EFG INTERNATIONAL
INTERIM MANAGEMENT REPORT 2014

DESCRIPTION OF BUSINESS

EFG International AG and its subsidiaries (hereinafter collectively referred to as "the Group") are a leading global private banking group, offering private banking and asset management services. The Group operates in approximately 30 locations worldwide, with circa 2,000 employees. The Group's parent company is EFG International AG, which is a limited liability company and is incorporated and domiciled in Switzerland and listed on the SIX Swiss Exchange. EFG International AG is a member of EFG Group.

FINANCIAL SUMMARY

For the first six months of 2014 (H1 2014):

Net profit

– EFG International made an IFRS net loss attributable to shareholders of CHF 6.0 million, as a result of non-recurring legal charges and provisions. These included CHF 30.0 million in relation to the US Tax Programme.

– Underlying net profit attributable to ordinary shareholders was CHF 57.6 million, compared with CHF 60.3 million a year earlier.

Operating income & expenses

– Operating income was CHF 342.9 million, up 4% from a year earlier.

– Operating expenses were CHF 276.7 million, up 4% year-on-year, principally reflecting the cost of growth initiatives.

– The cost-income ratio stood at 80.2%, compared with 79.8% for the same period last year.

– The revenue margin stood at 88 bps, up from 87 bps a year earlier (against a target of 84 bps).

Capital position

– The Basel III BIS Capital Ratio stood at 18.7% at end June 2014, up from 18.0% at end-2013.

Revenue-generating Assets under Management

– Revenue-generating Assets under Management were CHF 80.1 billion, compared with CHF 75.9 billion at end-2013. This reflects FX and market effects of CHF 1.6 billion and net new assets of CHF 2.7 billion.

IMPORTANT EVENTS DURING THE FIRST SIX MONTHS AND, WHERE APPROPRIATE, THEIR IMPACT ON FINANCIAL STATEMENTS

Operating income and revenue margin resilient notwithstanding challenging conditions; reported profit significantly impacted by legal charges and provisions

Although there have been some encouraging signs in terms of economic growth and market performance, confidence remains fragile on account of market and geo-political uncertainty. This has acted as a brake on revenues and profits, as has the prevailing low interest rate environment. Notwithstanding this, operating income was up 4% at CHF 342.9 million compared with a year earlier.

The revenue margin is proving resilient, and stood at 88 bps during the first half of 2014 – in line with the second half of last year, and up from 87 bps year-on-year – comfortably above EFG International's target of 84 bps.

Reported profit in the first half was adversely affected by exceptional legal charges and provisions, resulting in a net IFRS loss of CHF 6.0 million attributable to shareholders. Underlying net profit attributable to ordinary shareholders was CHF 57.6 million after excluding the following non-recurring items:

– CHF 33.7 million in litigation related charges and provisions, including CHF 26.3 million relating to the outcome of a longstanding legal action in Switzerland as announced in April. After two unexpected legal decisions in the past year, EFG International has reassessed its litigation strategy, based on second opinions from external law firms. Based on their findings, it was deemed prudent to set aside a further CHF 7.4 million in relation to ongoing litigation.

– CHF 30.0 million in relation to the US Tax Programme, made up of CHF 8.6 million in legal and professional expenses and CHF 21.4 million as a provision in respect of the cost of the final penalty that may be payable. EFG International is in advanced discussions and the provision represents its best estimate of the likely outcome.

– CHF 0.1 million relating to the Bons de Participation dividend.

This compares with an underlying net profit attributable to ordinary shareholders of CHF 60.3 million in the first half of 2013, principally reflecting the cost of growth-related initiatives. Operating expenses were CHF 276.7 million, up 4% from CHF 265.9 million in the first half of 2013, with the increase mostly accounted for by CRO hiring and further investment in the investment and wealth solutions platform. The cost-income ratio stood at 80.2%, compared with 79.8% for the same period last year (but down from 83.1% in the second half of 2013).

Revenue-generating Assets under Management were CHF 80.1 billion, compared with CHF 75.9 billion at end-2013. This reflects FX and market effects of CHF 1.6 billion and net new assets of CHF 2.7 billion.

On a Basel III (fully applied) basis, EFG International's BIS Capital Ratio stood at 18.7%, compared with 18.0% at end-2013. The Common Equity Ratio (CET 1) stood at 14.1%, up from 13.5%.

