# EFG International

ANNUAL REPORT 2014

EFG International is an international private banking and asset management group based in Zurich. It was founded on the back of a passionate conviction: clients of our industry expect and deserve more.

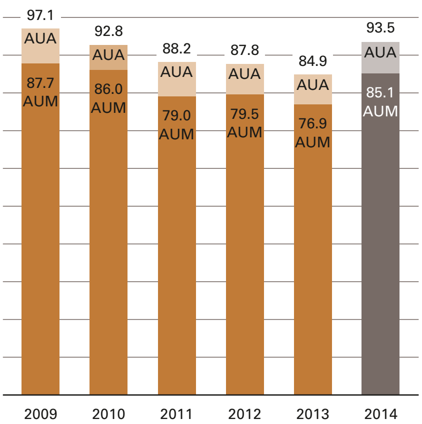
The essence of private banking is relationships; at EFG International, our role is to provide the conditions for these to flourish. Courtesy of an entrepreneurial business model, our business attracts professionals of the highest calibre, who enjoy the controlled freedom to operate in their clients' best interests.

EFG International's global family of private banking businesses operates in around 30 locations worldwide. The business benefits from the resources of EFG Bank European Financial Group, based in Geneva, which is EFG International's largest shareholder with 55%.

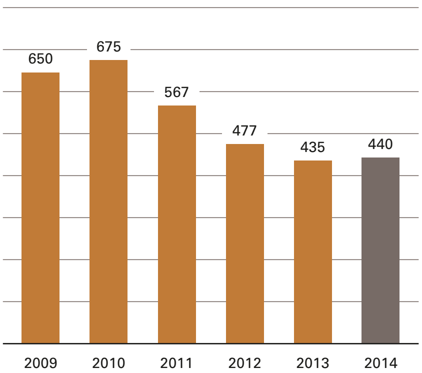
# EFG INTERNATIONAL PERFORMANCE EVOLUTION

## AUM and AUA

in CHF billions

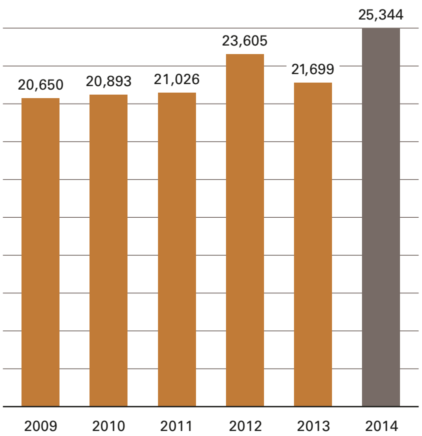



## Client Relationship Officers (CROs)




## Total Balance Sheet

in CHF millions




# EFG INTERNATIONAL FINANCIAL HIGHLIGHTS

| in CHF millions | | 31 December 2014 |
|---|---|---|
| **Income** | | |
| IFRS net profit | | 61.4 |
| IFRS net profit attributable to ordinary shareholders | | 61.1 |
| Underlying IFRS net profit attributable to ordinary shareholders* | | 130.7 |
| Operating income | | 716.6 |
| Cost/income ratio | | 79.8% |
| **Balance Sheet** | | |
| Total Assets | | 25,344 |
| Shareholders' Equity | | 1,175 |
| **Market Capitalisation** | | |
| Share Price (in CHF) | | 11.60 |
| Market Capitalisation (ordinary shares) | | 1,748 |
| **BIS Capital** | | |
| BIS Capital | | 1,078 |
| BIS Capital Ratio (Basel III, fully applied) | | 18.7% |
| **Ratings** | **long term** | **outlook** |
| Moody's | A3 | Stable |
| Fitch | A | Stable |
| **Personnel** | | |
| Total number of CROs | | 440 |
| Total number of employees | | 2,059 |
| **Listing** | | |
| Listing at the SIX Swiss Exchange, Switzerland; ISIN: CH0022268228 | | |
| **Ticker Symbols** | | |
| Reuters | | EFGN.S |
| Bloomberg | | EFGN SW |

* Excluding impact of non-recurring items.

International practitioners
of the craft of private banking

# CONTENTS

# CHAIRMAN'S LETTER

Jean Pierre Cuoni

Dear shareholders, dear clients,

The world economy showed some positive signs in 2014, with client sentiment, financial markets and economic growth following an upward trend. Yet there were also a number of persistent headwinds, including geo-political pressures, low interest rates, and recent unexpected developments relating to the Swiss franc. Non-recurring legal and professional charges and provisions were also a significant factor, including CHF 30.0 million in relation to the US Tax Programme.

This uncertain operating environment had an impact on EFG International's 2014 financial performance. IFRS net profit attributable to ordinary shareholders was CHF 61.1 million, compared with CHF 110.9 million in 2013. However, underlying net profit attributable to ordinary shareholders was CHF 130.7 million, up 18% year-on-year, on operating income of CHF 716.6 million, up 8%. Revenue-generating Assets under Management were CHF 84.2 billion, up 11% year-on-year. The Basel III BIS Capital Ratio stood at 18.7% at end-2014, up from 18.0% at end-2013.

The improvement in operating income and underlying profit points to 2014 being a year of gathering momentum, particularly with net new assets coming in at CHF 4.4 billion (annual growth of 6%), within our target range. The revenue margin was robust (improving from 88 bps to 89 bps); the business mix improved, with strong performance from most regional businesses; and further progress was made in relation to our investment and wealth solutions platform. CRO hiring increased, albeit we also tightened performance criteria for existing CROs, in the process upgrading average quality and productivity. Pleasingly, this progress has continued into 2015, and I believe that EFG International's appeal to high quality CROs is now greater than at any time since the financial crisis.

As announced last June, I will shortly be stepping down as Chairman of the Board of EFG International. The Board of Directors has proposed the election of Joachim H. Straehle as the new Chairman, subject to approval at EFG International's AGM on 24 April 2015. Joachim H. Straehle is extremely well qualified to help oversee the future development of EFG International as a leading independent private bank, given the breadth and depth of his experience of private banking. Most recently, he was Chief Executive Officer of Bank Sarasin & Co, and before that had a long and successful career at Credit Suisse. Going forward, I look forward to working with him as a member of the board and an active supporter of the business in an ambassadorial role.

While challenges come hand-in-hand with the running of any business, it is important not to lose sight of the bigger picture. The private banking market continues to represent a significant and growing opportunity, and I have no doubt that EFG International remains extremely well placed to compete – our flexible business model also allows us to respond quickly to industry and market developments. There is also a plethora of activity orientated towards growth, encompassing senior hires of teams and individuals; the opening of new offices; initiatives targeting global client segments; and continued enhancements to our offering. The impact of many of these initiatives will only start to be felt during 2015. When combined with measures to control costs, I am confident that EFG International is extremely well placed to deliver strong double-digit profit growth going forward.

This is as it should be for a business that celebrates its 20th anniversary this year. I co-founded EFG International on the premise that wealthy clients had every right to expect and demand more. Growing from a start-up to an international private bank with AUM of CHF 84 billion has only been possible courtesy of satisfied clients – attracting them, retaining them, and broadening and deepening relationships with them. This is the foundation of EFG International's success, and these qualities and capabilities remain in place today. I am convinced that the future for EFG International will be an exciting one – as a leading international private bank, delivering shareholder value through sustainable growth, based on entrepreneurial CROs and highly satisfied clients.

It has been my great privilege to serve EFG International these past 20 years, and I look forward to continuing to be involved as it goes from strength to strength. For now, I extend my thanks to all employees, past and present, for helping to grow the business into what it is today.

Jean Pierre Cuoni,
Chairman of the Board

A modern, progressive private bank.

A Swiss pedigree and a
global presence. Located where
our clients need us.

# LETTER FROM THE CEO

John Williamson

In the year ended 31 December 2014, financial highlights for EFG International were as follows:

– Underlying net profit attributable to ordinary shareholders was CHF 130.7 million in 2014, up 18% from CHF 111.2 million a year earlier. IFRS net profit attributable to ordinary shareholders was CHF 61.1 million.

– Revenue-generating Assets under Management were CHF 84.2 billion, up 11% from CHF 75.9 billion at end-2013.

– Net new assets were CHF 4.4 billion (annual growth of 6%), compared with CHF 2.5 billion a year earlier.

– The number of Client Relationship Officers (CROs) stood at 440 at end 2014, compared to 435 a year earlier.

## REVIEW OF BUSINESS

**Operating income and revenue margin improved; underlying profit up excluding legal charges and provisions**

There were some positive signs in terms of economic growth and market performance in 2014, although the external environment remains volatile. During 2014, EFG International's operating income was CHF 716.6 million, up 8% from CHF 666.0 million a year earlier. The revenue margin remained resilient, and improved during the second half of 2014 – 89 bps for 2014, up from 88 bps in 2013 and comfortably above EFG International's target of 84 bps.

Reported profit was adversely affected by exceptional legal and professional charges and provisions, resulting in a net IFRS profit attributable to ordinary shareholders of CHF 61.1 million. Underlying net profit attributable to ordinary shareholders was CHF 130.7 million, up 18% from CHF 111.2 million a year earlier, after excluding the following non-recurring items:

– CHF 33.7 million in litigation-related charges and provisions, as detailed in EFG International's interim report.

– CHF 30.0 million in relation to the US Tax Programme. Good progress was made with account remediation during the third quarter, which will likely reduce the final penalty (now expected to be circa CHF 10.8 million, compared with CHF 21.4 million provided for during the first half of 2014), although legal and professional expenses will be higher as a result of the process taking longer than anticipated.

– CHF 5.9 million in legal and professional fees related to a longstanding loan of circa CHF 200 million for which EFG Bank was granted security over a portfolio of financial collateral by a pledgor whose parent company has been put into receivership and is in the process of being sold. The receiver has raised legal issues as to the validity and enforceability of the security and the loans. EFG International considers that the loans are fully collateralised and thus fully recoverable and has not made a provision. In addition, the bank has the personal covenant of a UHNWI client. It has informed the competent regulatory authorities and is cooperating fully with them in connection with their ongoing review of this matter.

Operating expenses were CHF 575.0 million, up 5% year-on-year (4%, excluding legal and professional fees of CHF 5.9 million referred to above), with the increase reflecting CRO hiring and higher performance-related payments; further investment in the investment and wealth solutions platform; legal and professional fees; and expenses relating to new offices. The cost-income ratio stood at 79.8%, down from 81.5% for the same period last year.

Revenue-generating Assets under Management were CHF 84.2 billion, up 11% from CHF 75.9 billion at end-2013. This reflects FX and market effects of CHF 3.9 billion and net new assets of CHF 4.4 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. Lower interest rates in Switzerland have resulted in net pension liabilities increasing by CHF 30 million, reducing the BIS Capital Ratio by 0.4%. The Common Equity Ratio (CET1) stood at 14.2%, up from 13.5%.

## Continued improvement in core business profitability; most regional businesses delivering profitable growth

Core private banking revenues increased by 7% in 2014 and pre-tax profit increased by 22%. All regional private banking businesses, with the exception of Asia, delivered an improvement in pre-provision profit in 2014 – Continental Europe was up 33%; Americas was up 33%; the UK was up 13%; and Switzerland was up 12%. The pre-provision profit contribution from Asia was down 9%, reflecting a particularly slow first quarter on account of low client activity, but performance improved progressively during the remainder of the year, and double-digit net new asset growth for the year (see later) bodes well for the future.

## Net new assets within target range

Net new assets were CHF 4.4 billion in 2014, up from CHF 2.5 billion. This represented growth of 6%, within EFG International's target range of 5–10%. Growth would have been materially higher (in excess of 7%, an underlying level obtained by the business consistently throughout last year) had it not been for a policy decision implemented in the fourth quarter to exit certain non-strategic lending business.

The UK, Asia, Continental Europe and Americas (excluding the Caribbean, which was impacted by the partial anticipated liquidation of a single large account) all delivered annual net new asset growth in the range 9–11%. The only regional business to experience an outflow was Switzerland.

### CRO hiring continues to strengthen; further steps taken in the second half to upgrade average quality and productivity

The number of CROs stood at 440 at end-2014, compared with 435 a year earlier. Hiring improved significantly in 2014 as evidenced by the half-year position of 456 and a further 25 hires in H2. Asia and Continental Europe were particularly strong, and there was also a notable pick-up in hiring in Switzerland as the year progressed. However, this was offset by the tightening of performance criteria for existing CROs, reflecting our ongoing commitment to lifting the average quality, and productivity, of CROs. Indeed, average AUM per CRO (excluding those hired in 2014) increased from CHF 174 million to CHF 217 million. Furthermore, the decision to address underperforming CROs in the second half was taken in the knowledge that the pipeline is encouraging, and all the indications are that 2015 will be a particularly strong year for CRO hiring (see later). We believe that EFG International's appeal to high quality CROs is now greater than at any time since the financial crisis.

### Strong progress in terms of Investment and Wealth Solutions; becoming more selective in relation to lending

EFG International continues to invest in its integrated solutions platform, encompassing wealth structuring, investment solutions and credit. Very strong progress continues to be made in relation to investment solutions, with clients' assets under direct management ending the year at CHF 12.2 billion, up 49% during the year.

In relation to credit, EFG International adopted a more cautious approach during the second half of 2014, in the face of strong and growing client demand for loans. EFG International sees lending as an integral part of private banking, but is firmly of the view that, as a private bank, it should not be lending-led. It has therefore tightened its processes to ensure that the lending it undertakes is appropriate, both in terms of pricing covering liquidity and capital costs and the overall composition of a client's business with EFG International.

### Clear focus on growth as evidenced by number, range and quickening pace of growth initiatives

EFG International's focus is on growth, and its commitment to delivering this is backed by manifold growth-related initiatives:

– As previously announced, last year saw a number of senior hires across various important growth markets and segments, including: Adrian Kyriazi as Head of Continental Europe & Switzerland; Alvin Ma as Head of Emerging Wealth, based in Hong Kong, with a strong focus on China; and Amrit Uppal as Head of Global South Asian Diaspora, based in Singapore.

– As indicated earlier, the CRO pipeline remains strong, with a clear focus on high quality individuals and teams. A number of notable additions have already occurred, or will do in the coming months, some of which are mentioned below in relation to specific growth initiatives.

– A team focused on Hungarian clients will join in March, to be based in Zurich. A handful of CROs focused on another CEE market will join EFG International in May.

