

EFG International resets business following review

Zurich, 18 October 2011 - EFG International announces the findings of its business review. The private banking business remains competitive and profitable, but significant steps are required to address under-performing and non-core activities. The number of booking centres and offices will reduce meaningfully, lowering costs, sharpening focus and simplifying complexity. Headcount will reduce by 10-15% over the next 18 months. Resetting the business will deliver a net financial benefit of circa CHF 35 million per annum, realised in part in 2012 and in full from 2013. One-off restructuring charges, as well as associated goodwill and intangibles impairment, will be incurred this year, leading to an IFRS loss. However, the underlying business is performing broadly as anticipated at the time of EFG International's half-year results, and there will still be a positive contribution to capital in 2011. In future, EFG International is looking to achieve net new assets in the range 5-10% per annum and a reduced cost-income ratio (to below 75% in the next three years); as a result delivering strong, double-digit growth in profits. The business is well placed to remain in the front rank of private banks and believes that controlled profitable growth should deliver an annual IFRS net profit of CHF 200 million within three years.

As indicated at the time of its half-year results, EFG International has been undertaking a detailed review of its business. It sets out here its findings, and the actions it is taking to enhance profitability and position itself to deliver disciplined, profitable growth.

Strengths as a private bank, albeit obscured in recent years

EFG International has achieved a lot over 16 years, growing from start-up to international private bank (AUM of CHF 80.0 billion as at end-June 2011). It operates in an attractive global market, which has been characterised by strong growth (albeit not immune from economic conditions), and the forecast is for this to continue. The core private banking business is profitable, and has consistently been in the front rank of the industry in terms of net new assets.

However, its strengths have been obscured in recent years by various missteps, including investments in non-private banking activities; overly ambitious targets; and sub-optimal cost management. Consequently, profitability has not adequately reflected EFG International's scale, revenue base and natural growth potential.

EFG International is a private bank

The focus is clear: private banking. EFG Asset Management will be an integral part of this, serving CROs and clients; EFG Financial Products has been earmarked for

an IPO (with EFG International reducing its stake from 57% to below 20%), with timing subject to market conditions.

Well positioned in a changing private banking market

Geo-political and economic uncertainty continues to highlight the role of private banking in relation to advice and the need for diversification. Growing internationalisation among businesses and wealthy individuals is well suited to EFG International's model and international approach. In relation to specific pressures impacting Switzerland, EFG International is well placed, given that it was only established in 1995; it has for most of that time operated offshore and onshore; and benefits from an internationally diversified and balanced spread of business, well suited to regional HNWI growth trends.

High quality and loyal CROs

EFG International employs high quality CROs, drawn from a wide range of leading organisations in the sector. Top-performing CROs have been - and remain - extremely loyal. Over the past five years, of more than 300 private banking CROs with AUM of at least CHF 100 million (representing more than 50% of the total), only 8 left for other organisations.

CROs continue to see EFG International as attractive. The business model remains a source of differentiation, with qualitative factors (culture and values; relationship-rather than sales- / segment-driven; notion of running own business – within strict risk management and compliance parameters; and a non-hierarchical approach) appealing most strongly. EFG International will continue to hire CROs – but selectively, and with a high quality threshold. This essentially marks a return to the knowledge / conviction-based approach that has served the business well.

Governance designed to meet business challenges

The Executive Committee will continue to perform its holding company role, with a strong focus on supervision and risk management. A Global Business Committee (GBC), comprising the Executive Committee plus business heads, will have key input into shaping and validating strategy. As business heads, Alain Diriberry (CEO of Continental Europe) and Jim Lee (CEO of EFG Asset Management) will step down from the Executive Committee, but continue as members of the GBC.

Addressing capital structure / balance sheet

EFG International recognises that a pre-condition of resetting the business is to address the various factors that have in recent years served to obscure its underlying strength as a private bank. These include:

Capital structure

- As at 30 June 2011, EFG International had a BIS Tier 1 ratio of 14.4%, including both its ordinary shares and non-voting rights shares (Bons de Participation). EFG International recognises the questions its shareholders have raised relating to the future treatment of the Bons de Participation under the Basel III regulatory framework. The Swiss Federal Department of Finance is due to issue imminently the draft of the future capital ordinance applicable to Swiss financial institutions in the context of the Basel III framework. At this stage we would expect (subject to validation when the ordinance is published following a consultation period) the Bons

de Participation to become Additional Tier 1 as of 1 January 2013 and then be phased out over a 10 year period. This would give EFG International ample time to address transitional issues if any should arise.

- In relation to its capital structure, EFG International will continue to assess available alternatives, and is prepared to act opportunistically, with a focus on creating shareholder value. Accordingly, it has no plans today to sell its 12.4 million treasury shares.

Balance sheet

- EFG International's exposure (sovereign and banks) to PIIGS is limited to circa 1.7% of its total balance sheet size (Spain c.1.1%; Greece c.0.4% - see later; Italy and Portugal c.0.1% each; no exposure to Ireland). In relation to Greece, Eurobank EFG's merger with Alpha Bank should remove a source of confusion between EFG International and Eurobank EFG (once completed, the acronym "EFG" will no longer be used by Eurobank). EFG International is entirely separate from Eurobank EFG, and is a Swiss private banking group, headquartered, listed and regulated in Switzerland.

- EFG International recognises that life settlement policies are not viewed favourably as a balance sheet investment for a private bank. While no more life policies will be bought, the current life insurance portfolio represents a quality asset earning an appropriate return, and will continue to be held to maturity.

