



Counterparty risk management at LGT

Operational stability

December 2020



International private and institutional clients invest globally. They require access to global markets, currencies and infrastructures to securely process, settle and custody their assets. A combination of the strongest international partners and regional specialists forms the foundation of our reliable network with a global reach and execution excellence. We carefully select and actively manage the risk of our counterparty network. Integrating the different perspectives of our trading, risk, operations, technology, legal and compliance experts is the basis for this process.

Network management

LGT has a very strong and diversified international network of counterparties to ensure the highest standards in transaction execution for our clients and in the safekeeping of their assets. The counterparty strategy is based on a selected group of strategic partners who provide access and expertise for trading in over 50 execution venues and over 30 currencies. Careful planning and selection ensure the redundancy of service capabilities among LGT's partners and therefore support the business contingency efforts beyond the company's borders. The LGT Counterparty Committee monitors relevant events continuously and major counterparties periodically. In addition to daily interaction between product experts, the Group Management Board is in regular dialogue with strategic partners at the senior management level.

Credit risk

The Group Credit Risk Committee together with the Group Chief Credit Officer is responsible for the relevant credit risk aspects relating to counterparties and country exposures. The Credit function is responsible for establishing and extending country and counterparty limits, while Trading and Treasury manages the individual positions within these limits. The risks associated with all counterparties are monitored on an ongoing basis. LGT has strict limits on open derivative positions. When trading derivatives with bank counterparties, LGT uses netting and credit support agreements (ISDA-CSA) to mitigate credit risk. Settlement risk arises in any situation where a payment in cash or securities is made in the expectation of a corresponding receipt of cash or securities. Daily settlement limits are established per counterparty. In addition, our third-party access to the Continuous Linked Settlement (CLS) network mitigates major parts of the daily settlement risk via forex netting.

Protection of client assets

In respect of current accounts, the banks in Liechtenstein offer their clients a deposit protection program comparable to those of Swiss and other European banks. The legal and regulatory stipulations in place to protect client assets in the event of the bankruptcy of a custodian include:

- Client securities held at LGT are fully segregated from LGT's own assets. As such, the securities are safeguarded against bankruptcy.
- Client securities held with sub-custodians are segregated from LGT's own assets and are deposited according to local regulations, are not commingled with sub-custodian's own assets and are therefore excluded from the bankruptcy estate of the sub-custodian.
- The standard of service, market infrastructure and local regulations are monitored on an ongoing basis by LGT's operational teams.

Regulatory Environment

Liechtenstein has been a member of the European Economic Area (EEA) since 1995. This means that Liechtenstein has made all the related EU acquis part of its legal framework. In particular, all directives and regulations concerning financial services and financial market supervision including anti-money laundering provisions and company law, as well as the directives on accounting, transparency and disclosure obligations, apply and have been implemented in Liechtenstein. LGT's entities are regulated by the local authorities: the Financial Market Authority Liechtenstein (headquarters), FINMA Switzerland, the FMA Austria, the Monetary Authority of Singapore and the Hong Kong Monetary Authority.

General risk information

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