- Capabilities relating to UHNWIs continue to be upgraded. The dedicated UHNWI team recruited in Geneva delivered a strong performance in its first year, and EFG International has recently added a five-person UHNWI team in Zurich.

- A representative office was established in Athens in August 2014.

- Regulatory approval has been obtained in Luxembourg (and is pending in Switzerland) to establish a presence in Cyprus, which will be a branch of EFG International's Luxembourg business. The aim is for this to be operational in the second quarter of this year, and it will initially comprise 4 CROs operating from offices in Nicosia and Limmasol.

- In November 2014, Konstantinos Karoumpis was appointed as the new CEO of EFG Bank (Luxembourg) S.A., with effect from mid-January. He was formerly Head of Private Banking & Wealth Management at Credit Suisse in Luxembourg. In addition to his responsibilities in Luxembourg, Konstantinos Karoumpis will help to oversee the development of EFG International's new offices in Athens and Cyprus.

- As previously announced, 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. This is now operational.

- Plans to establish an onshore business in Chile – part of ambitious plans to grow in the Andean region – are progressing well. It is anticipated that this business, which will be run by a team of individuals proven in the local market, will commence operations by mid-year.

- In Bermuda, EFG International recently launched a new business, EFG Wealth Management (Bermuda) Ltd., building on a long-established presence limited to investment research. It is serving a range of sophisticated investors and institutions, and will also have a strong focus on the captive insurance sector.

- In Asia, the Singapore business has been operational as a wholesale bank since March 2014. In Hong Kong, the transfer of client relationships from Falcon Private Bank occurred during the second half of last year, with assets under management broadly in line with expectations of circa CHF 500 million.

**New chairman proposed, with extensive experience of private banking**

The Board of Directors has proposed the election of Joachim H. Straehle as the new Chairman of the Board of EFG International. He will take over as Chairman, subject to approval at EFG International's AGM on 24 April 2015.

Joachim H. Straehle is extremely well qualified to help oversee EFG International's future development as a leading independent private bank, given the breadth and depth of his experience. He was Chief Executive Officer of Bank Sarasin & Co from 2006 to 2013. Prior to this, he was Head of Private Banking International at Credit Suisse from 2002 to 2006. Other senior roles at Credit Suisse, where he spent more than 20 years in total, included regional private banking head for the Middle East, Asia and Russia, and CEO of Credit Suisse Trust. Born in 1958, he is a Swiss citizen.

He replaces Jean Pierre Cuoni as Chairman, who is stepping down on account of his age (77). As previously announced in June, Jean Pierre Cuoni will remain a member of the board and an active supporter of the business in an ambassadorial role.

Jean Pierre Cuoni is stepping down on the twentieth anniversary year of the company he co-founded. He has been a pivotal figure in growing EFG International from a start-up in 1995 to the global private banking group that we know today. Always a passionate client advocate, from the outset he stressed the importance of relationships and allowing CROs the controlled freedom to serve clients as they see best – an ethos which remains at the heart of the EFG International model today. I would like to thank Jean Pierre Cuoni for his long service to our company, and look forward to our continued collaboration.

**Developments in relation to Swiss franc / euro represent a limited headwind; but strong commitment to delivering operating leverage**

EFG International recently commented on the SNB's decision on 15 January 2015 to discontinue the minimum exchange rate of CHF 1.20 per euro. At today's CHF/EUR exchange rate, there would be a single digit percentage impact on EFG International's profit before tax. The impact due to changes of the CHF/GBP is not significant, as costs and revenues are broadly in balance. The CHF/USD exchange rate is the most significant for EFG International, but the US dollar has strengthened in recent weeks and is presently above the average rate for 2014. The impact of the recent strengthening of the Swiss franc on capital ratios is immaterial, and no trading losses have been incurred as a result. At today's exchange rates, revenue-generating Assets under Management would have been CHF 79.5 billion at end-2014.

EFG International remains committed to getting its cost-income ratio down to below 75%, and central to this is delivering the operating leverage inherent in its strategy of controlled, profitable growth – business growth flowing through with minimal dilution to productivity and profits. In response to the strength of the Swiss franc, EFG International will redouble efforts to control core operating costs, while still financing growth. The hiring freeze remains in place, other than to meet industry-wide regulatory and risk management requirements and the hiring of high quality CROs. A review is being undertaken of offices that are only marginally profitable, as well as the number of booking centres. EFG International is also reviewing operational processes and further ways of reorganising its operational platform so that operating costs are more in keeping with the composition of revenues. In this respect, it is committed to continuing the good progress that has been made over the past few years. Swiss franc-denominated operating expenses have come down from over 40% of the total cost base to around 30% in 2014, as a result of the strategic and cost-efficiency measures undertaken as part of the business review, initiated in the first half of 2011.

## LOOKING AHEAD

**Committed to delivering medium-term targets**

The general business outlook still remains characterised by significant uncertainty, but the private banking market represents a significant and growing opportunity. I am convinced that EFG International remains competitively differentiated, as evidenced by its growing attractiveness to high calibre CROs. Most importantly, I believe that EFG International has momentum, as evidenced by improving core business profitability as well as earnings quality; enhanced CRO productivity; an improved business mix, with investment and wealth solutions growing relative to lending; strong underlying net new asset generation; a robust revenue margin; and a wide range of growth initiatives, the impact of which will only start to be felt in 2015.

EFG International will control operating expenses, and the need to deliver in this regard is reinforced by the recent strengthening of the Swiss franc. Overall, I am convinced that EFG International is firmly on track to deliver strong double-digit growth for the foreseeable future, and we reiterate our commitment to delivering a step-change in business performance over the next few years.

We reaffirm EFG International’s other medium-term objectives:

- Net new assets in the range 5–10% per annum.
- A reduced cost-income ratio – to below 75%.
- Maintain capital strength, 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 be a minimum of 84bps.
- As a result, delivering strong double-digit growth in profit and a double-digit return on shareholders' equity.

John Williamson,
Chief Executive Officer

# INTERNATIONAL PRESENCE

# A global footprint


EFG International benefits from its geographical diversification, and long-standing commitment to onshore as well as international businesses. Regional operations are run by practitioners with long experience of their local markets. In this way, relationships with clients are rooted at ground level, while augmented by the full global resources of EFG International.


Booking centres
Other offices

* Birmingham region includes: Bridgnorth, Ombersley, Wolverhampton.

* Switzerland includes: Geneva, Zurich.

# FINANCIAL REVIEW

Piergiorgio Pradelli
Deputy CEO & Chief Financial Officer

2014 was a year of development and growth of our business, with a particularly strong second half. The pre-provision operating profit increased 19% from CHF 118.8 million to CHF 141.6 million. Underlying IFRS net profit attributable to ordinary shareholders was 18% higher than last year at CHF 130.7 million, compared to CHF 111.2 million at end-2013. However the 2014 financial year was also heavily impacted by exceptional legal and professional charges and provisions. IFRS net profit attributable to owners of the Group was CHF 61.4 million, down from CHF 111.8 million in 2013. Total operating income increased by 8% compared to 2013, while costs increased by 5%, leading to an improvement in the cost-income ratio from 81.5% to 79.8%. The contribution of core private banking and asset management revenues was at its highest level since the business review in 2011. Asset and Liability Management revenues were up 12% versus 2013, reflecting improved treasury contribution. The increase in operating expenses was driven mainly by higher personnel expenses, as the business grew its average number of CROs by 6% year-on-year. The revenue margin stood at 89 bps, up from 88 bps in 2013 and comfortably above the target of 84 bps.

## FACTORS AFFECTING RESULTS OF OPERATIONS

IFRS profit attributable to ordinary shareholders at CHF 61.1 million was negatively impacted by CHF 39.6 million of exceptional legal and professional charges and provisions, including CHF 30.0 million in relation to the US Tax Programme.

Revenue-generating Assets under Management (AUM) increased to CHF 84.2 billion from CHF 75.9 billion at end-2013. At the end of 2014, AUM benefited from the USD exchange rate, which however retracted in early 2015 following the decision of the Swiss National Bank to drop the "peg" between the euro and the Swiss franc. At today's exchange rates, AUM would have been CHF 79.5 billion at end-2014.

The CHF 12.2 billion of AUM managed by Investment and Wealth Solutions at end-2014 reflected strong double-digit growth over the year.

Net new asset growth at 6% was in line with EFG International's target of 5%-10%. 73 new CROs were hired in 2014 and 83% of the CROs recruited since January 2013 have been retained. Both elements confirm the attractiveness of EFG International, our commitment to attracting high quality individuals, our strategy to reinforce teams and ambition to grow the business.

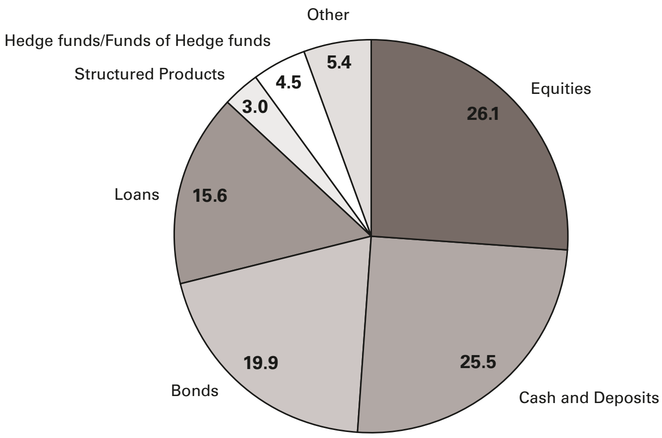
At end-2014 the number of CROs reached 440, with a yearly average of 444 CROs, 6% above the 2013 average of 417 CROs.

## CONSOLIDATED ASSETS UNDER MANAGEMENT

Revenue-generating AUMs were CHF 84.2 billion at end-2014, up from CHF 75.9 billion at end-2013. This reflected increases due to net positive market movements of CHF 0.7 billion; net new asset inflows of CHF 4.4 billion; and foreign exchange effects of CHF 3.2 billion. Year-end AUMs benefited from the favourable exchange rates of the US dollar and pound sterling, strengthening 11% and 5% respectively against the Swiss franc, offset by a decrease against the euro of 2%.

**AUM by category**

in %




## CONSOLIDATED FINANCIALS

**Operating income**

Operating income was CHF 716.6 million in 2014, compared to CHF 666.0 million in 2013. The year-on-year net increase of 8% in operating income was due to an increased contribution from “pure” private banking, as well as Investment and Wealth Solutions, which more than offset headwinds from the continuing low interest rate environment.

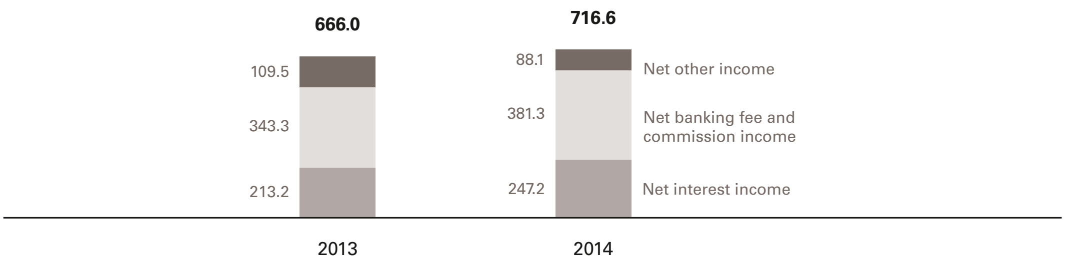
Growth in operating income in the Continental Europe (22%), Switzerland (5%), UK (14%) and Americas (8%) was slightly offset by the disappointing 3% decline in operating income in the Asian business. Operating income in Asia was negatively impacted in the first half in particular by unfavourable investment sentiment, as well as lower transaction volumes and adverse market conditions.

The overall return on AUM increased to 89 bps in 2014, from 88 bps in the prior year, as revenues increased by 8% and average AUM increased by 4%, with the margin improvement due to a higher share of discretionary and advisory mandates. Net interest income was CHF 247.2 million, an increase of 16% or CHF 34.0 million year-on-year, driven by a combination of higher average AUM, increased client appetite for lending products in the current low rate environment and a widening of loan margins.

Net commission income was CHF 381.3 million, up by CHF 38.0 million or 11% year-on-year. Average AUM are the key driver for commission revenues, which were up 4%, with the residual variance due to increased transactional activity by clients. Net other income was CHF 88.1 million in 2014, compared to CHF 109.5 million in 2013, as Asset and Liability Management generated lower results, partly due to decreasing life insurance contributions.

**Operating income**

in CHF millions




**Operating expenses**

Operating expenses were CHF 575.0 million, up CHF 27.8 million or 5% from 2013. This reflected costs savings in the underlying platform, which were more than offset by higher legal and professional fees and continued investment in new CROs, reflected by a 6% increase in the average number of CROs year-on-year.

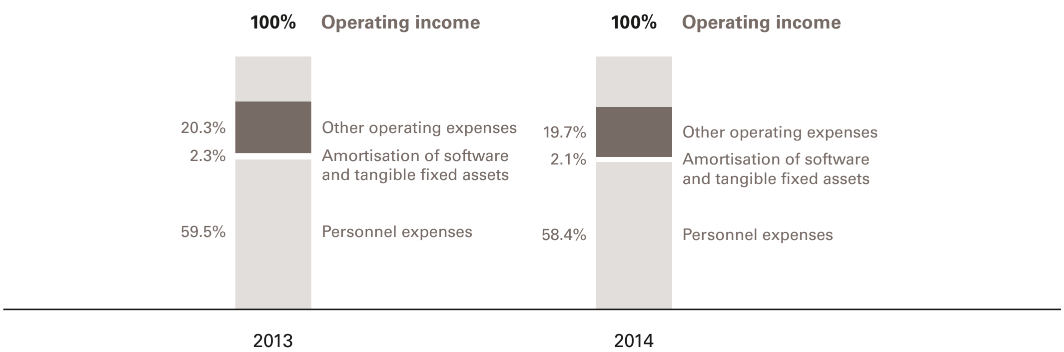
The cost-income ratio, which is the ratio of operating expenses (including amortisation expense of software and tangible fixed assets) to operating income, decreased from 81.5% to 79.8% as a result of costs growing by less than income. Personnel expenses increased by CHF 22.6 million to CHF 418.8 million as EFG International continued to invest in its Investment and Wealth Solutions infrastructure, as well as expanding its European businesses with an incremental headcount of 38, driven largely by investment in establishing an on-shore regulated bank in Spain. Overall headcount increased to 2,059 from 1,989 employees.