- Goodwill and intangibles. EFG International carries residual goodwill on its balance sheet as a result of past acquisitions. The decision to restructure and exit various businesses and locations means that associated goodwill and intangibles are impacted (see later).

Resetting the business

The business review has looked in detail at every business and location, categorising each in terms of retain and grow; close; sell; and potential IPO. As the implementation of the review's findings is now underway, EFG International is today in a position to announce the initial measures being taken, as follows:

- EFG Bank AB in Sweden, along with its Helsinki operation, is to be closed. Asset management and non-banking business will be transferred to Quesada, EFG International's profitable Stockholm-based wealth management boutique.

- Offices in Dubai and Abu Dhabi are set to close, subject to regulatory approval, although EFG International will continue to target offshore / Non-Resident Indian business in the region.

- A number of offices in Canada have been closed.

- EFG International has earmarked EFG Financial Products for an IPO.

A number of other loss-making / marginal offices will be exited, subject to negotiation and market timing. As a result of this process, the number of booking centres and offices will reduce meaningfully, in the process enhancing profitability, sharpening focus and reducing complexity.

Action is also being taken to improve operational efficiency, including: adopting a standard operating model wherever possible; implementing tangible cost savings and efficiencies in Switzerland; and generally enhancing the cost transparency of central functions.

Core business performing as expected, but 2011 results will be impacted by outcome of the business review

Previous guidance (core net profit for 2011 in range CHF 140-160 million / IFRS net profit: CHF 110-130 million) has been superseded by the business review, although, based on performance to end-September, the underlying business is performing broadly as anticipated at the time of EFG International's half-year results.

The impact in 2011 of resetting the business is as follows:

- One-off restructuring charges and provisions: circa CHF 50 million. This will impact the P&L in financial year 2011.
- Goodwill and intangibles impairment: restructuring and exiting various businesses and locations means that associated goodwill of circa CHF 250 million is at risk of impairment. This will impact the P&L in financial year 2011, but will have no impact on capital.

In addition, in line with other banks, EFG International will recognise in its 2011 P&L an impairment of its Greek sovereign risk, based on fair value at year-end. In the balance sheet, the current market value is already recognised; this step will therefore have no impact on capital.

While the combination of the above factors will lead to an IFRS loss in 2011, there will still be a positive contribution to capital (see below).

As a result of the business review, a leaner and more cost-efficient business

Over the next 18 months, the decision to exit businesses is expected to reduce AUM by circa 10% and total headcount by circa 10-15%.

At the end of June 2011, EFG International had 660 CROs. This figure has reduced to just below 600 as a result of continuing to address underperformers and recognising that a number of CROs were essentially fulfilling a client support rather than relationship function. Steps being taken as a result of the business review, particularly reducing the number of locations, will result in private banking CROs reducing further, by around 15% from the current base of circa 530 (excluding 60 CROs at EFG Financial Products), before selective new hiring.

From 2012 onwards, the net P&L benefit of the measures being taken will be circa CHF 35 million per annum, realised in part in 2012 and in full from 2013.

Ensuring a strong capital position

Notwithstanding the totality of measures relating to the restructuring of the business, there will still be an accretion to capital in 2011. In future, the capital position will strengthen courtesy of: the capacity of the business to generate healthy profits; and the impact of businesses to be sold or earmarked for IPO (the combined effect of which should, over time, improve the Tier 1 ratio by 3-6 percentage points).

Delivering controlled, profitable growth

In delivering profitable growth, EFG International will focus on its four core regions - Continental Europe (including Switzerland); UK; Americas; and Asia – and a number of key business drivers. The latter include: net cost savings from resetting the business; net new assets from existing CROs and selective hires; a heightened focus on emerging markets; increased adoption of portfolio management solutions; and tight control of costs. The financial benefits of net new assets from existing CROs should in future flow through with minimal dilution to the bottom line.

Each of EFG International's regional and product businesses is in a position to contribute strongly to future growth. The UK business is expected to continue to deliver double-digit revenue growth in line with recent years. Asia and the Americas benefit from a significant and growing market opportunity, and should continue to deliver strong double-digit net new asset growth. In Continental Europe, steps being taken to address loss-making businesses will enable leadership to focus on the most compelling parts of the business. The business sees new opportunities in emerging markets and benefits from well established and entrepreneurial CROs.

Performance metrics / targets

EFG International's working assumption is that the economic and market situation will remain broadly as at present. However, despite challenging conditions, its core business has been consistently profitable. As a baseline, the underlying business is currently generating an IFRS net profit of circa CHF 110 million on an annualised basis.

In future, EFG International is looking to achieve:

- Net new assets in the range 5-10% per annum.
- A reduced cost-income ratio - to below 75% over the next three years.
- Gross margin to remain broadly at current levels.
- As a result, delivering strong double-digit growth in profit and a double-digit return on shareholders' equity.

EFG International has the potential to deliver an annual IFRS net profit of CHF 200 million within the next three years.

John Williamson, Chief Executive Officer, EFG International:

"I am convinced that EFG International's private banking business retains significant competitive strengths. We have drawn a line under past mistakes and are resetting the business, improving cost effectiveness and positioning it for future growth based on what we do best: private banking. I want us to be a leading independent private bank, with highly satisfied clients and entrepreneurial CROs. I am convinced that a revitalised EFG International can remain in the front rank of our industry, and deliver significant shareholder value through strong double-digit profit growth."

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About EFG International

EFG International is a global private banking group offering private banking and asset management services, headquartered in Zurich. EFG International's group of private banking businesses currently operates in 50 locations in 30 countries, with circa 2,500 employees. EFG International's registered shares (EFGN) are listed on the SIX Swiss Exchange.

Practitioners of the craft of private banking

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