Further improvement in core business profitability and therefore earnings quality; most regional private banking businesses making good progress

Core private banking operating revenues increased by 5% during the first half of 2014 compared with a year earlier, and profit contribution increased by 26%.

Continental Europe delivered a particularly strong performance during the first half of 2014, with operating income up 29% and profit contribution up 44% year-on-year. In the UK, operating income and profit contribution rose 9% and 19% respectively. Operating income rose 4% in the Americas, although profit contribution was down slightly. However, excluding the Caribbean, the rest of the Americas delivered strong double-digit growth in both operating income and profit contribution. The Switzerland business continued to be impacted by challenging conditions, with operating income up 2%. Notwithstanding a good performance in terms of net new assets, Asia made a weak start to the year in terms of operating income and profit contribution, a reflection of client caution, and the resulting lower levels of activity, as well as the weaker US dollar. However, while the first quarter was particularly slow, activity improved strongly during the second quarter, and the expectation is that business performance will be significantly better in the second half of 2014.

Good progress in relation to net new assets – well within target range

Net new assets were CHF 2.7 billion in the first half of 2014, compared with CHF 1.9 billion a year earlier, and well up on the CHF 0.6 billion attained in the second-half of 2013. This represents annualised growth of 7%, well within EFG International's target range of 5–10%.

Apart from Switzerland, which experienced an outflow (2.9% annualised), the UK, Asia, and Continental Europe businesses all delivered double-digit growth. Furthermore, the Latin America business generated net new asset growth at an annualised rate of 8%, albeit the Americas overall was slightly negative due to the partial anticipated liquidation of a single large account in the Cayman Islands.

CRO hiring continues to strengthen

The hiring of CROs remains strong, continuing the improvement seen in the second half of 2013. The total number of CROs stood at 456 at the end of June 2014, up from 416 a year earlier and from 435 at end-2013.

Hiring was particularly strong in Asia (up 11) and Continental Europe (up 12). Switzerland was up three, the UK was flat, and the Americas was down seven as a result of four CROs in the Caribbean becoming independent (although continuing to custodise with EFG International) and a number of CROs retiring and not being replaced. The pipeline is strong, with 13 new CROs already contracted to join.

A wide range of initiatives reflecting an overriding focus on growth

EFG International is steadfastly committed to delivering growth, supported by a wide range of initiatives:

– CRO recruitment. The CRO pipeline remains strong, with a clear focus on high quality individuals and teams. There is a clear performance management focus on both existing and new CROs. As part of this, the performance criteria applied to CROs are being reinforced to ensure that CROs remain incentivised to grow, particularly at relatively low levels of contribution.

– In June 2014, EFG International appointed Adrian Kyriazi as Regional Business Head for Continental Europe and Switzerland. A proven business leader, formerly at Credit Suisse and HSBC, he is well equipped to develop EFG International's Continental European and Swiss businesses in a coordinated fashion. In Switzerland, he is working closely with the two new Heads of Private Banking in Zurich and Geneva to attract new CROs and drive domestic and international growth.

– In Asia, Alvin Ma joined EFG International on 21 February 2014 as Head of Emerging Wealth, based in Hong Kong. Already he has recruited three senior CROs, with a further two in the pipeline.

– In January 2014, EFG International and Falcon Private Bank agreed on a referral of the latter's clients in Hong Kong. This process has been slightly slower than anticipated, with four CROs only moving across in June. The transfer of client relationships will now occur during the second half of 2014, with assets under management expected to be circa CHF 500 million.

– In Singapore, EFG International commenced operations as a wholesale bank during March 2014.

– To further enhance and coordinate its activities in the Global South Asian Diaspora, EFG International appointed Amrit Uppal as Managing Director, Head of Global South Asian Diaspora, effective June 2014. He has been joined by two senior CROs and further hires are in the pipeline.

– In Spain, AyG obtained a license in June to create a new bank, A&G Banca Privada, allowing it to broaden its core investment management and advisory offering to include a range of banking services. The group's security brokerage business will be merged with EFG's banking branch in Spain, with all services being provided under the A&G brand.

– Coverage of the Greek market was enhanced in March by the hiring of a team head in Luxembourg, with additional hires across a number of centres. EFG International has decided to establish a representative office in Athens, which will be opened during the second half of this year.