Other operating expenses increased slightly to CHF 156.2 million from CHF 151.0 million at end-2013, reflecting an increase of CHF 5.9 million in legal and professional fees relating to a longstanding loan of circa CHF 200 million for which EFG Bank was granted security over a portfolio of financial collateral by a pledgor whose parent company has been put into receivership and is in the process of being sold. EFG International considers that the loans are fully collateralised and thus fully recoverable and has not made a provision. In addition, the bank has the personal covenant of a UHNWI client.

Provisions of CHF 64.1 million were made in the year, primarily arising from an adverse legal case in Switzerland of CHF 26.3 million and to cover the expected costs of the US Tax Programme of CHF 30.0 million. The latter comprises CHF 10.8 million for the potential penalty and CHF 19.2 million for the related legal and professional fees.

The tax line reflects a net charge of CHF 17.7 million in 2014, compared to CHF 8.2 million a year earlier. The year-on-year variance of CHF 7.0 million relates to deferred tax charges of CHF 3.7 million in 2014 (primarily due to deferred tax assets utilised in the current period), while in the prior period EFG International had a credit of CHF 3.3 million from the increase in deferred tax assets.

**Operating expenses (including fixed assets depreciation and software amortisation) as a percentage of operating income**



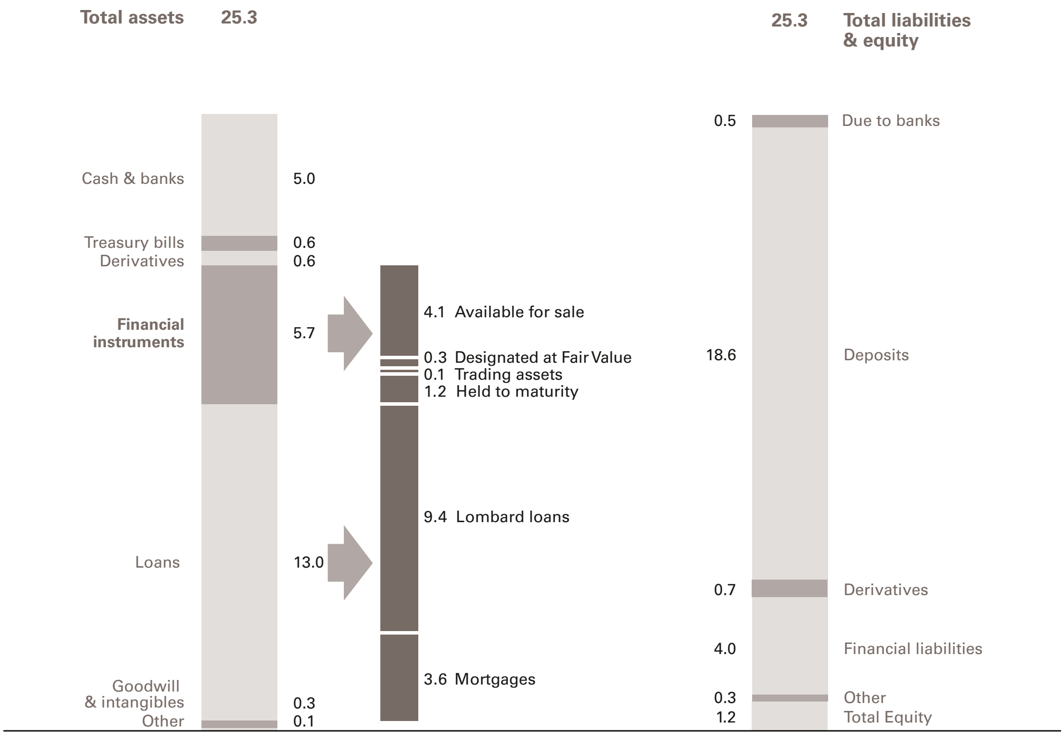

EFG International earned net revenues on the life settlement portfolio of CHF 22.8 million in 2014 (2013: CHF 28.8 million).

## BALANCE SHEET

The consolidated balance sheet total increased to CHF 25.3 billion (2013: CHF 21.7 billion). Loans to customers increased by 13% to CHF 13.0 billion, mainly due to increased fully collateralised Lombard lending. Lombard loans comprised CHF 9.4 billion of loans to customers almost entirely backed by collateral of diversified liquid/marketable securities, and mortgages totalling CHF 3.6 billion.

## Breakdown of balance sheet

in CHF billions




Customer deposits increased by CHF 2.1 billion or 13% to CHF 18.6 billion. The majority of tangible assets remain callable or disposable within 3 months, with the exception of life settlement policies of CHF 0.8 billion and CHF 3.6 billion mortgages. At 337%, EFG International has a very strong Liquidity Coverage Ratio. The recently-introduced Liquidity Coverage Ratio, which measures the ability of a bank to settle potential cash outflows in a 30 day window, initially has a target ratio of 60%, increasing to 100%, hence EFG International comfortably exceeds these targets.

### CAPITAL

Shareholders' equity totalled CHF 1.18 billion, up from CHF 1.11 billion disclosed at end-2013, with changes year-on-year primarily as a result of the following:

Increases from:
- CHF 62.6 million net profit attributable to Group and non-controlling shareholders;
- CHF 38.2 million currency translation differences;
- CHF 24.4 million increase in non-controlling interests;
- CHF 8.2 million gains on disposal of available-for-sale securities; and

Decreases from shareholder transactions as follows:
- CHF 29.4 million defined benefit pension costs;
- CHF 29.7 million paid on ordinary dividend; and
- CHF 0.4 million dividend paid on the Bons de Participation
- CHF 21.3 million increase in non-controlling interests put options

At end-2014, the BIS Total Capital Ratio was 18.7% (18.0% a year earlier) on a Basel III fully applied basis, after including CHF 37.7 million anticipated ordinary 2014 dividend, to be approved by the 2014 Annual General Meeting in April 2015. Risk-weighted assets increased to CHF 5.8 billion as of 31 December 2014, up from CHF 5.7 billion (in 2013) mainly due to increased mortgage lending.

The risk-weighted assets summary for 2014 and 2013 were the following (CHF billion):

| | 2013 | 2014 |
|---|---|---|
| Credit Risk | 4.1 | 4.2 |
| Operational Risk | 1.3 | 1.3 |
| Market Risk, Settlement Risk, Non-Counterparty Related | 0.3 | 0.3 |
| **Total BIS Risk Weighted Assets** | **5.7** | **5.8** |

Total Common Equity Tier 1 capital was CHF 820 million at 31 December 2014 (CHF 766 million a year earlier), including anticipated 2014 ordinary dividend (expected to be approved by the 2014 Annual General Meeting). The Common Equity Tier 1 (CET1) Ratio was 14.2% (2013: 13.5%). Total Tier 2 capital was CHF 242 million, up from CHF 238 million at end-2013. Total BIS capital represented 4.3% (2013: 4.8%) of total assets net of intangibles, with the decrease due to the increase in client deposits and the impact of the higher US dollar exchange rate at year end.

## ORDINARY DIVIDEND

The payment of a dividend of CHF 0.25 per share, representing a dividend payout of approximately CHF 37.7 million, will be proposed to the Annual General Meeting scheduled for 24 April 2015.

## RATINGS

EFG International and EFG Bank are rated by the Fitch and Moody's rating agencies.
The current ratings are:

**EFG International**
Fitch: Long-Term issuer default rating of A and Short-Term issuer default rating of F1.
Moody's: Long-Term issuer rating of A3.

**EFG Bank**
Fitch: Long-Term issuer default rating of A and Short-Term issuer default rating of F1.
Moody's: Long-Term Bank Deposit rating of A2 and the Short-Term Bank Deposit rating of P-1.

Resolute experts.

Single-minded focus, experience, passion: fuelling a business that does better by clients.

# EFG INTERNATIONAL AG
# BOARD AND MANAGEMENT

## EXECUTIVE COMMITTEE EFG INTERNATIONAL AG

John Williamson  Chief Executive Officer
Piergiorgio Pradelli  Deputy Chief Executive & Chief Financial Officer
Keith Gapp  Head of Strategy & Marketing
Adrian Kyriazi  Regional Business Head of Continental Europe & Switzerland (appointed 14 July 2014)
James T.H. Lee  Head of Investment & Wealth Solutions
Mark Bagnall  Global Chief Operating Officer
Henric Immink  Group General Counsel
Frederick Link  Chief Risk Officer

## BOARD OF DIRECTORS EFG INTERNATIONAL AG

Jean Pierre Cuoni Chairman
Hugh Napier Matthews Vice-Chairman
Niccolò Herbert Burki Member
Emmanuel Leonard Bussetil Member
Erwin Richard Caduff Member
Robert Yin Chiu Member (elected 25 April 2014)
Michael Norland Higgin Member
Spiro J. Latsis Member
Bernd-Albrecht von Maltzan Member
Périclès Petalas Member
Daniel Zuberbühler Member (elected 25 April 2014)

(Member until 25 April 2014: Hans Niederer).

## GLOBAL BUSINESS COMMITTEE (GBC) EFG INTERNATIONAL AG

Executive Committee EFG International AG +
Albert Chiu CEO, Asia
Anthony Cooke-Yarborough CEO, UK
Sixto Campano CEO, Americas
Victor Echevarria Chairman, Americas

(Member until 25 April 2014: Alain Diriberry).

Main photo: EFG International Executive Committee.
Individual photos: additional members of EFG International GBC.

A question of chemistry.

People rely on people; individuals and their families rely on the guidance of our CROs.

"RIGHT TO PLAY'S ACTIVITIES ARE VERY HELPFUL FOR THE COMMUNITY AND THE CHILDREN. FOR EXAMPLE, THE CHILDREN HAVE MORE OPPORTUNITY TO PLAY. AND ALSO THEY GAIN NEW EXPERIENCES AND GET TO MAKE NEW FRIENDS. THEY HAVE MORE SELF-CONFIDENCE TO SPEAK OR ACT IN FRONT OF PEOPLE. I LEARNED NEW GAMES FROM THE RIGHT TO PLAY TRAINING. I THEN USE THOSE GAMES AND PLAY ACTIVITIES WITH THE CHILDREN IN MY COMMUNITY… THE TEACHERS PARTICIPATING IN THE TRAINING DID NOT GET BORED, BUT THEY WERE LAUGHING AND LEARNING."

Mr Banic, aged 24, Supervisor of Mae La Camp Right To Play Coaches

## RIGHT TO PLAY

EFG International is proud to support Right To Play, a global organisation that uses the transformative power of play to educate and empower children facing adversity. Through sport and play-based programmes, Right To Play helps children affected by war, poverty and disease to build essential life skills and better futures, while driving social change in their communities.

Thanks to donations from its employees, EFG gives targeted support to specific projects. Last year, it continued to support the Thailand Burmese Refugee Programme, which serves a long-term community of some 150,000 people displaced from Burma/Myanmar. Right To Play is active in seven of the nine camps on the border, and during 2014 it reached some 41,000 children through over 1,400 trained Right To Play Coaches. Working closely with community groups, volunteers and schools, Right To Play helps to deliver a range of development and education activities to children. This provides them with a crucial sense of normalcy, along with benefits including improved health and greater levels of activity; enhanced concentration in school; team-working and relationship-building skills; and higher levels of confidence.

A number of teachers and volunteers also benefited from training in Right To Play methodology, enabling them to better engage with students in the classroom. Since 2014, Right To Play has been the leading organisation in training elementary school teachers. Together with the Karen Refugee Committee Education Entity, it developed two training programmes for new and experienced teachers. These covered topics such as the positive development of children; active learning; lesson planning; and child protection. By the summer, nearly 70% of all teachers in the seven refugee camps were trained by Right To Play, and the trained teachers are now working with over 26,000 students in 64 schools.

Right To Play has a vision to create a healthier and safer world for children through the power of sport and play. Through a programme of innovative initiatives, it works to convert this vision into practical improvements in the lives of vulnerable young people. Its example continues to motivate us all.


# RISK MANAGEMENT

The management of EFG International believes that the proper management of risks is critical for the continued success of EFG International AG and its subsidiaries (hereinafter collectively referred to as "The Group"). In this respect, EFG International has established a comprehensive risk supervision framework, also taking into consideration regulatory requirements in Switzerland and other applicable jurisdictions. As part of this risk supervision framework, EFG International has established policies and procedures in order to ensure that various categories of risk, such as credit, country, market, liquidity, operational, compliance, legal and reputational, can be identified and managed throughout the organisation in an effective and consistent manner.

EFG International's primary activities performed through its business units reflect the execution of client related activities, with the clients carrying the risk. Within the risk appetite framework agreed and approved by the Board of Directors and related Risk Committees, the Group also maintains "nostro" positions in a number of selected areas. Consequently, the Group takes limited credit, market and liquidity risks, with most credit risk being limited to margin loans and other secured exposures to clients as well as exposures to banks and financial institutions. EFG International is exposed to limited market risk which is mainly restricted to foreign exchange, interest rate gapping and life insurance settlement positions maintained within defined parameters. EFG International is also exposed to operational and reputational risks. Ultimate responsibility for the supervision of risk management lies with EFG International's Board of Directors, which defines the risk appetite of the organisation and sets policies. The Board of Directors has delegated certain supervision and approval functions to its Risk Committee and Audit Committee.

At the management level, the ultimate responsibility for the implementation of policies and compliance with procedures lies with the EFG International Executive Committee, the EFG International Management Risk Committee and the EFG International Executive Credit Committee. Independent assurance to the EFG International Board of Directors, Risk Committee, Audit Committee and Executive Committee on the implementation of and adherence to the Group's policies and procedures by the EFG International business entities, as well as the effectiveness of the organisation's risk management framework is provided by both internal and external auditors, or by other external providers when mandated.

## RISK GOVERNANCE AND ORGANISATION

The EFG International Board of Directors determines the overall risk appetite for EFG International. The Board of Directors has delegated responsibilities for risk oversight activities as follows:

- The Risk Committee has responsibility for determining direction of risk profile and the organisation of risk supervision. The responsibility for the oversight of operational, compliance and legal risks, in particular, lies with the Audit Committee.

- The Executive Committee has responsibility for the implementation of, and compliance with, risk related policies, procedures and internal regulations which also include operational, legal and reputation risks.

- The Executive Committee has assigned responsibility for the implementation of its market risk policies to the Management Risk Committee. This Committee monitors market and liquidity risks, including compliance with policies and procedures, as well as exposures relative to limits.

