EFG INTERNATIONAL
INTERIM MANAGEMENT REPORT 2013

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 2013 (H1 2013):

Net profit

– IFRS net profit attributable to ordinary shareholders was CHF 83.8 million, up 71% compared with the first half of 2012. This includes CHF 34.2 million from the sale of EFG International's remaining stake of 20.25% in EFG Financial Products (since renamed Leonteq), completed in April.

– Underlying net profit attributable to ordinary shareholders was CHF 60.3 million, compared with CHF 63.9 million a year earlier.

Operating income & expenses

– Operating income was CHF 381.8 million in the first half of 2013 compared with CHF 409.1 million a year earlier – excluding EFG Financial Products, down from CHF 346.9 million to CHF 330.3 million – due to lower asset and liability management revenues and a reduction in specialist structuring transactions relating to large clients. After allowing for these factors, mainstream private banking revenues from continuing businesses were 10% higher compared with the first half of 2012.

– Operating expenses were CHF 301.4 million, down 8% from a year earlier.

– The cost-income ratio stood at 78.3%, compared with 79.5% for the same period last year.

– The revenue margin stood at 97 bps versus 104 bps a year earlier (87 bps versus 92 bps, excluding EFG Financial Products, against a target of 84 bps).

Capital position

– The Basel III BIS Capital Ratio stood at 18.0% at end-June, up from 15.9% at end-2012.

Revenue-generating Assets under Management

– Revenue-generating Assets under Management were CHF 76.0 billion, compared with CHF 78.7 billion at end-2012. This reflects a reduction of CHF 4.6 billion mainly relating to EFG Financial Products, plus the redesignation of CHF 1.0 billion as Assets under Administration, offset by FX and market effects of CHF 1.0 billion and net new assets from continuing businesses of CHF 1.9 billion. Excluding exited businesses and reclassifications, revenue-generating Assets under Management were up 4%.

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

Underlying profit constrained by market conditions, but quality of earnings continued to improve

Underlying net profit attributable to ordinary shareholders was CHF 60.3 million, down 6% on a year earlier (and unchanged on the second half of last year), after excluding the following non-recurring items:

– CHF 36.8 million (CHF 34.2 million capital gain plus CHF 2.6 million profit contribution prior to closing) relating to EFG Financial Products. EFG International's remaining stake of 20.25% was sold to Notenstein Private Bank on 23 April 2013.

– CHF 3.7 million relating to completion of the business review. The formal process of closing operations in France and Sweden has taken longer than originally envisaged, meaning some residual expenses, but should be completed by the end of this year. The delayed sale of EFG International's Canadian business is also envisaged to complete during the second half of 2013.

– CHF 9.6 million, representing a provision relating to EFG International's share of the advance payment made by Swiss banks relating to the UK tax agreement. With less tax transferred to the UK than anticipated, there is doubt as to how much of their advance payments banks will eventually recover.

– CHF 0.7 million relating to the Bons de Participation dividend.

Operating expenses were down in the first half of 2013, reflecting the flow through of savings achieved as a result of the business review. However, underlying profit development was constrained by lower profits from EFG International's asset and liability management – due to the current low yield environment and the reduction in high-yielding GIIPS assets – and the absence of specialist structuring transactions relating to large clients (together equivalent to a circa 9 bps reduction in the margin). The latter was a notable feature in 2012, but is unpredictable and has been less of a factor during 2013 to date. By contrast, private banking activities (excluding EFG Financial Products, asset and liability management, and structuring transactions for large clients) delivered very strong double-digit growth in profits, evidencing earnings quality and forward momentum.

Capital position continued to strengthen

EFG International significantly improved both the level and composition of its capital during 2012, and this process continued in the first half of 2013. On a Basel III (fully phased in) basis, EFG International's BIS Capital Ratio stood at 18.0%, up from 15.9% at end-2012, compared with a business review target range of 14–16%. The Common Equity Ratio (CET 1) stood at 13.5%, up from 11.7%.

Net new assets for continuing businesses within target range, with an improving trend

Net new assets relating to continuing businesses were CHF 1.9 billion (annualised growth of 5%), compared with CHF 1.2 billion in the first half of 2012. Excluding the outflow of a low-yielding CHF 0.6 billion single stock position, net new assets were CHF 2.5 billion, representing annualised growth of 7%. The Continental European business delivered annualised growth of 14%; Asia and the UK delivered 7% and 8% growth respectively; the Americas business was flat, in part reflecting the impact of geo-political factors on certain areas of business; while the Swiss private banking Business delivered 4%, representing an encouraging turnaround from last year.

Regional businesses performing strongly

The UK, Asia and Continental Europe businesses all delivered double-digit growth in operating income and pre-tax contribution. Indeed, each grew their pre-tax contribution by more than 20% compared with a year earlier, with Continental Europe approaching growth of 100%. While the Switzerland business was, as expected, down on a year earlier, after a challenging 2012, there have been distinct signs of improvement, with a return to net new asset generation, and operating income and pre-tax contribution both running ahead of budget. The one area of relative challenge was the Americas, which has not managed to sustain the strong performance seen in 2012 as a result of geopolitical factors together with outflows due to the cessation of a number of significant structuring transactions relating to large clients, albeit offset by inflows in other areas of the business.

