# EFG INTERNATIONAL
# INTERIM MANAGEMENT REPORT 2011

## DESCRIPTION OF BUSINESS

EFG International AG (hereinafter referred to as "EFG International") 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 over 50 locations in 30 countries, with circa 2,500 employees. EFG International is a limited liability company, incorporated and domiciled in Switzerland and listed on the SIX Swiss Exchange. EFG International is a member of European Financial Group EFG (Luxembourg) SA (the "EFG Group").

## FINANCIAL SUMMARY

For the first six months of 2011 ("H1 2011"):

### Net profit

– Core net profit* was CHF 72.6 million (IFRS net profit of CHF 55.9 million), compared with CHF 88.4 million a year earlier.

### Operating income & expenses

– Core operating income was CHF 396.0 million, compared with CHF 407.1 million for the first half of 2010. This represents a solid performance – with business-wide growth in local currency terms – bearing in mind that the strengthening of the Swiss franc served to depress first half revenues by circa CHF 48 million compared to the same period last year. MBAM, which was deconsolidated in 2010, accounted for a further net profit of  CHF 10 million as compared to 2010.

– Core operating expenses were CHF 318.7 million, versus CHF 320.9 million a year earlier, with the positive effect of the strong Swiss franc being offset by investments of CHF 20 million in growth businesses and infrastructure. This investment has now been curtailed (with the exception of committed expenditure and selective ongoing CRO hiring), as a result of business conditions and pending the outcome of a business review.

– The core cost-income ratio stood at 82.8%, compared with 81.5% for the same period last year but down from 85.2% for 2010.

– The core revenue margin stood at 95bps, in line with the second half of 2010, and up from 92bps in the first half of last year.

** For reasons of consistency, EFG International will continue to report both core net profit and IFRS net profit for the remainder of 2011. From 2012 onwards, only IFRS net profit will be reported. See "Non-IFRS measures" at the end of this report.*

## Capital position

– The Group's BIS capital ratio stood at 14.4% at end-June, up from 13.0% a year earlier, and up from 14.0% at end-2010.

## Clients' Assets under Management

– Revenue-generating Assets under Management were CHF 80.0 billion as at end-June 2011, down from CHF 84.8 billion as at end-2010. The strengthening of the Swiss franc and negative market effects accounted for a reduction of CHF 7.5 billion, partially offset by net new assets of CHF 2.7 billion (representing annualised growth of 6.4%).

– At CHF 2.7 billion, the level of net new assets in the first half remained healthy, albeit below the target of double digit-growth.

For more information on financial performance, see the EFG International Half Year Report 2011 (enclosed separately).

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

## Change of leadership and ongoing business review

As recently announced, EFG International has initiated a business review following the appointment of John Williamson as CEO, effective 27 June 2011. It will set out in mid-October the steps being taken to reposition the organisation for controlled, profitable growth, based on its core business of private banking and with a heightened focus on shareholder value.

John Williamson, previously CEO of EFG International's UK and Channel Islands subsidiary, took over from Lawrence Howell, who stepped down after 16 years in the role. Lawrence Howell co-founded EFG International along with Jean Pierre Cuoni in 1995, and was pivotal in building it from start-up to major international private bank. EFG International's Board of Directors has expressed its appreciation for all that Lawrence Howell has achieved.

## Continued strong performance from most private banking businesses

The Americas and Asia businesses continued to achieve strong growth during the first half of 2011, each growing revenues and profits by over 20% in local currency terms. The UK business likewise delivered double-digit profit growth. In Europe, while most constituent businesses delivered positive performances on a constant currency basis, overall performance was below expectations.

## Good progress at EFG Asset Management

EFG Asset Management made encouraging progress in supporting CROs, with managed account assets up circa 20%, funds up over 70%, and overall revenue contribution up close to 40% year-on-year. The business is projecting strong growth in revenues for the full year.

Despite challenging market conditions, particularly following events in Japan in March 2011, EFG Financial Products continued to develop strongly, with revenues up 35% and product volume up 50% year-on-year. Given the significant investments made in previous years, EFG Financial Products is expected to continue to grow revenues significantly while curtailing expansion of the cost base.

### Heightened emphasis on CRO productivity

The number of CROs stood at 660 as at end-June 2011, down 5 year-on-year and down 15 compared to end-2010. This reflects a heightened emphasis on productivity, with under-performance among more recent CRO hires being addressed as part of an ongoing management process. EFG International continues to recruit selectively CROs where there is a strong conviction they will be profitable in relatively short order.