- The Asset & Liability Committee is responsible for the management of the Group's consolidated balance sheet. In particular, it is responsible for the management of EFGI Market Risk exposure and liquidity, with control delegated to the EFGI Risk Committee and the Management Risk Committee.

- The Fiduciary and Suitability Committee is responsible for monitoring of the regulated Asset Management businesses within EFG International associated with the discretionary management of assets.

- The Executive Credit Committee has responsibility for the management of client credit risk, including insurance companies and corporate names.

- The Sub-Committee of the Executive Credit Committee has credit approval authorities delegated from the Risk Committee for correspondent banking-, broker- and custodian relationships and for counterparty credit risk for banks and financial institutions as well as country limits within approved guidelines and parameters.

- The Chief Risk Officer is responsible for the management and oversight of credit, market, liquidity and operational risks. In achieving this, further to the appointment of global risk officers within Risk Management responsible for each of these risks, he also collaborates with other central Group functions that also undertake risk oversight activities for their respective area of responsibility, such as the Chief Financial Officer, Chief Operating Officer, Global Head of Compliance and General Counsel. Each business region has its own designated Regional Risk Officer who is responsible for the oversight of risk management in the region and reports to local senior management and to the Group's Chief Risk Officer.

- The Chief Financial Officer is also responsible for the consolidated financial regulatory reporting, balance sheet and capital management, i.e. the maintenance of a sound capital adequacy ratio, global Compliance function and the relationship with regulators across the Group, and product approval and fiduciary review processes.

- The Chief Operating Officer is, among other, responsible for the oversight of IT security matters, operational integration of new businesses, business continuity management throughout the Group and the Group's insurance cover policies, as well as the Treasury Middle Office of EFG Bank AG in Switzerland.

- The Chief Compliance Officer heads the Compliance function and is responsible for providing efficient support to EFGI's managing bodies with regards to the management of regulatory and reputational risk. In addition, the Compliance function is also responsible for monitoring compliance with anti-money laundering/know-your-customer and cross-border activity rules, as well as adherence to product suitability, product selling restrictions and the Code of Conduct.

- The General Counsel is responsible for the management and oversight of legal risk, corporate tax matters and corporate governance processes.

The Fiduciary Oversight unit ensures through a network of Fiduciary and Suitability Committees that the holdings of discretionary and advisory portfolios managed or advised throughout the Group adhere to the mandate in place, to the Group Limits Directive and to the strategy that applies to the relevant model portfolio. These committees also ensure that whatever is purchased for clients is suitable for them, conforming to the Group's Suitability Directive. The same Fiduciary Oversight unit also ensures through a network of Local Product Committees that all products or securities sold to clients or bought for them have been through the appropriate approval process. Fiduciary and Suitability Committees and Local Product Committees report their findings respectively to the EFGI Fiduciary and Suitability Committee and the Group Product Committee, which in turn send their minutes to the Executive Committee and the Risk Committee.

## CREDIT RISK

Credit risk refers to the possibility that a financial loss will occur as a result of a borrower's or counterparty's deteriorating creditworthiness and/or inability to meet its financial obligations. Because EFG International's primary credit exposures relate to loans collateralized by security portfolios and by mortgages, or to financial institutions, credit risk exposure is comparatively low.

## CREDIT RISKS RELATED TO CLIENTS

A basic feature of the credit approval process is a separation between the firm's business origination and credit risk management activities. Credit requests are initiated by Client Relationship Officers (CROs) and must be supported by Regional Business Heads.

The approval of loans and other exposures has been delegated, depending on certain defined risk and size parameters, to the credit departments of EFG International's business units, to local credit committees, to specific bank executives and management functions within the organisation and to the Executive Credit Committee of EFG International. The approval competencies for large exposures and exposures with increased risk profiles are centrally reviewed and approved or recommended in Switzerland, in compliance with local regulatory and legal requirements of the individual international business units. Regional Business Heads and CROs have credit approval competencies only within established limits and client collateral diversification parameters.

To qualify as collateral for a margin loan, a client's securities portfolio must be well diversified with differing margins applied depending on the type of risk profile and liquidity of the security. Additional margins are applied if the loan and the collateral are not in the same currency or diversification criteria are not fully met. Mortgages booked at EFG Private Bank Ltd, London are related predominantly to properties in prime London locations.

Management insists on thoroughly understanding the background and purpose of each loan, which is typically investment in securities, funds or investment related insurance policies, as well as the risks of the underlying collateral of each loan.

The credit departments of EFG International’s business units monitor credit exposures against approved limits and pledged collateral. Most of the collateral is valued daily (but may be valued more frequently during periods of high market volatility). However, structured notes, hedge funds and some other mutual funds are valued monthly, whereas insurance policies are normally valued annually, mortgages less frequently.

EFG International’s internal rating system assigns each credit exposure to one of ten rating categories. The rating process assesses the borrower’s repayment ability and the value, quality, liquidity and diversification of the collateral securing the credit exposure. The credit policy and the nature of the loans ensure that EFG International’s loan book is of high quality. Consequently, an overwhelming majority of EFG International’s credit exposures are rated within the top three categories.

## CREDIT RISKS RELATED TO FINANCIAL INSTITUTIONS

Management of exposure to financial institutions is based on a system of counterparty limits coordinated at the EFG Group level, subject to country limits. Limits for exposure to counterparties are granted based upon internal analysis. Depending on, among others, each counterparty’s S&P rating and on its total equity, the limits are set by the Sub-Committee of the Executive Credit Committee. Approval competences for certain amounts and within predefined risk parameters have been delegated to individual members of the Sub-Committee.

Limits for exposures to insurance companies and selected corporate names are granted by the Executive Credit Committee based on a predefined matrix which sets maximum limit criteria based on the companies’ long-term ratings and consolidated net worth.

## COUNTRY RISK

Country risk is defined as “the transfer and conversion risk that arises from cross-border transactions”. Country risk also encompasses direct and indirect sovereign risk, the default risk of sovereigns or state entities acting as borrowers, guarantors or issuers.

EFG International measures country risk based on external country ratings, predominantly derived from information provided by the S&P rating agency.

Management of country risk is based on a centralised process at the EFG International level. Limits are set by the Sub-Committee of the Executive Credit Committee. Approval competences for certain amounts and within predefined risk parameters have been delegated to individual members of the Sub-Committee. The Sub-Committee monitors country risk exposures within these limits.

## MARKET RISK

Market risk refers 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.

EFG International engages in trading of securities, derivatives, foreign exchange, money market paper, and precious metals on behalf of its clients. This business is conducted out of dealing rooms in Geneva, Hong Kong, London, Miami and Zurich. EFG Bank maintains limited foreign exchange positions and interest rate exposure which are measured against overnight, stress test and Value at Risk (VaR) limits, subject to stop loss monitoring. Adherence to all limits is monitored independently by the Global Risk Management Division, responsible for managing, overseeing and coordinating the development and implementation of adequate risk measurement and risk management policies in the area of market risk and for monitoring of market risks throughout the Group.

## MARKET RISK MEASUREMENT AND LIMITS IN TRADING

Market risk exposure is measured in several ways: nominal and VaR exposure, gap reports and sensitivity to stress tests. VaR is not used for regulatory reporting of risks. It is published internally, within the EFG Group, as an indication only. VaR is calculated using statistically expected changes in market parameters for a given holding period probability for a given confidence level. EFG Group's self-developed internal VaR model, which has been implemented on an EFG Group-wide basis taking into account relevant market risk takers and units.

The internal model is based on a historical approach and uses a 99% one-tailed confidence level. The VaR model is adjusted on an ongoing basis in response to developments in the financial markets and to changes in the Group's risk management needs. Where appropriate, if specific models are required, these are developed, tested and approved by the EFG International Quantitative Models Department within the Global Risk Management Division.

Risk parameters based on the VaR methodology are calculated by the EFG International Global Risk Management Division, which produces daily and monthly market risk reports.

These VaR computations are complemented by various stress tests to identify the potential impact of extreme market scenarios on the value of portfolios. These stress tests simulate both exceptional movements in prices or rates and drastic deteriorations in market correlations. They, along with nominal limits, sensitivity limits and stop losses, are the primary tools used for internal market risk management. Stress test results are calculated daily by the EFG Bank Market Risk Management Unit and reported to management.

In line with the FINMA circular 08/6 related to interest rate income, Net Interest Income (NII) sensitivity and Interest Earnings at Risk (IEAR) measurements have been implemented and outcomes are regularly reviewed against defined stress scenario limits.

Daily risk reports are produced which review compliance with nominal and sensitivity limits and stop loss limits. Detailed disclosures on market risk measures and exposures can be found in the Consolidated Financial Report.

## CURRENCY RISK

Apart from the exposure to foreign currencies which relates to banking and trading activities performed within EFG International's subsidiary banks, and which are managed by the local treasury departments within pre-established risk parameters and limits, the Group is also exposed to foreign currency fluctuations because most of the subsidiary banks use local currencies as their reporting currencies.

## ASSET/LIABILITY MANAGEMENT

EFG International applies a matched fund transfer pricing system that distinguishes between the margins earned by the customer business and the profits arising out of certain interest rate positions. The system is based on current market rates and is the basis for calculating the profitability of profit centers and products.

The Group's capital and deposit base has continued to provide a substantial excess of funding. Structural mismatches are reflected in the interest rate position of EFG International and the result of the maturity transformation is shown in net interest income.

## LIQUIDITY RISK

EFG International manages liquidity risk in such a way as to ensure that ample liquidity is available to meet commitments to customers, both in demand for loans and repayments of deposits and to satisfy the Group's own cash flow needs within all of its business entities.

Funding operations aim to avoid concentrations in funding facilities. The pricing of assets and credit business is based on the current liquidity situation. EFG International also has a liquidity management process in place that includes liquidity contingency plans, encompassing repo borrowing and liquidation of marketable securities. Stress tests are undertaken monthly as part of the reporting requirements established within the EFG International Risk Guidelines.

Our customer deposit base, our capital and reserves position and our conservative gapping policy when funding customer loans ensure that EFG International runs only limited liquidity risks.

## OPERATIONAL RISK

Operational risk is the risk of financial loss resulting from inadequate or failed internal processes, human errors or systems, or from external causes or a combination of the foregoing.

EFG International aims at mitigating significant operational risk it may inherently run to a level it considers appropriate and commensurate with its size, structure, nature and complexity of its service/product offerings, thus adequately protecting its assets and its shareholders' interests.

### Organisational structure and governance

The Board of Directors and senior management of EFG International strive to set the operational risk culture through, among others, the definition of the overall operational risk appetite of the organisation (expressed in quantitative thresholds and qualitative statements), which is embedded in the organisation's risk management practices. The supervision of operational risk at the Board of Directors level is under the responsibility of the Audit Committee.

The primary responsibility for managing operational risk on a daily basis rests with the line managements of the various local business entities, which mitigate operational risk through the establishment of an adequate internal control system and strong risk culture.

At the EFG International risk management level, operational risk oversight and guidance, including the development of an operational risk management framework, are under the responsibility of the Operational Risk Management Function headed by the Global Head of Operational Risk Management. The Operational Risk Management Function works in collaboration with the Operational Risk Officers of the local business entities, the Regional Risk Officers within the Group as well as certain centralised Group functions that also undertake operational risk oversight for their respective area of responsibility, such as the Chief Financial Officer, Chief Operating Officer, Global Compliance, General Counsel and Fiduciary Oversight. The principal aim of the Operational Risk Management Function is to ensure that the Group has an appropriate operational risk management framework and program in place for identifying, assessing, mitigating, monitoring and reporting operational risk. The Global Head of Operational Risk Management reports to the EFG International Chief Risk Officer and Audit Committee.

### Operational risk management framework

The operational risk management framework of EFG International codifies the Group's approach to identifying, assessing, mitigating, monitoring and reporting operational risk and also incorporates the standards defined by the Basel Committee for Banking Supervision. This framework comprises the philosophy, scope, definitions, operational risk boundaries, key operational risk areas, operational risk mitigation/transfer alternatives, approach for operational risk capital charge selected by the Group, principles for the management of operational risk, operational risk appetite, governance and organisation, role and responsibilities of the constituent parts of the governance structure, and operational risk management processes and tools. In respect of the latter, among the main processes and tools applied by the Operational Risk Management Function for the identification, assessment, monitoring and reporting of operational risk are: (i) assessment and monitoring of profile of key operational risks, (ii) monitoring of key risk indicators, (iii) collection, analysis and reporting of operational risk events and losses, (iv) consolidated operational risk reporting to the EFG International Chief Risk Officer, Executive Committee and Audit Committee, (v) follow-up of actions taken to remedy key operational risk-related control issues and (vi) establishment of an operational risk awareness program.

EFG International and its local business entities design and implement internal controls and monitoring mechanisms in order to mitigate key operational risks that the Group inherently runs in conducting its business, in areas such as front-office activities, trading and treasury, IT security and data confidentiality, product approval and selling practices, cross-border business activities, asset management, transaction processing, accounting and financial reporting, and regulatory compliance activities (e.g. cross-border, anti-money laundering, product suitability, etc.). At EFG International level, legal and compliance/regulatory risks in particular are closely monitored by the Group's General Counsel and Global Head of Compliance respectively.

EFG International continuously invests in business continuity management in order to ensure continuity of critical operations in the event of a major disruptive event. Business continuity management encompasses backup operating facilities and IT disaster recovery plans, which are in place throughout the Group and tested regularly.

Where appropriate, EFG International establishes operational risk transfer mechanisms; in particular, all entities of the Group are covered by insurance to hedge (subject to defined exclusions) potential low-frequency-high-impact events. EFG International administers centrally for all its subsidiaries three layers of insurance cover, being comprehensive crime insurance, professional indemnity insurance and Directors' and Officers' liability insurance. Other insurances such as general insurances are managed locally.

## COMPLIANCE RISK

Regulatory and compliance risk is the risk of financial or reputational loss resulting from a breach of applicable laws and regulations or the departure from internal or external codes of conduct or market practice.

The Compliance function is responsible for ensuring EFG International's observance of applicable rules and regulations. In line with the development of the regulatory environment of the industry, EFG International continuously invests in personnel and technical resources to ensure adequate compliance coverage. A comprehensive framework of policies and regular specialised training sessions ensure that staff receive appropriate ongoing education and training in this area. For example, EFG Bank AG defined a set of standards governing the cross-border services it offers, as well as drawing up country-specific manuals for the major markets it serves. A mandatory staff training and education concept is in place to ensure observance of the standards and compliance with the country manuals and anti-money laundering guidelines. They are complemented by a tax compliance framework, the purpose of which is to prevent the unlawful acceptance of untaxed monies. Changes in the regulatory environment are monitored and directives and procedures are adapted as required. Global Compliance is centrally managed from Geneva with local compliance officers situated in nearly all of EFG International's booking centre subsidiaries around the world.

