a discretionary asset management agreement signed with the client. Other assets are classified as “Other managed assets”.

Presentation of the development of managed assets	31.12.2020	31.12.2019
Total managed assets (including double counting) at the beginning of the reporting period	39’250	38’456
+/- net new asset inflow or net new asset outflow	160	20
+/- changes in prices, interest, dividends and currency gains / losses	1’986	970
+/- other effects	-206	-196
Total managed assets (including double counting) at the end of the reporting period	**41’190**	**39’250**

Net new asset inflows or outflows relate to clients acquired during the year, clients that left the bank as well as cash deposits and withdrawals of existing clients. Other effects include the impact of interests, commission and fees charged to managed assets. It also includes the impact of client assets sold or acquired by the Group.

E. Notes to the Consolidated Financial Statements (continued)

CHF million

XI. Information on the income statement

29. Breakdown of the result from trading activities and the fair value option

BO A1.E (k,32)
ARB A4.32
AO 32(4)

Breakdown by business area	**2020**	**2019**
Trading results for own account	20	19
Trading for the account of customers	60	58
Total trading results	**80**	**77**

Breakdown by underlying risk and based on the use of the fair value option	**2020**	**2019**
Results from trading activities in:		
– Interest rate instruments (incl. funds)	17	12
– Equity securities (incl. funds)	49	51
– Foreign currencies	9	4
– Commodities / precious metals	5	10
Total result from trading activities	**80**	**77**
of which, from fair value option	*4*	*3*
– of which, from the fair value option on assets	*9*	*7*
– of which, from fair value option on liabilities	*-5*	*-4*

30. Disclosure of material refinancing income in the caption "Interest and discount income" as well as material negative interest

BO A1.E (k,33)
ARB A4.33
ARB A2 Mn. 8 &14

Refinancing income related to "Interest and discount income"

During the reporting year, the cost of refinancing of the trading portfolio amounted to CHF 2.5 milion (2019: CHF 3 million).

Negative interest

Asset related negative interest is debited to "Interest and discount income". Liability related negative interest is deducted from "Interest expenses".

	2020	**2019**
Asset related negative interest	8	6
Liability related negative interest	2	2

E. Notes to the Consolidated Financial Statements (continued)

CHF million

31. Breakdown of personnel expenses

BO A1.E (k,34)
ARB A4.34

	2020	2019
Salaries (meeting attendance fees and compensation to members of the bank's governing bodies, salaries and benefits)	177	169
– of which, expenses relating to share-based compensation and alternative forms of variable compensation	*26*	*25*
Social insurance benefits	16	15
Changes in book value for economic benefits and obligations arising from pension schemes		
Other personnel expenses	43	41
Total personnel expenses	**236**	**225**

32. Breakdown of general and administrative expenses

BO A1.E (k,35)
ARB A4.35

	2020	2019
Office space expenses	16	16
Expenses for information technology and communications technology	25	25
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	44	44
Fees of audit firm(s) (Art. 961a no. 2 CO)	3	3
– of which, for financial and regulatory audits	*2*	*2*
– of which, for other services	*1*	*1*
Other operating expenses	36	35
– of which, compensation for any cantonal guarantee		
Total general and administrative expenses	**124**	**123**

E. Notes to the Consolidated Financial Statements (continued)

CHF million

33. Disclosure and explanations regarding material losses, extraordinary income and expenses, as well as material releases of hidden reserves, reserves for general banking risks, and value adjustments and provisions no longer required

BO A1.E (k,36)
ARB A4.36
AO 25(10)
AO 28(8)

	2020	2019
Profit realized on the disposal of tangible fixed assets	19	9
Total extraordinary income	**19**	**9**
Losses realized from the sale of tangible fixed assets		-6
Total extraordinary expenses		**-6**
Allocation to reserves for general banking risks		
Withdrawals from the reserves for general banking risks	-8	
Total change in reserves for general banking risks	**-8**	

The extraordinary income of CHF 19 million results from the disposal of a Bank's building for a total amount of CHF 29 million.

In accordance with the transitional provisions in the FINMA Accounting Ordinance and the Explanatory Report to the new Accounting Rules for Banks the Group has opted for full recognition of the value adjustments and provisions for default risks as of 1 January 2020 by withdrawing CHF 8 million from the Reserves for general banking risks.

34. Disclosure of and reasons for revaluations of participations and tangible fixed assets up to acquisition cost at maximum

BO App. 1.E (k,37)
ARB A4.37
ARB Mn 30

Participations or tangible fixed assets have not been revalued.

E. Notes to the Consolidated Financial Statements (continued)

CHF million

BO A1.E (k,38)
ARB A4.38
AO 86
AO 32(5)

35. Presentation of the operating result broken down according to domestic and foreign origin, according to the principle of permanent establishment

	2020		2019	
	Domestic	**Foreign**	**Domestic**	**Foreign**
Interest and discount income	335	2	368	3
Interest and dividend income from trading portfolios				
Interest and dividend income from financial investments	33	1	34	1
Interest expense	-111	-2	-123	-3
Gross result from interest operations	**257**	**1**	**279**	**1**
Changes in value adjustments for default risks and losses from interest operations	-6		-4	
Subtotal net result from interest operations	**251**	**1**	**275**	**1**
Commission income from securities trading and investment activities	135	8	135	6
Commission income from lending activities	27		30	
Commission income from other services	44	3	38	2
Commission expense	-36	-4	-35	-4
Subtotal result from commission and service activities	**170**	**7**	**168**	**4**
Net result from trading activities and the fair value option	**68**	**12**	**65**	**12**
Result from the disposal of financial investments	4		5	1
Income from participations	2		2	
– of which, from participations recognised using the equity method	*2*		*2*	
– of which, from other non-consolidated participations				
Result from real estate	35		28	
Other ordinary income	10	2	7	1
Other ordinary expenses	-4		-3	
Subtotal result from other ordinary activities	**47**	**2**	**39**	**2**
Personnel expenses	-234	-2	-223	-2
General and administrative expenses	-121	-3	-120	-3
Subtotal operating expenses	**-355**	**-5**	**-343**	**-5**
Value adjustments on participations, depreciation and amortization of tangible fixed assets and intangible assets	-26		-18	
Changes to provisions and other value adjustments, and losses	-2		-2	
Operating result	**153**	**17**	**184**	**14**

E. Notes to the Consolidated Financial Statements (continued)

CHF million

36. Presentation of current taxes, deferred taxes, and disclosure of tax rate

BO A1.E (k,39)
ARB A4.39

(in CHF million)	2020	2019
Current tax expenses	-30	-33
Deferred tax expenses		
Total tax expenses	**-30**	**-33**
Weighted average tax rate	15.9%	16.4%

As at 31 December 2020, there were no losses carried forward (2019: none).

37. Disclosures and explanations of the earnings per equity security in the case of listed banks

BO A1.E (k,40)
ARB A4.40
AO 86

	31.12.2020	31.12.2019
Number of shares	Registered shares	Registered shares
Time weighted number of outstanding shares undiluted	4'976'438	4'976'288
Number of potential shares from options or conversion rights		
Time weighted number of oustanding shares diluted	4'976'438	4'976'288
Earnings per share (in CHF)		
Undiluted earning per share	32.0	33.8
Diluted earning per share	32.0	33.8

Undiluted and diluted earnings per share are calculated on the average time weighted number of shares outstanding during the year. There are no outstanding employee option plans or debt conversion rights.

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