– EFG International is planning to establish a presence in Cyprus during the second half of 2014.

– In Colombia, EFG International hired, effective April 2014, Andres Gonzalez, formerly Head of Private Banking at Bancolombia, to help to drive growth, including the hiring of CROs.

– EFG International is planning to establish an onshore business in Chile, based on a team of proven individuals, as part of ambitious plans to grow in the Andean region.

– Capabilities relating to ultra high-net worth individuals (UHNWIs) continue to be upgraded. A dedicated UHNWI team has been recruited in Geneva and has made strong progress, as well as enhancing the range of specialist services available to this segment.

– EFG International continues to invest in its integrated solutions platform, encompassing wealth structuring, investment solutions and credit. In particular, it has increased the number of Investment Counsellors, providing direct support to CROs. Strong progress continues to be made in relation to investment solutions, with clients' assets under direct management standing at CHF 10.8 billion at end-June 2014, up 33% on a year earlier.

– The focus remains on organic growth but EFG International continues to look at acquisition opportunities where there is a shared appreciation of private banking, complementary cultures and capabilities, and scope for meaningful synergies.

Realigning the cost base in relation to revenues

EFG International remains committed to getting its cost-income ratio down to below 75%. A cornerstone of its strategy is the notion of delivering business growth, flowing through with minimal dilution to productivity and profits. While the focus will continue to be on growth, it is clear that costs need to be managed in a way that facilitates the operating leverage inherent in EFG International's strategy of controlled, profitable growth. This essentially means core operating costs will be reduced in order to finance growth initiatives, such as hiring CROs or entering new markets, where it is satisfied there is a compelling business case. This steadfast approach to costs will continue until such time as underlying business profitability is significantly higher than it is at present.

DESCRIPTION OF THE PRINCIPAL RISKS AND UNCERTAINTIES FACING THE BUSINESS

Committed to delivering medium-term targets

The private banking opportunity is a significant and growing one, and EFG International is well placed to capitalise on this, even though external factors continue to constrain profitability: low interest rates on asset and liability management; fragile client sentiment causing activity levels to be subdued; and the impact of regulatory developments, which has been a significant time and resource commitment for both management and CROs. Reaching a settlement in relation to the US programme, which will hopefully be formalised shortly, will remove a major distraction and source of uncertainty.

EFG International's focus remains resolutely on growth, and encouraging progress was made during the first half of 2014 in relation to key forward indicators, namely CRO hiring and net new asset generation, now comfortably back within the target range. This bodes well for the future, as does a robust revenue margin. Taken together with the number, range and quickening pace of growth-related initiatives, EFG International is convinced that it is firmly on track to deliver strong double-digit growth for the foreseeable future. Core private banking profitability continues to improve, and EFG International is committed to controlling operating expenses so as to deliver a strong improvement in business performance while still financing growth-related initiatives.

Delivering an IFRS net profit of CHF 200 million in 2015 is no longer realistic – following the resetting phase, it has taken longer than anticipated to get the business moving forward again, and assistance from improved market conditions and rising interest rates has not been forthcoming. However, EFG International is now firmly back in a growth mode, and the next few years will be all about delivering a step-change in business performance.

EFG International reaffirms its other medium-term objectives:

– Net new assets in the range 5–10% per annum.

– A reduced cost-income ratio – to below 75%.

– Continue to strengthen capital, with an objective of high teens for the Basel III BIS Capital Ratio and low teens for the Common Equity Ratio (CET 1).

– Revenue margin to remain broadly at the level (84bps) prevailing at the time of the business review.

– As a result, delivering strong double-digit growth in profit and a double-digit return on shareholders' equity.

However, in terms of general risks and uncertainties facing the business:

– EFG International's performance, in common with the private banking industry as whole, continues to be affected by challenging conditions. Economic, market and business conditions will continue to have a significant bearing on the rate of progress.

– EFG International will also seek to continue to attract top talent. As mentioned, there has been a return to CRO hiring mode and the focus remains on high quality individuals and, in particular, teams.