## LEGAL RISK

The Legal department ensures that the legal risks are adequately managed and controlled and supervises outside counsel on a variety of legal matters.

Any change in the legal environment can constitute a challenge for the Group in its relations with the competent authorities, clients and counterparties both at Swiss and international level. The legal department is responsible for implementing internal rules and processes in order to control the Group's legal risks; for providing legal advice to the Group's management, front and back officers; and for managing litigations in which the Group is involved, as well as handling client complaints and assisting federal and local authorities in their criminal and administrative investigations.

## REPUTATION RISK

EFG International considers its reputation to be among its most important assets and is committed to protecting it. Reputation risk for EFG International inherently arises from:

- potential non-compliance with increasingly complex regulatory requirements.
- its dealings with politically exposed persons or other clients with prominent public profiles.
- its involvement in transactions executed on behalf of clients other than standard investment products.
- potential major incidents in the area of IT security and data confidentiality.
- potential malfeasance by its employees.

EFG International manages these potential reputation risks through the establishment and monitoring of the risk appetite of the Board of Directors, its transaction reputation risk policy and established policies, control procedures and monitoring mechanisms in areas such as know-your-customer and anti-money laundering, IT security and data confidentiality, and staff selection and recruitment.

# PARENT COMPANIES

## PARENT COMPANIES

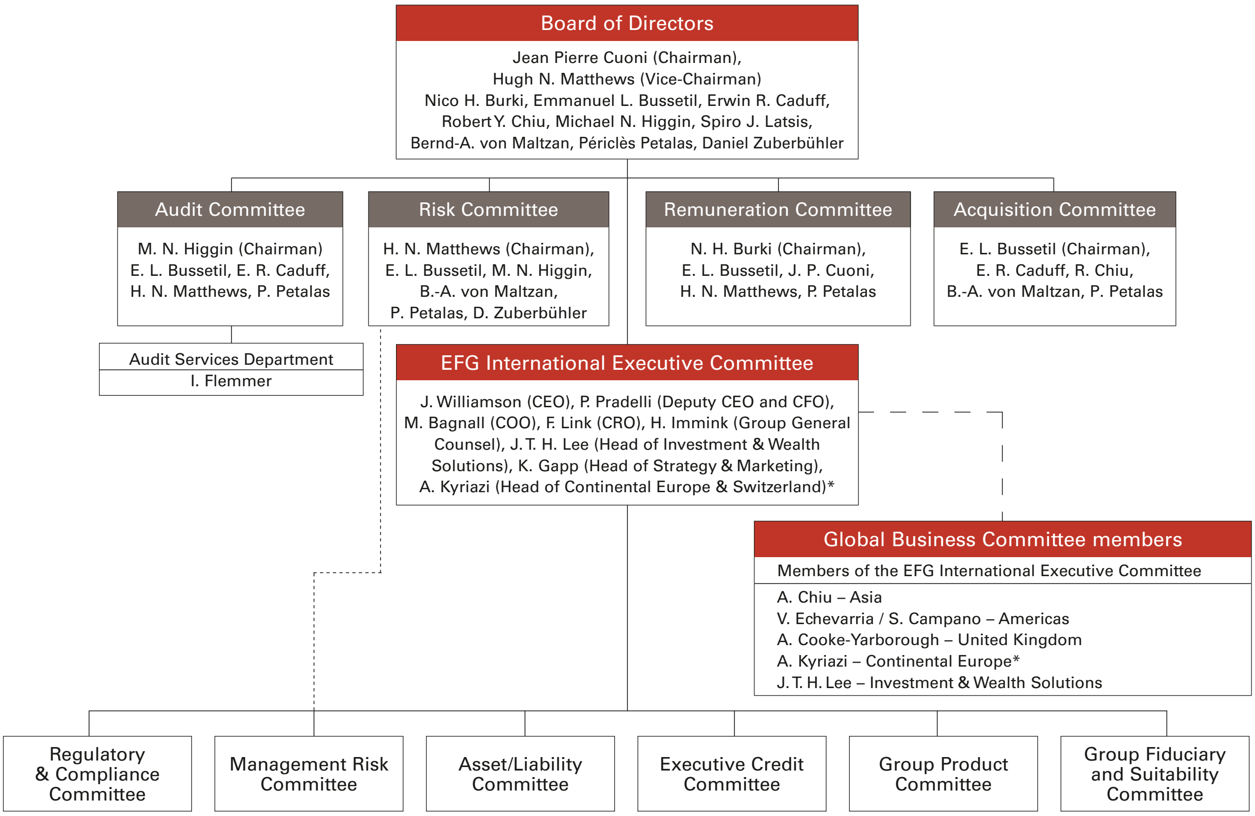
EFG International's largest shareholder is EFG Bank European Financial Group SA, the regulated parent company of the EFG Group based in Geneva, with 55%.

Details for EFG Group can be found at
www.efggroup.com

EFG Bank European Financial Group SA
24 Quai du Seujet
1211 Geneva 2
Switzerland

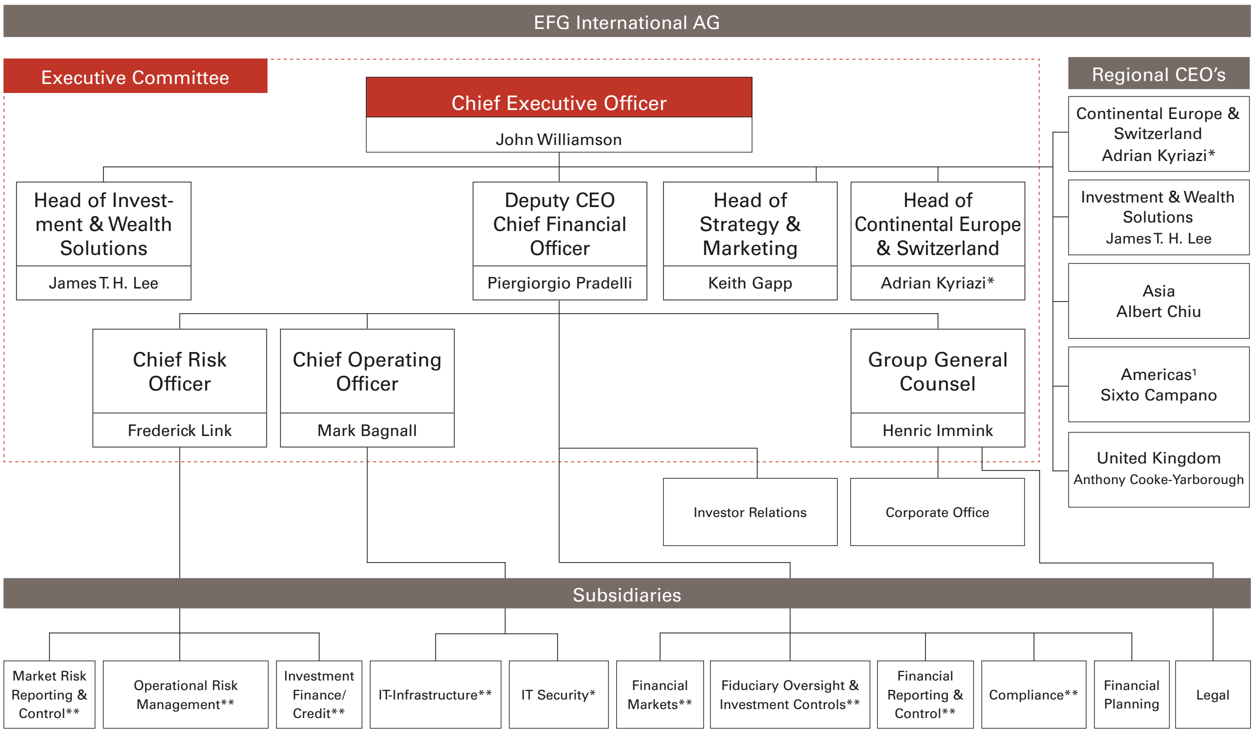
# CORPORATE GOVERNANCE

## EFG International AG Board and Committees




– – Advisory function
---- Reporting line to risk committee due to risk limits approvals above a certain threshold
* As of 14 July 2014

## Management Structure




[1] Americas: including Caribbean region
* As of 14 July 2014
** Located at EFG Bank, reporting to EFG International

Good Corporate Governance is about ensuring that a company is managed efficiently and effectively in the interests of the stakeholders. EFG International AG (EFG International; the Company) is always aiming for good Corporate Governance based on leading national and international standards and strives continuously for developing the shareholders rights and representing their interests. It ensures transparency by properly disclosing Company information. This part of the annual report provides key information with regard to Corporate Governance practices within EFG International.

As a publicly listed Swiss company, EFG International is subject to the Directive on Information relating to Corporate Governance (Corporate Governance Directive) and its Annex and Commentary, issued by SIX Swiss Exchange AG. The information provided in this section adheres to the Corporate Governance Directive that entered into force on 1 July 2002 and was revised on 1 September 2014, with the guidelines and recommendations of the "Swiss Code of Best Practice for Corporate Governance" of the Swiss Business Federation "economiesuisse" dated 28 August 2014 as well as its Appendix 1, "Recommendation on compensation for Board of Directors and Executive Board", which address transparency with respect to the compensation of the members of the Board of Directors and the Executive Committee.

On 20 November 2013, the Federal Council enacted the Ordinance against Excessive Compensation in Listed Companies (Ordinance), which was prompted by the acceptance of the "Minder" initiative (article 95 para. 3 of the Federal Constitution) providing the shareholders more influence and transparency. The Ordinance is effective as of 1 January 2014 with a transitional period. It has implications on corporate documents including the Articles of Association as well as on the Company's Corporate Governance. In this context, EFG International carried out a comprehensive assessment of its Corporate Governance framework. Already in 2014, EFG International implemented almost all requirements of the Ordinance and reflected them in the Corporate Governance disclosures. The other elements required by the Ordinance and identified insights will be fully implemented in 2015; among others, the Compensation Report according to the Ordinance and FINMA Circular 2010/1 (see part "Compensation Report" hereafter, p. 74) and separate binding votes on Board and Executive Committee members compensation will be submitted to the shareholders at the annual general meeting 2015.

The following information corresponds to the situation as at 31 December 2014, unless indicated otherwise.

If information required by the Corporate Governance Directive is published in the notes to the financial statements or in the Compensation Report, a reference indicating the corresponding section of the notes or page number is given.

## 1. GROUP STRUCTURE AND SHAREHOLDERS

### 1.1 Operational structure of EFG International

EFG International, a Zurich domiciled holding company, manages a global private banking and asset management group operating in around 30 locations worldwide. The EFG International Group (EFG International and its subsidiaries) is organized into seven business segments: Americas, Asia, United Kingdom, Continental Europe, Switzerland, Investment & Wealth Solutions. Further information can be found in note 49 "Segmental Reporting" to the consolidated financial statements. The structure of the central management of EFG International is outlined on the previous page.

### 1.2 Group entities

The main consolidated entities are listed on page 157. Within EFG International Group only EFG International is a listed company:

– EFG International's registered shares are traded on the main standard of the SIX Swiss Exchange AG in Zurich (security no. 002226822; ISIN CH0022268228, symbol EFGN). The Company's market capitalization was CHF 1,748,067,034 on 31 December 2014.

### 1.3 Significant shareholders

1,159 shareholders were recorded in EFG International's share register as of 31 December 2014 (i.e. shareholders with voting rights) representing 80.71% (previous year: 84.25%) of the total share capital issued. The shares of unregistered shareholders ('dispo') amounted to 19.29% (previous year: 15.75%).

The shareholding structure of EFG International is shown in the table below:

| As of 31 December 2014 | Number of registered shares | Percentage of voting rights |
|---|---|---|
| EFG Bank European Financial Group SA* | 82,545,117 | 54.78% |
| Cuoni Family Interests | 5,018,779 | 3.33% |
| Other Shareholders | 63,131,538 | 41.89% |
| Total** | 150,695,434 | 100.00% |

* EFG Bank European Financial Group SA is controlled by the Latsis Family through several intermediate parent companies
** In 2014 the total number of registered shares increased by 2,818,394 due to the use of conditional capital (see section 2.2.2 below)

Ownership interests in companies domiciled in Switzerland whose shares are listed at least partly in Switzerland must be notified both to the issuer company and to the SIX Swiss Exchange AG when the holder's voting rights reach, increase above or fall below certain thresholds. These notification thresholds are 3%, 5%, 10%, 15%, 20%, 25%, 33⅓%, 50% and 66⅔% of voting rights. The relevant details are set out in the Federal Act on Stock Exchanges and Securities Trading (SESTA) and in the Ordinance of the Swiss Financial Market Supervisory Authority on Stock Exchanges and Securities Trading (Stock Exchange Ordinance-FINMA).

For notifications received by EFG International in 2014 according to article 20 of the SESTA see the published reports on the Disclosure Office's publication platform of the SIX Swiss Exchange AG (see www.six-swiss-exchange.com/shares/companies/major_shareholders_en.html?fromDate=19980101&issuer=14226).

### 1.4 Lock-up agreements

Currently there are no lock-up agreements in place.

### 1.5 Cross-shareholdings

EFG International has not entered into any cross-shareholdings that exceed 5% of the capital shareholdings or voting rights on either side.

## 2. CAPITAL STRUCTURE

### 2.1 Capital

### 2.1.1 Share capital

The outstanding share capital amounts to CHF 75,347,717 consisting of 150,695,434 registered shares with a face value of CHF 0.50 each; the shares are fully paid-in. In context of the Employee Equity Incentive Plan EFG International Group has started issuing in 2013 its conditional share capital to provide registered shares for exercised restricted stock units (RSUs) and/or options to employees.

The authorized capital amounts to CHF 25,000,000 and the remaining conditional share capital amounts to CHF 11,019,783 at 31 December 2014 (more information can be found in section 2.2.2 below).

Further information on the share capital can be found in note 45 to the consolidated financial statements.