## DESCRIPTION OF THE PRINCIPAL RISKS AND UNCERTAINTIES FACING THE BUSINESS

### General outlook

Most of the Group's businesses continue to perform strongly in local currency terms. As previously announced, EFG International expects to achieve a core net profit for 2011 in the range of CHF 140 million - CHF 160 million (IFRS net profit: CHF 110 -130 million), compared to a target of CHF 200 million set before the recent significant strengthening of the Swiss franc. While this represents a solid foundation on which to build, it does not appropriately reflect the business' potential to create shareholder value.

Prior to announcing the results of the ongoing business review in October, we would like to make a number of points:

– There will be a clear focus on private banking going forward. This is an area where the Group has real competitive strengths, as evidenced by its track record of net new business generation. However, these have been obscured in recent years by unsuccessful investments outside the Group's core private banking business.

– Asset management is an integral part of private banking, and EFG Asset Management has an essential role to play in serving CROs and clients. EFG Asset Management (including EFG Financial Products) will continue to develop organically certain specialist niches, with an emphasis on areas where there are synergies with private banking.

– In relation to CRO recruitment, EFG International recognises that it has paid a price for aggressive growth, with CRO numbers rising from 226 at the time of its IPO in October 2005 to 660 as at end-June 2011. This represents a medium-term opportunity, but a drag on short-term performance, with current productivity below industry norms. As a result, the total number of CROs is unlikely to increase at previously forecast levels, on account of natural turnover and retirements, as well as addressing underperforming CROs. From now on, there will be a stronger focus on enhancing CRO productivity, in the process driving growth on a cost-effective basis, supplemented by an ongoing process of quality hires.

– EFG International will be revisiting the scale and composition of its international network, which is extensive relative to its size. It is examining current levels of profitability in each location, as well as competitive positioning and the capacity for growth.

## Specific risk considerations

The EFG International Board of Directors determines the overall risk appetite in relation to financial risks for the Group 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 the Group's primary credit exposures relate to loans collateralized by security portfolios and by mortgages, credit risk exposure is comparatively low. The Group 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 EFG Group level, subject to country limits.

b) Market Risk: The Group 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. As the Group engages in the trading of investment market products predominantly on behalf of its clients and does not have meaningful proprietary trading activities, the market risk resulting from trading positions is limited.

c) Funding and Liquidity Risk: The Group 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 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 the Group runs only limited liquidity and funding risks.

d) Legal and Regulatory Risk: The Group 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.

The global macroeconomic environment in the first half of 2011 was characterised by an increasing focus on sovereign credit risk, most notably in relation to lower-rated European Union member states. This has contributed to continued volatility in financial markets which have adversely affected clients' confidence and activity levels. The main concern for the Group in the second half of 2011 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

EFG International has a strong core business, and therefore an excellent base on which to build. To some extent, these core virtues have been overshadowed by the speed and diversity of the organisation’s growth post-IPO, and in turn compounded by extremely challenging market conditions. The group-wide leadership team is fully committed to addressing these issues, and EFG International intends to announce, in mid-October, the actions it will be taking to enhance profitability and to position the business more effectively to deliver disciplined, profitable growth.

## FORWARD LOOKING STATEMENTS

This report may contain statements that are, or may be deemed to be, forward-looking statements. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, the results of operations, financial condition, liquidity, prospects, growth, strategies and dividend policy and the industries in which we operate.

By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events, and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. Prospective investors should not place undue reliance on these forward-looking statements.

Many factors may cause our results of operations, financial condition, liquidity, and the development of the industries in which we compete to differ materially from those expressed or implied by the forward-looking statements contained in this report. These factors include among others (i) general market, macro-economic, governmental and regulatory trends; (ii) EFG International AG's ability to implement its cost savings program; (iii) movements in securities markets, exchange rates and interest rates; (iv) competitive pressures; (v) our ability to continue to recruit CROs; (vi) our ability to manage our economic growth and (vii) other risks and uncertainties inherent in our business.

EFG International AG is not under any obligation to (and expressly disclaims any such obligations to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.

**Non-IFRS measures**

Core net results are financial measures that have not been prepared in accordance with IFRS and recipients of this report should not consider them as alternatives to the applicable IFRS measures. Core net results for the first half of 2011 exclude the amortisation of acquisition-related items of CHF 7.4 million and the amortisation of employee equity incentive plans of CHF 9.3 million.

Recipients of this report should not consider core net profit as a measure of our financial performance under IFRS, or as an alternative to profit from operations, net profit or any other performance measures derived in accordance with IFRS.

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