Business back in net CRO hiring mode

The total number of CROs (excluding EFG Financial Products) stood at 416 at the end of June 2013, up from 414 at end-2012. The emphasis is on quality hiring, with the UK (up four), Americas (up three) and Switzerland (up five) all making solid progress during the first half, and Continental Europe remaining stable. Asia had a net reduction of six CROs, as a result of a further tranche of underperforming CROs being let go during the first quarter; however, as a better indicator of progress, it added net six CROs during the second quarter.

Focus on delivering controlled, profitable growth

EFG International is fully focused on the challenge of delivering controlled, profitable growth. As stated at the time of its full-year 2012 results, it is seeking to derive revenue and profit upside across a number of business drivers:

– CRO recruitment. There has been a return to CRO hiring mode and the focus remains on high quality individuals and, in particular, teams. The pipeline continues to improve and, during the second half of the year, EFG International will be announcing senior appointments in both Switzerland and Hong Kong. These involve experienced individuals who will add momentum to CRO hiring in their respective markets.

– Adoption of market strategies. Regional business sponsors have been appointed for a number of high-growth markets and segments: Central and Eastern Europe, the Middle East, China, Latin America and Global Indians. Each is responsible for optimising the market opportunity, encompassing recruitment, the competitiveness of EFG International's offering, and business development.

– Broadening and deepening client relationships. EFG Asset Management is now firmly established internally as the provider of the organisation's open architecture investment solutions platform, and continued to make strong progress during the first half of 2013, with revenue-generating AUM up by roughly a third on a year earlier. The same approach has now been extended to both wealth structuring – with EFG International's trust and company administration businesses having recently been combined to form EFG Wealth Solutions - and credit, in the process forming a comprehensive and integrated solutions platform to support CROs.

– An upgraded approach to UHNWIs. As an extension of work being done in relation to its solutions platform, EFG International remains committed to increasing the support it offers CROs in relation to ultra-high net worth individuals, from enhancing its offering to hiring additional bankers with a strong UHNWI focus.

At the same time, EFG International is committed to maintaining strong cost discipline. Aside from the hiring of high quality CROs, the hiring freeze remains in place, other than to meet industry-wide regulatory and risk management requirements.

Strong commitment to regulatory compliance

EFG International is in no doubt that regulatory compliance is a pre-requisite to growth, and has recently completed an external assessment of its approach. This has identified a number of areas for improvement, based on best practices, while confirming that EFG International's approach is fit for purpose and in keeping with leading peers. The business will be making further investments in related systems, processes and resources over the next 6–12 months.

A focus on organic growth, but open to making acquisitions

The short- to medium-term focus will be on organic growth, recognising that delivering on latent potential offers the most significant short-term upside to shareholder value. However, EFG International is open to making acquisitions where there is a shared appreciation of private banking and complementary cultures and capabilities.

Relocating Zurich head office

In the final quarter of this year, EFG International will be moving its Zurich head office from Bahnhofstrasse to a prime property at Bleicherweg 8, very close to Paradeplatz and in the heart of Zurich's financial district. While the cost of the new premises will be broadly comparable to the old, they will provide considerably more space, reflecting EFG International's ambition to grow the business significantly.

DESCRIPTION OF THE PRINCIPAL RISKS AND UNCERTAINTIES FACING THE BUSINESS

Remain committed to delivering medium-term targets

The completion of the sale of its remaining interest in EFG Financial Products means that EFG International's business has been further simplified and de-risked. While market conditions continue to act as a brake on profitability, notably in relation to asset and liability management, this also points to significant profit upside as and when interest rates start to rise.

As a specialist private bank, EFG International is committed to delivering controlled, profitable growth, and the aim remains to keep things relatively simple, with business growth flowing through with minimal dilution to productivity and profits. In this respect, although structuring transactions relating to large clients have been much less a factor in 2013, EFG International is encouraged by the good progress made by its mainstream private banking activities, and believes this evidences an improvement in earnings quality. Both CRO hiring and net new assets are on an improving trend, and by delivering net new asset growth within its target range and progressively broadening and deepening client relationships, EFG International has the potential to deliver strong double-digit growth in profits for the foreseeable future.

From a shareholder return standpoint, EFG International's improved profitability and capital strength will enable it to adopt a more progressive dividend policy going forward.

EFG International remains committed to its medium-term objectives:

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

– A reduced cost-income ratio – to below 75% by 2014.

– Continue to strengthen capital. The business review target of 14–16% for the BIS Capital Ratio has been exceeded, and replaced by an objective of high teens for the Basel III BIS Capital Ratio and low teens for the Common Equity Ratio (CET 1).

– Gross margin to remain broadly at the level prevailing at the time of the business review (84 bps, excluding EFG Financial Products).

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

– Subject to market conditions, achieving an IFRS net profit of CHF 200 million in 2015.

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 three 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 2013 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 2013 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

In the first half of 2013, EFG International has reported a strong increase in profits, largely reflecting the sale of its remaining stake in EFG Financial Products. However, the business is most encouraged by the strong double-digit growth delivered by its mainstream private banking activities. The business has been simplified and derisked, and the quality of earnings has improved. Net new assets and CRO hiring are both on an upward trend, and EFG International has the potential to deliver double-digit growth in profits for the foreseeable future.

FORWARD LOOKING STATEMENTS

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