### 2.1.2 Participation capital

The outstanding participation capital of the company amounts to CHF 200,730 consisting of 13,382 non-voting preference Class B Bons de Participation with a nominal value of CHF 15 each. These Bons de Participation have been issued to Banque de Luxembourg as fiduciary in connection with the initial issue by Banque de Luxembourg of the EUR 400 million EFG Fiduciary Certificates on 14 November 2004 and 17 January 2005 (for details about the reduction of EFG International's participation capital in 2012 and 2013 see below section 2.3 Changes in capital structure).

The EFG Fiduciary Certificates are listed at the Luxembourg Stock Exchange (ISIN: XS0204324890). The preference rights attached to the Class B Bons de Participation consist of preferential dividend and liquidation rights, as mainly set out in article 13 of the Articles of Association (the document is available on the EFG International homepage: www.efginternational.com/auditors-regulations). The preferential dividend rights are expressed to remain at all times at the full discretion of the general meeting.

### 2.2 Authorized and conditional capital in particular

#### 2.2.1 Authorized capital

The Board of Directors is authorized, at any time until 25 April 2016, to increase the share capital by no more than CHF 25,000,000 by issuing no more than 50,000,000 fully paid-up registered shares with a face value of CHF 0.50 each. Increase by firm underwriting, partial increases as well as increases by way of conversion of own free reserves are permissible. The issue price, the starting date of the dividend entitlement and the type of contribution will be determined by the Board of Directors.

In addition, the Board of Directors is authorized to withdraw the preferred subscription rights of the shareholders and the participants and to allocate them to third parties for the financing of the acquisition of all or part of an enterprise or of an investment in another company, or for new investments purposes for EFG International at market conditions at the moment of the issuance, as well as, in particular, for direct or indirect fund raising purposes on the international capital markets.

#### 2.2.2 Conditional capital

The share capital may be increased by no more than CHF 2,428,980 by issuing no more than 4,857,960 fully paid up registered shares with a face value of CHF 0.50 each through the exercise of option rights (including existing or future RSUs) granted to officers and employees at all levels of EFG International Group. The preferential subscription rights of the shareholders and the participants are excluded in favor of the holders of the option rights (including RSUs). The conditions for the allocation and the exercise of the option rights are set by the Board of Directors. The shares may be issued at a price below the market price.

In 2014 EFG International issued a total of 2,818,394 registered shares with a face value CHF 0.50 at a total amount of CHF 1,409,197 for option rights exercised by officers and employees of EFG International Group. Therefore the remaining amount of approved conditional capital for option rights (including RSUs) to employees amounts to 2,039,566 shares with a face value of CHF 0.50 (CHF 1,019,783).

In addition, the share capital may be increased by no more than CHF 10,000,000 by issuing no more than 20,000,000 fully paid up registered shares with a face value of CHF 0.50 each through the exercise of conversion and/or option rights granted in connection with the issuance of newly issued convertible debentures, debentures with option rights or other financing instruments by the company or one of its group companies.

The preferential subscription rights of the shareholders and the participants are excluded in favor of the holders of conversion and/or option rights.

The Board of Directors may limit or withdraw the right of the shareholders and the participants to subscribe in priority to convertible debentures, debentures with option rights or similar financing instruments when they are issued, if

(a) an issue by firm underwriting by a consortium of banks with subsequent offering to the public without preferential subscription rights seems to be the most appropriate form of issue at the time, particularly in terms of the conditions or the time plan of the issue; or

(b) financing instruments with conversion and/or option rights are issued in connection with the financing or refinancing of the acquisition of an enterprise or parts of an enterprise or with participations or new investments of the company.

If advance subscription rights are denied by the Board of Directors, the following shall apply:

(a) Conversion rights may be exercised only for up to 7 years; and option rights only for up to 4 years from the date of the respective issuance.

(b) The respective financing instruments must be issued at the relevant market conditions.

**2.3 Changes in capital structure**

Until 2012, there have been no changes in the capital structure of EFG International since the IPO which took place in October 2005.

For changes in the participation capital in 2012 and 2013 please see sections 2.3.1 and 2.3.2 below.

In 2013 EFG International used its conditional capital and issued a total of 1,207,040 registered shares with a face value CHF 0.50 at a total nominal amount of CHF 603,520 for option rights exercised by officers and employees of EFG International and its subsidiaries.

As mentioned above in section 2.2.2 in 2014 EFG International issued for the same purpose another 2,818,394 registered shares with a face value of CHF 0.50 at a total nominal amount of CHF 1,409,197 for option rights exercised by employees of EFG International and its subsidiaries.

**2.3.1 Basel III compliant Tier 2 Bond/Reduction of participation capital EFG International**

On 30 November 2011 EFG International (Guernsey) Ltd, a wholly owned subsidiary of EFG International, offered to the holders of EUR 400,000,000 in principal amount of EFG Fiduciary Certificates (listed at the Luxembourg Stock Exchange; ISIN: XS0204324890) the option of exchanging the EFG Fiduciary Certificates for Basel III compliant Tier 2 Notes issued by EFG International (Guernsey) Ltd. A total of 135,219 EFG Fiduciary Certificates, representing approximately 33.8% of the outstanding principal amount of EFG Fiduciary Certificates, were validly tendered and accepted for exchange by EFG International (Guernsey) Ltd. In exchange, EFG International (Guernsey) Ltd has issued EUR 67,604,000 in principal amount of Basel III compliant Tier 2 bonds on settlement of the exchange offer on 13 January 2012. The bonds have a maturity of 10 years and for the first 5 years pay an annual interest of 8%. The Tier 2 Bond is listed at the Luxembourg Stock Exchange (ISIN: XS0732522023).

The acquired 135,219 EFG Fiduciary Certificates have been cancelled and, consequently, the outstanding number of EFG Fiduciary Certificates has been reduced from 400,000 to 264,781 representing a total nominal amount of approximately EUR 265 million. Further to the cancellation of the above EFG Fiduciary Certificates, EFG International bought back 135,219 registered participation certificates of class B Bons de Participation with a face value of CHF 15 per certificate and at the 2012 annual general meeting of shareholders a corresponding reduction of the participation capital through cancellation of the bought-back registered participation certificates of class B was approved.

### 2.3.2 Cash tender offer EFG Fiduciary Certificates/Reduction of participation capital EFG International

On 12 December 2012 EFG Funding (Guernsey) Limited, a wholly owned subsidiary of EFG International, offered to the holders of the outstanding EUR 400,000,000 EFG Fiduciary Certificates of which EUR 264,781,000 in principal amount were outstanding, issued on a fiduciary basis by Banque de Luxembourg, to buy any and all of the EFG Fiduciary Certificates for cash and to approve by extraordinary resolutions, inter alia, the proposed amendments to the Conditions of the EFG Fiduciary Certificates. A total of 251,399 EFG Fiduciary Certificates, or EUR 251,399,000 of the principal amount of the outstanding EFG Fiduciary Certificates – representing 94.95% – were validly tendered and accepted by EFG Funding (Guernsey) Ltd. EFG Funding (Guernsey) Ltd's offer was conditional on the successful issuance of CHF Notes (in January 2013) qualifying as Tier 2 capital under Basel III and with the benefit of a subordinated guarantee from EFG International and on approval by extraordinary resolutions, inter alia, the proposed amendments to the Conditions of the EFG Fiduciary Certificates by the holders of the EFG Fiduciary Certificates.

With the successful issuance of the CHF Notes on 31 January 2013 (the Tier 2 Note is listed on the SIX Swiss Exchange AG in Zurich; ISIN: CH0204819301) the 251,399 EFG Fiduciary Certificates have been acquired and cancelled. Consequently, the outstanding number of EFG Fiduciary Certificates has been reduced from 264,781 to 13,382 representing a total nominal amount of approximately EUR 13.4 million. Further to the cancellation of the above EFG Fiduciary Certificates, EFG International bought-back 251,399 registered participation certificates of class B Bons de Participation with a face value of CHF 15 per certificate and at the 2013 annual general meeting of shareholders a corresponding reduction of the participation capital through cancellation of the bought-back registered participation certificates of Class B was approved.

### 2.4 Shares and participation certificates

#### Shares

Number of shares as of 31 December 2014:

| | |
|---|---|
| Registered shares of CHF 0.50 par value | 150,695,434 |

All registered shares are fully paid-up and entitled to dividends. Each share carries one vote.

There are no preferential rights or similar rights attached to the shares.

#### Participation certificates

Number of participation certificate as of 31 December 2014:

| | |
|---|---|
| Preference Class B Bons de Participation of CHF 15 par value | 13,382 |

All preference Class B Bons de Participation are entitled to preferential dividend and liquidation rights (see sections 2.1.2, 2.3.1 and 2.3.2 above). They do not confer voting rights.

### 2.5 Profit sharing certificates

There are no profit sharing certificates outstanding.

### 2.6 Limitations on transferability and nominee registrations

EFG International's shares are freely transferable, without any limitation, provided that the buyers expressly declare themselves to have acquired the shares concerned in their own name and for their own account and comply with the disclosure requirement stipulated by the SESTA.

Transfers of intermediated shares, including the granting of security interests, are subject to the Swiss Intermediated Securities Act. The transfer of uncertificated shares is affected by a corresponding entry in the books of a bank or depositary institution following an assignment by the selling shareholder and notification of such assignment to the company by the bank or depositary institution. The transferee must file a share registration form in order to be registered in the company's share register as a shareholder with voting rights. Failing such registration, the transferee may not vote at or participate in any shareholders' meeting but may still receive dividends and other rights with financial value. The uncertificated shares may only be transferred with the assistance of the bank that administers the book entries of such shares for the account of the transferring shareholder. Further, shares may only be pledged to the bank that administers the book entries of such shares for the account of the pledging shareholder; in such case, the company needs to be notified. According to the Articles of Association, a person having acquired shares will be recorded in the company's share register as a shareholder with voting rights upon request.

Legal entities or partnerships or other associations or joint ownership arrangements which are linked through capital ownership or voting rights, through common management or in like manner, as well as individuals, legal entities or partnerships (especially syndicates) which act in concert with the intent to evade the entry restriction are considered as one shareholder or nominee. The Board of Directors is authorized to issue regulations to implement the above provisions.

### 2.7 Convertible bonds and warrants/options

In addition to the amounts disclosed in note 54 to the consolidated financial statements EFG International has issued options in relation to its employee equity incentive plan and has outstanding an amount of 216,170 options with a strike price of CHF 24.00 per share as of 31 December 2014 (these options will expire on 22 February 2015). Each option and RSU entitles to the purchase of one EFG International restricted share. Further details can be found under section 5 below and in the "Compensation Report" hereafter, p. 74.

## 3. BOARD OF DIRECTORS

### 3.1 Members of the Board of Directors

The Board of Directors currently comprises eleven members all of whom are non-executive directors. The Board of Directors of EFG Bank AG (EFG Bank) is composed of the same members as the Board of Directors of EFG International.

With the exception of Mr. Robert Chiu (elected at the annual general meeting in 2014; see his biography on p. 56), no member of the Board has held a management position in EFG International or any of its group companies over the last three years. No director (neither as individual nor as representative of a third party) has any significant business connection with EFG International or any of its subsidiaries. The law firm Niederer Kraft & Frey AG of which the former member of the Board, Mr. Hans Niederer, is Of Counsel has provided legal services to EFG International in connection with a number of matters; Mr. Hans Niederer did not put himself forward for re-election at the annual general meeting in 2014.

**Jean Pierre Cuoni** is a Swiss citizen and was born in 1937. He is co-founder of EFG Bank. He has been Chairman of the Board of Directors of EFG Bank since 1997 and was appointed Chairman of EFG International in 2005 at the time of the listing of the latter on the SIX Swiss Exchange AG. He has been a member of the Board of Directors of EFG Bank European Financial Group SA since 1995. Prior to these positions, Mr. Cuoni was Chief Executive Officer of Coutts and Co International (1990–1994) and Chief Executive Officer of Handelsbank NatWest, the Swiss subsidiary of NatWest (1988–1990). Beforehand, Mr. Cuoni spent 28 years with Citibank in New York, Paris, Geneva and Zurich. He was Citibank's Regional Head of Private Banking for Europe and Middle East/ Africa and Senior Officer (Country Corporate Officer) for Citicorp and Citibank in Switzerland. Mr. Cuoni was Senior Vice President of Citibank N.A. from 1981 to 1988 and Chairman of Citibank (Switzerland) S.A. from 1982 to 1988.

Mr. Cuoni received his Federal Commercial Banking Diploma in 1957 and attended the Executive Development Programme at IMD in Lausanne in 1974. Mr. Cuoni was a member of the Board of the Swiss Bankers Association (1982–1993) and a member of its Executive Committee (1985–1993). He was Chairman of the Association of Foreign Banks in Switzerland (1986–1993) and member of the Board of the Association of Swiss Exchanges (1988–1992), as well as member of the Board of the Zurich Chamber of Commerce (1988–1996). From 1998 until 2004 he was vice President of the British Swiss Chamber of Commerce. From 1985 until 2009, Mr. Cuoni was also a member of the Investment Advisory Board of the International Labour Organisation (ILO) in Geneva. He is presently a member of the Board of Right to Play International in Toronto, a charitable organization, and a non-executive Vice-Chairman of Right to Play Switzerland in Zurich.

Mr. Cuoni is currently member of EFG International's Board-delegated remuneration committee. He stepped down from the acquisition committee effective 2 April 2014.

**Hugh Napier Matthews** is a Swiss and British citizen and was born in 1943. He was appointed a member of the Board of Directors of EFG International effective 8 September 2005 and Vice-Chairman since April 2012. He has been a member of the Board of Directors of EFG Bank since 2003. Mr. Matthews has also been a member of the Board of Directors of EFG Bank European Financial Group SA since 2001. He is Chairman of its risk committee. He is also member of the Board of Directors of EFG Private Bank Ltd. Before that, Mr. Matthews worked for Coutts Bank (Switzerland) (1996–2000), ultimately in the position of Chief Executive Officer, and for Coutts Group, London (1994–1996), since 1995 as Group Chief Operational Officer. Prior to 1995, Mr. Matthews was with Peat Marwick Mitchell and Co. working in London (1960–1969), Brussels, Los Angeles and New York (1969–1971) and Zurich (1971–1994).

Mr. Matthews was educated at The Leys School in Cambridge, before joining Peat Marwick Mitchell in 1960, qualifying as a chartered accountant in 1966.

Mr. Matthews is currently Chairman of EFG International's Board-delegated risk committee and member of the Board-delegated audit and remuneration committees.