Specific risk considerations

The EFG International Board of Directors determines the overall risk appetite for EFG International and has delegated such responsibilities to various risk committees who have as their main objective the minimizing of risks as follows:

a) Credit risk: Credit risk arises principally from the Group's lending activities to its clients. However as EFG International's primary credit exposures relate to loans collateralized by security portfolios and by mortgages, credit risk exposure is comparatively low. EFG International is also exposed to credit risk related to financial institutions. Management of such exposure is based on a system of counterparty limits coordinated at the EFGI Group level, subject to country limits.

b) Market Risk: EFG International is exposed to fluctuations in interest rates, exchange rates, share prices and commodity prices. Market risk derives from trading in treasury and investment market products for which prices are fixed daily, as well as from more traditional banking business, such as loans. In the case of foreign exchange, EFG Bank maintains proprietary positions in linear foreign exchange measured against overnight and Value at Risk (VaR) limits. Adherence to all limits is monitored independently by the Global Risk Management Division, under the direct supervision of the Chief Risk Officer.

c) Funding and Liquidity Risk: EFG International manages liquidity risk in such a way as to ensure that ample liquidity is available to meet commitments to clients, both in demand for loans and repayment of deposits, and to satisfy the company's own cash flow needs within all of its business entities. The global upheaval in the financial markets that started over four years ago continues to be marked by instability and volatility impacting upon market and investor confidence primarily characterized by a reduction in liquidity. However, our client deposit base, our capital and reserves position and our conservative gapping position when funding client loans ensure that EFG International runs only limited liquidity and funding risks.

d) Legal and Regulatory Risk: EFG International is subject to stringent regulation of all its businesses including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in Switzerland and the other markets where it operates. Future changes in regulation, fiscal or other policies in Switzerland and globally are unpredictable and beyond the control of EFG International and could have a future impact on its businesses.

e) Operational & Reputation Risk: EFGI acknowledges that carrying out business in the banking and financial services industry entails risks, including operational and reputation risks. In this respect, the EFGI Group aims at mitigating significant operational and reputation risks it may inherently run to a level it considers appropriate and commensurate with its size, structure, and nature of complexity of its service/product offerings, thus adequately protecting its assets and its shareholders' interest while optimizing its risk/reward ratio. While the primary responsibility for managing operational/reputation risks lies with the EFGI business entities, the development, implementation and oversight of an integrated 'Operational Risk Management Framework' as well as a 'Reputation Risk Policy Framework' form part of the EFGI Group objectives to manage, oversee and mitigate these risks.

The global macroeconomic environment in the first half of 2014 has been characterized by an ongoing low interest rate environment and continued uncertainty in the financial markets. Also political unrest in a number of countries has raised uncertainty. These elements continue to adversely affected clients' confidence and activity levels, as well as adversely affecting the Group's ability to profit on the margin between client deposits and loans or other investments. The main concern for the Group in the second half of 2014 will continue to be the global macroeconomic environment, economic growth and a return to confidence in the financial markets by market counterparties and clients alike.

SUMMARY

The first half of 2014 saw notable improvements in a number of areas, including net new assets, although reported profit was adversely impacted by exceptional legal and regulatory expenses. EFG International is redoubling its efforts to control operating expenses, while still financing growth initiatives – essential so that growth can flow through to the bottom-line. Leadership is confident EFG International can deliver strong double-digit profit growth from this point on, and key forward indicators are encouraging – the revenue margin is robust, CRO hiring is strong, and net new asset generation is comfortably back within EFG International's target range. EFG International is committed to delivering growth and a step-change in performance, and this continues to be evidenced by the number, range and quickening pace of growth-related initiatives.

FORWARD LOOKING STATEMENTS

This report contains specific forward-looking statements, e.g. statements which include terms like "believe", "assume", "expect" or similar expressions. Such forward-looking statements represent EFG International AG's judgements and expectations and are subject to known and unknown risks, uncertainties and other factors which may result in a substantial divergence between the actual results, the financial situation, and/or the development or performance of the company and those explicitly or implicitly presumed in these statements. These factors include, but are not limited to: (1) general market, macroeconomic, governmental and regulatory trends, (2) movements in securities markets, exchange rates and interest rates, (3) competitive pressures, and (4) other risks and uncertainties inherent in our business. EFG International AG is not under any obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law or regulation.

ADDRESS

EFG International AG
Bleicherweg 8
8001 ZURICH
Tel + 41 44 226 18 50
Fax + 41 44 226 18 55
www.efginternational.com