**Niccolò Herbert Burki** is a Swiss citizen and was born in 1950. He was appointed a member of the Board of Directors of EFG International AG effective 26 April 2013. Before establishing Burki Attorneys-at-Law in 1997, Mr. Burki was an attorney at Bär & Karrer in Zurich (1985–1997) where he became a partner as of 1989. Previously he was a tax lawyer with Arthur Andersen in Zurich (1980–1985). He holds various memberships including the Swiss Bar Association, International Bar Association and International Fiscal Association.

Mr. Burki graduated in economics and business administration at the University of St. Gallen and holds a doctorate in law from the University of Basel (1984). Mr. Burki is a certified Swiss tax expert (1984) and a Trust and Estate Practitioner. He was admitted to the Zurich bar in 1979.

Mr. Burki joined EFG International's Board-delegated remuneration committee as a member and was appointed Chairman effective 25 April 2014.

**Emmanuel Leonard Bussetil** is a British citizen and was born in 1951. He was appointed a member of the Board of Directors of EFG International effective 8 September 2005 and has been a member of the Board of Directors of EFG Bank since 2001. He is a member of the Board of European Financial Group EFG (Luxembourg) SA. He is also a member of the Board of SETE Holdings Sarl, Luxembourg and of Hellinikon Global SA, Luxembourg. In addition, he is a non-executive director of Paneuropean Oil and Industrial Holdings SA, Luxembourg, of Consolidated Lamda Holdings SA Luxembourg and of other principal commercial holding and operating companies controlled by Latsis Family Interests. He joined the Latsis group of companies in 1982 as Chief Internal Auditor. Prior to that he was an Audit Manager at Pricewaterhouse, in the UK, where he was employed from 1976 to 1982.

Mr. Bussetil received his GCSE A-Levels in Mathematics and Physics in 1970. He attended the Thames Polytechnic London, England and obtained his Higher National Diploma in Mathematics, Statistics & Computing in 1972. His professional training was undertaken as an Articled Clerk at Dolby Summerskill, Liverpool (1972–1973) and at Morland and Partners, Liverpool (1974–1976). He is a fellow of the Institute of Chartered Accountants of England and Wales.

Mr. Bussetil is currently member of EFG International's Board-delegated audit, risk and remuneration committees and Chairman of the acquisition committee.

**Erwin Richard Caduff** is a Swiss citizen and was born in 1950. Mr. Caduff was educated in Switzerland (commercial school and bank apprenticeship). He was appointed a member of the Board of Directors of EFG International effective 29 April 2009.

After having spent many years in Singapore Mr. Caduff has returned to Switzerland in 2013. From 2007 to 2013 he was the owner of E.R.C. Consultants & Partners Pte Ltd in Singapore, a company specialized in executive search for wealth management and management consulting. From 1998 to 2007 he worked for Deutsche Bank AG in Singapore and was a managing director and Regional Head of Private Wealth Management Asia Pacific. Prior to that, he worked for Banque Paribas in Singapore as Head of Private Banking for South East Asia (1997–1998) and for Banque Paribas (Suisse) S.A. as the Head of the Zurich Branch (1993–1997). Between 1990 and 1993 he was Chief Representative for Coutts & Co in Singapore after having spent 5 years with Citibank in Zurich and Singapore. The first 10 years of his professional career (1976–1986) he worked for Swiss Volksbank in Zurich and in Singapore.

Mr. Caduff is currently member of EFG International's Board-delegated audit and acquisition committees.

**Michael Norland Higgin** is a British Citizen and was born in 1949. He was appointed a member of the Board of Directors of EFG International effective 27 April 2012. Mr. Higgin joined Coopers & Lybrand from university in 1972, qualifying as a chartered accountant in 1975. He worked as a partner and head of business unit (banking audit/assurance) with Coopers & Lybrand – subsequently PricewaterhouseCoopers – in Switzerland and London until his retirement in December 2009.

Mr. Higgin holds a Cambridge Bachelor of Arts (BA) degree and attended the senior executive program at Stanford University (CA) in 1996. He is a fellow of the Institute of Chartered Accountants in England and Wales. Mr. Higgin is trustee and hon treasurer of the British School at Rome, trustee of the London Youth Support Trust and an independent member of DCMS' audit and risk committee (Department of Culture, Media and Sport of the UK government).

Mr. Higgin is currently Chairman of EFG International's Board-delegated audit committee and member of the risk committee.

**Spiro J. Latsis** is a Greek citizen and was born in 1946. He was appointed a member of the Board of Directors of EFG International effective 8 September 2005. He has been a non-executive member of the Board of Directors of EFG Bank since 1997. Mr. Latsis has been a non-executive member of the Board of Directors of EFG Bank European Financial Group SA, Geneva, since 1981 and has served as its Chairman since 1997. In addition, he is a non-executive director and Chairman of European Financial Group EFG (Luxembourg) SA since 2009. Mr. Latsis is a member of the Board of SETE SA, Geneva, and Chairman of Paneuropean Oil and Industrial Holdings SA, Luxembourg and a non-executive Director of Consolidated Lamda Holdings SA Luxembourg.

Mr. Latsis obtained his bachelor degree in Economics in 1968, a master degree in Logic and Scientific Method in 1970 and a doctorate in Philosophy in 1974, all from the London School of Economics. He is an honorary fellow and a member of the Court of Governors of the London School of Economics. He is also a member of the Board of Trustees of the Institute for Advanced Study at Princeton.

**Freiherr Bernd-Albrecht von Maltzan** is a German citizen and was born in 1949. He was appointed a member of the Board of Directors of EFG International effective 26 April 2013. Throughout his career with Deutsche Bank he held a variety of senior positions, including Global Head Trading & Sales DB Group in Frankfurt (1993–1995), Divisional Board Member and Global Head Private Banking in Frankfurt (1996–2002), followed by Divisional Board Member and Vice-Chairman Private Wealth Management in Frankfurt, from where he retired in 2012. Mr. von Maltzan is member of the Advisory Board of Würth-Group in Künzelsau, Germany; the Advisory Board of MANN-Group in Karlsruhe, Germany; the Supervisory Board of Sal. Oppenheim jr.&Cie, AG&Co KGaA, a 100% subsidiary of Deutsche Bank in Cologne, Germany; the Finance Committee of Fritz-Thyssen Stiftung (Foundation) in Cologne, Germany and member of the Finance Committee of G.u.I. Leifheit Stiftung (Foundation) in Nassau, Germany.

Mr. von Maltzan studied economics at the universities in Munich and Bonn and obtained a Doctorate in Business Administration (1978) from the University of Bonn.

Mr. von Maltzan is currently a member of EFG International's Board-delegated risk and acquisition committees.

**Périclès Petalas** is a Swiss citizen and was born in 1943. He was appointed a member of the Board of Directors of EFG International effective 8 September 2005. He has been a member of the Board of Directors of EFG Bank since 1997 and of EFG Private Bank Ltd, London since 2001. Since 1997, Mr. Petalas is the Chief Executive Officer of EFG Bank European Financial Group SA which is EFG International's parent company. He is also a non-executive director of European Financial Group EFG (Luxembourg) SA. Prior to his position at EFG Bank European Financial Group SA, Mr. Petalas was Senior Vice President and General Secretary of Banque de Depots, Geneva. Previously, he worked for Union Bank of Switzerland in Zurich (1978–1980) and Petrola International, Athens (1977–1978).

Mr. Petalas obtained a diploma (1968) and a doctorate (1971) in Theoretical Physics, both at the Swiss Federal Institute of Technology in Zurich. He also received a post-graduate degree in Industrial and Management Engineering from the same institute in 1977.

Mr. Petalas is currently member of EFG International's Board-delegated audit, risk, remuneration and acquisition committees.

**Robert Yin Chiu** is a Hong Kong citizen and was born in 1948. He was appointed a member of the Board of Directors of EFG International effective 25 April 2014. Since January 2014 he is non-executive Chairman, EFG Bank Asia, having formerly been its CEO (2000–2009) and executive Chairman (2009–2013). Prior to joining EFG, he was Managing Director and General Manager of Republic National Bank of New York (1993–2000), responsible for the bank's private banking business in the Asia-Pacific region. Before that, he was Global Head of Private Banking, Equitor Group of Standard Chartered Bank (1990–1992) and Head of Private Banking, Asia-Pacific Region (1987–1990), having started his career at Citibank. He is a member of the Board of the First American International Bank, New York, USA (member of the Audit Committee, Compensation Committee, ALCO (Asset-Liability Committee) and Investments Committee); the Board of Vision Capital Group Limited, the holding company of Vision Credit Limited, a major consumer finance institution with extensive operations in China, covering over 70 lending offices in 43 cities and Senior Partner and Chairman of the Advisory Board of Aktis Capital Advisory Limited, a company with offices in Hong Kong, Singapore and China that manages private equity funds with investments focused in China.

Mr. Chiu holds a Bachelor of Science from Columbia University and a Master of Business Administration from the University of Chicago.

Mr. Chiu joined EFG International's Board-delegated acquisition committee as a member, effective 25 April 2014.

**Daniel Zuberbühler** is a Swiss citizen and was born in 1948. He was appointed a member of the Board of Directors of EFG International effective 25 April 2014. He was formerly acting as Senior Financial Consultant, Director, Audit Financial Services, KPMG Zurich (2012–2013). Previously, he was Vice-Chairman of the Board of Directors of FINMA, the Swiss Financial Market Supervisory Authority (2009–2011). Prior to this, he held a variety of senior roles in a long career with the Swiss Federal Banking Commission, including as CEO (1996–2008). He has been a member of numerous international committees, including the Basel Committee on Banking Supervision; the Financial Stability Board, Standing Committee on Supervisory and Regulatory Cooperation; International Organization of Securities Commissions, Technical Committee; and the Financial Action Task Force on Money Laundering.

Mr. Zuberbühler is a member of the Board of Directors of Banca Popolare di Sondrio (Suisse) SA in Lugano.

A qualified Berne attorney, Mr. Zuberbühler studied law at the University of Berne and business at the City of London Polytechnic.

Mr. Zuberbühler joined EFG International's Board-delegated risk committee as a member, effective 25 April 2014.

**Member of the Board of EFG International who stepped down during the reporting period:**

**Hans Niederer** was member of the Board of Directors of EFG International until the annual general meeting on 25 April 2014, where he did not put himself forward for re-election.

Mr. Niederer is a Swiss and Paraguayan citizen and was born in 1941. He was appointed a member of the Board of Directors of EFG International effective 5 October 2005.

Mr. Niederer holds a doctorate in law from the University of Zurich (1968) and a master's degree in law (LL.M.) from the University of California, Berkeley (1970). He was admitted to the bar in Switzerland in 1971.

Mr. Niederer was a member of EFG International's Board-delegated audit and risk committees until 25 April 2014.

### 3.2 External mandates and vested interests

Please refer to the information provided in each director's biography in section 3.1 above, where the significant activities in governing and supervising bodies of important organisations, institutions and fundations are mentioned.

### 3.3 Provisions on the number of permitted external mandates in the Articles of Association

Rules pursuant to article 12 para. 1 point 1 of the Ordinance, the number of permitted external mandates of the members of the Board of Directors are outlined in article 37 of the Articles of Association. The members of the Board of Directors may each have up to 20 mandates of which a maximum of 5 may be in listed companies. No member of the Board of Directors exceeded the statutory admissible number of external mandates as of 31 December 2014.

## 3.4 Elections and terms of office

According to article 26 of the Articles of Association, the Board of Directors consists of at least five members, who are individually elected by the general meeting of shareholders for one-year terms with the possibility of being re-elected. Furthermore, there is no limit to the numbers of terms and the term of office ends at the closure of the next ordinary general meeting. Please reference the biographies of the members of the Board of Directors in section 3.1 above for each initial date of election.

The tenure of all the current members of the Board of Directors will expire at the closure of the 2015 annual general meeting, at which time the directors will be subject to re-election by the shareholders.

Since 2014, in application of the Ordinance, the general meeting of shareholders elects the Chairman of the Board of Directors and all members of the remuneration committee individually and on an annual basis (see article 17 of the Articles of Association).

## 3.5 Internal organisational structure

The internal organizational structure is laid down in the Organizational and Management Regulations of EFG International (the document is available on the EFG International homepage: www.efginternational.com/auditors-regulations). The Board of Directors meets as often as business requires, but at least four times a year, normally once every quarter. Members of the Executive Committee, managerial staff and external advisors may be called upon to attend a Board meeting. In order to make a binding decision, a simple majority of the Board of Directors must be present. The Board of Directors takes decisions on the basis of an absolute majority of the members present. In the event of a tie, the Chairman does not have a casting vote. The composition of the Board and its committees is disclosed in the organigram on page 45 (EFG International AG Board and Committees).

The Board of Directors met nine times in 2014. Regular meetings typically last half a day; see the details in the table below:

| | 25.02.14 | 25.04.14 | 16.05.14 | 18.07.14 | 22.07.14 | 08.10.14 | 11.11.14 | 17.11.14 | 02.12.14 |
|---|---|---|---|---|---|---|---|---|---|
| J.P. Cuoni (Chairman) | X | X | X | X | X | X | X | X | X |
| H.N. Matthews (Vice-Chairman) | X | X | E | X | X | X | X | X | X |
| N.H. Burki | X | X | E | X | X | X | X | X | X |
| E.L. Bussetil | X | X | X | X | X | X | X | X | X |
| E.R. Caduff | X | X | X | X | X | X | X | X | X |
| M.N. Higgin | X | X | X | X | X | X | X | X | X |
| S.J. Latsis | X | X | X | E | X | X | X | X | X |
| B.-A. von Maltzan | X | X | X | E | X | X | X | X | X |
| H. Niederer[1] | E | E | | | | | | | |
| P. Petalas | X | X | X | X | X | X | X | X | X |
| R. Chiu[2] | | | X | X | X | X | X | E | X |
| D. Zuberbühler[2] | | | X | X | X | X | X | X | X |

"X" – in attendance, "E" – excused from attending.

1 Mr. Niederer was member of the Board of Directors until the annual general meeting on 25 April 2014, where he did not put himself forward for re-election.

2 Mr. Chiu and Mr. Zuberbühler were elected to the Board of Directors at the annual general meeting on 25 April 2014.

The Board of Directors comprises the following independent members as per the definition of the FINMA Circular 08/24 Supervision and Internal Control Banks:

| | Independent |
|---|---|
| J.P. Cuoni (Chairman) | X |
| H.N. Matthews (Vice-Chairman) | X |
| N.H. Burki | X |
| E.L. Bussetil | |
| E.R. Caduff | X |
| M.N. Higgin | X |
| S.J. Latsis | |
| B.-A. von Maltzan | X |
| H. Niederer | X |
| P. Petalas | |
| R. Chiu | |
| D. Zuberbühler | X |

The Board of Directors has established an audit committee, a risk committee, a remuneration committee and an acquisition committee in-line with the Organizational and Management Regulations:

### Audit committee

The audit committee is established as a committee of the Board of Directors. Its primary function is to assist the Board of Directors in fulfilling its oversight responsibilities of the EFG International Group with regard to the monitoring of:

(i) the financial (including tax matters) and business reporting processes,
(ii) compliance with laws, regulations and the internal Code of Conduct,
(iii) operational risk,
(iv) the internal control system, and
(v) the internal and external audit processes.

The role of the audit committee is primarily supervisory and its decision making authority is limited to those areas which are ancillary to its supervisory role.

The audit committee comprises at least three Board members and its composition in 2014 was as follows: Messrs. M. N. Higgin (Chairman), E. L. Bussetil, E. R. Caduff, H. N. Matthews and P. Petalas.

The audit committee meets at least four times a year and as often as businesses requires, as well as for the review of the financial statements and related reports before these are approved by the Board of Directors. Regular meetings typically last three to four hours and are also attended by members of the executive management responsible for areas supervised by the audit committee. During 2014, the audit committee met five times, as shown in the table below:

| | 24.02.2014 | 03.06.2014 | 21.07.2014 | 09.09.2014 | 11.11.2014 |
|---|---|---|---|---|---|
| M.N. Higgin* (Chairman) | X | X | X | X | X |
| E.L. Bussetil | X | X | X | X | X |
| E.R. Caduff* | X | X | X | X | X |
| H.N. Matthews* | X | X | X | X | X |
| P. Petalas | X | X | X | E | X |
| H. Niederer[1]* | E | | | | |

"X" – in attendance, "E" – excused from attending.

1 Mr. Niederer was member of the Board of Directors and the Board-delegated committees until the annual general meeting on 25 April 2014, where he did not put himself forward for re-election.

* Independent director

The minutes of the audit committee are reviewed by the Board of Directors at its meetings. In addition, the Chairman of the audit committee provides a verbal report to the Board of Directors at each of its meetings.

### Risk committee

The role of the risk committee is to monitor, in the name and on behalf of the Board, risks throughout the EFG International Group, in particular credit (clients, counterparties, bond investment portfolios, countries, large exposures), market and liquidity risks within the policy, framework, rules and limits set by the Board or by itself, with the exception of operational risks and matters relating to compliance, financial statements and tax, all of which are within the scope of the audit committee's mandate. It approves risk policies and limits in all areas over which the relevant internal directives have granted authority to the risk committee. It examines any situations or circumstances giving rise to a substantial credit, market or liquidity risk for the EFG International Group and has the authority to require the reduction of any position which it considers excessive.

The risk committee comprises at least three Board members and its composition in 2014 was as follows: Messrs. H.N. Matthews (Chairman), E.L. Bussetil, M.N. Higgin, B.-A. von Maltzan, P. Petalas and as of 25 April 2014 Mr. D. Zuberbühler.

The risk committee meets as often as business requires but at least four times a year. Regular meetings typically last three to four hours and are attended by members of the executive management responsible for risk management. During 2014, the risk committee met seven times. See the details in the table below:

| | 24.02.14 | 24.04.14 | 03.06.14 | 09.09.14 | 08.10.14 | 11.11.14 | 12.12.14 |
|---|---|---|---|---|---|---|---|
| H. Matthews* (Chairman) | X | X | X | X | X | X | X |
| E. L. Bussetil | X | X | X | X | X | X | E |
| M. N. Higgin* | X | X | X | X | X | X | X |
| B.–A. von Maltzan* | X | X | X | X | X | X | X |
| P. Petalas | X | X | X | X | X | X | X |
| D. Zuberbühler[1]* | | | X | X | X | X | X |
| H. Niederer[2]* | E | X | | | | | |

"X" – in attendance, "E" – excused from attending.
[1] Mr Zuberbühler was appointed as member of the risk committee on 25 April 2014.
[2] Mr. Niederer was member of the Board of Directors and the Board-delegated committees until the annual general meeting on 25 April 2014, where he did not put himself forward for re-election.
* Independent director

The minutes of the risk committee are reviewed by the full Board of Directors at its meetings. In addition, a verbal report from the Chairman of the risk committee is given to the Board of Directors at each of its meetings.

**Remuneration committee**

The remuneration committee is established as a committee of the Board of Directors. Its primary function is to assist the Board of Directors in fulfilling its governance responsibilities by:

(i) Establishing the compensation strategy and the general remuneration policy of EFG International Group.
(ii) Reviewing annually the remuneration of members of the Board of Directors and the Executive Committee of EFG International and making a recommendation to the Board of Directors thereupon.
(iii) Approving annually the remuneration of all other staff of EFG International and of its subsidiaries.
(iv) Any other tasks conferred on it by the Board of Directors from time to time.

For more details about competences and responsibilities of the remuneration committee see also section 5 below respectively in the Compensation Report (p. 74) as well as article 30 of the Articles of Association and section 2.10 of the Organizational & Management Regulations (these documents are available on the EFG International homepage: www.efginternational.com/context).

The remuneration committee comprises of at least three Board members and its composition in 2014 was as follows: Messrs. N.H. Burki (replacing Mr. Petalas as Chairman as of 25 April 2014), P. Petalas, J.P. Cuoni, E.L. Bussetil and H.N. Matthews. From the 2014 annual general meeting onwards the shareholders elect the members of the remuneration committee individually for a one-year term with the possibility of being re-elected (see article 17 Articles of Association).

The remuneration committee meets annually in the first quarter to review salary and bonus decisions as well as when necessary. Meetings typically last two to three hours and are attended by the Chief Executive Officer (CEO) and the EFG Bank Head of Human Resources. During 2014, the remuneration committee met six times. See the details in the table below:

| | 29.01.14 | 14.02.14 | 21.07.14 | 07.10.14 | 17.11.14 | 01.12.14 |
|---|---|---|---|---|---|---|
| N.H.Burki (Chairman)[1]* | X | X | X | X | X | X |
| P. Petalas | X | X | X | X | X | X |
| E.L. Bussetil | X | X | X | X | X | E |
| J.P. Cuoni* | X | X | X | X | X | X |
| H.N. Matthews* | X | X | X | X | X | X |

"X" – in attendance, "E" – excused from attending.
1 Mr. N.H. Burki was formally appointed as Chairman of the Remuneration Committee on 25 April 2014.
* Independent director

The minutes of the remuneration committee are reviewed by the full Board of Directors at its meetings. In addition, an verbal report by the Chairman of the remuneration committee is given to the Board of Directors at each of its meetings.

**Acquisition committee**

The acquisition committee is established as a committee of the Board of Directors. Its primary function is to examine and approve or recommend to the Board all acquisitions of companies or businesses proposed by management in accordance with the acquisition policy approved by the Board. The acquisition committee has the authority to approve all investments with a purchase price below or equal to the threshold set in the acquisition policy (based on the acquisition committee's estimate at the time of acquisition in the case of transactions where the purchase price is defined in earn-out terms). Above this threshold, only the Board may approve acquisitions and the acquisition committee will submit a recommendation to the Board.

The acquisition committee comprises at least three Board members and its composition in 2014 was as follows: Messrs. E.L. Bussetil (Chairman), E.R. Caduff, P. Petalas, B.-A. von Maltzan and as of 25 April 2014 Mr. R. Chiu. Mr. J.P. Cuoni stepped down from the acquisition committee with effect 2 April 2014.

The acquisition committee meets on an ad hoc basis throughout the year in order to review specific transactions or to receive an update from the CEO and Chief Financial Officer (CFO) regarding the status of negotiations with various acquisition targets. It also reviews and approves management proposals for divestments. Meetings vary in length from one to three hours and can be attended by members of the management.

The minutes of the acquisition committee are reviewed by the full Board of Directors at its meetings. In addition, a verbal report from the Chairman of the acquisition committee is given to the Board of Directors at each of its meetings.

The acquisition committee met once during 2014. The meeting took place on 14 February 2014. All members of the acquisition committee were present and several members of the management were attending the meeting. Additionally, the acquisition committee has reviewed several transactions during the year.

## 3.6 Definition of areas of responsibility

The Board of Directors of EFG International is ultimately responsible for supervision of the management of EFG International. The Board of Directors sets the strategic direction of EFG International and supervises its management.

Details of the powers and responsibilities of the Board of Directors can be found in the Organizational and Management Regulations of EFG International, which is available at www.efginternational.com/auditors-regulations.

The Board of Directors has delegated the operational management of EFG International Group to the CEO and the Executive Committee. Members of the Executive Committee are appointed by the Board of Directors upon recommendation of the CEO. The executive officers, under the responsibility of the CEO and the control of the Board of Directors, manage the operations of the EFG International Group pursuant to applicable internal regulations and report thereon to the Board of Directors on a regular basis.

### EFG International Executive Committee

The EFG International Group is organized as a single structure, reporting to the CEO respectively to the Deputy CEO. Please see also the organization chart 'Management Structure' on page 45. Various support, service or control units report either directly to the CEO or to a member of the Executive Committee. Effective 1 April 2013, the Executive Committees of EFG International and of its principal Swiss subsidiary, EFG Bank, has been aligned. Details about the Executive Committee members can be found in section 4.1 below.

The titles and brief job descriptions for members of the Executive Committee are set forth as follows:

### Chief Executive Officer

The CEO of EFG International is responsible to the Board of Directors for the overall management and performance of the EFG International Group. He manages the implementation and development of strategic and operational plans as approved by the Board of Directors. He represents the EFG International Group towards third parties and regulators and is co-responsible (together with the Board of Directors and the other senior executives) towards the FINMA for the prudent management and regulation-compliant operation of the organization.

### Deputy Chief Executive Officer and Chief Financial Officer

The Deputy CEO has a direct reporting line to the CEO of EFG International, and supports the CEO with the day-to-day management of the Group. The Deputy CEO has oversight-responsibility for the activities of both the Group General Counsel and Group Risk Officer, to ensure effective and efficient management of legal and risk. He also oversees the Group's IT & Operations function, with a view to ensuring optimal organizational performance and security practices.

The CFO is responsible for all financial, tax and regulatory matters of the EFG International Group as well as other business or control areas allocated to the position. He ensures transparent and timely financial reporting – for internal and regulatory purposes as well as public reporting – in-line with legal and regulatory requirements and industry best practices.

He has the oversight of regulatory and business liquidity as well as capital management within the general regulations and guidelines set by FINMA, the Board of Directors and the risk committee. The CFO oversees the monitoring of business performance, strategic acquisitions, and the Group's relationship with rating agencies. He also has primary responsibility for the Investor Relations function. In addition, he is the designated Executive Committee member responsible for Compliance and fiduciary oversight and supervises the activities of Global Treasury, Financial Reporting and Financial Planning.

**Chief Operating Officer**
The Chief Operating Officer (COO) is responsible for the management, coordination, supervision, planning and control of the Operations and Technology activities of the EFG International Group. In addition, he is responsible for the evaluation and management of data security, IT and Operations components of operational risk.

**Chief Risk Officer**
The Chief Risk Officer (CRO) monitors and assesses risk throughout the whole EFG International organization, encompassing market, counterparty, country, client credit, liquidity, operational and other risks. In this function, he also reports to the EFG International risk committee.

**Group General Counsel**
The Group General Counsel provides legal advice to the EFG International Group. In addition, he is responsible for corporate governance throughout the EFG International Group.

**Head of Investment & Wealth Solutions and CEO Asset Management**
The Head of Investment & Wealth Solutions is responsible for the EFG International Group’s investment solutions activities (covering investment activities, discretionary, advisory and funds) integral to the private banking business; and wealth solution activities (covering Private Client Trust services and Institutional Fund Administration services). As CEO Asset Management he is responsible for EFG International Group’s asset management activities and services.

**Head of Strategy and Marketing**
The Head of Strategy and Marketing is responsible for the group’s corporate strategy, marketing, branding and communication.

**Regional Business Head of Continental Europe & Switzerland (since July 2014)**
The Regional Business Head of Continental Europe & Switzerland assumes regional business responsibility for Private Banking Switzerland and Continental Europe.

### EFG International Global Business Committee

The EFG International Executive Committee has created in October 2011 the EFG International Global Business Committee (GBC), to assist it in assessing and validating business initiatives, key business aspects and priorities as well as in debating industry trends and issues. The GBC consists of the members of the EFG International Executive Committee, the Regional CEOs and other senior executives by invitation of EFG International CEO (see the organigram "EFG International Board and Committees" on page 45).

### 3.7 Information and control instruments vis-à-vis the Executive Committee

The Board of Directors supervises the management of EFG International through various meetings with management, including meetings of the Board and its committees.

The CEO and Deputy CEO/CFO (and other members of the Executive Committee depending on the issues under review) attend each of the Board meetings during the year and are available to answer questions from the Board. The CEO provides a written report to the Board of Directors at each regular meeting summarizing developments in the business. The CEO is also readily available to answer questions from the Board. In addition, the CFO reports on the financial results to the Board of Directors at each regular meeting. Additional reporting to the Board includes financial reporting, business reporting, business proposals/approvals, staff matters, credit approvals, reports from the various Board-delegated committees, a report on claims and litigations and any other business matters.

Members of the management responsible for the finance and accounting function, including the CFO, attend audit committee meetings and are available to answer questions from the committee relating to the financial statements. Also, the Group Chief Compliance Officer attends audit committee meetings and is available to answer questions relating to compliance issues. The CRO provides oversight of all major areas of risk within EFG International. The CRO also provides an update on the overall key risk aspects of EFG International at each regular meeting of the Board-delegated risk committee and provides an annual written risk assessment to the audit committee.

The members of management responsible for credit, market and bank and country risk management attend the risk management committee meetings. See also the information about risk management in the section commencing page 32.

Internal audit services are provided to EFG International by the audit services department (ASD) which is governed by an Internal Audit Charter duly approved by the audit committee. In accordance with the Organizational and Management Regulations and the Internal Audit Charter the mission of internal audit is to support the Board of Directors in their statutory responsibility for ensuring that the operations of the EFG International Group are conducted according to the highest standards by providing an independent, objective assurance function and by advising on best practice. ASD provides copies of all internal audit reports to the external auditors, and maintains a dialogue with the external auditors to share risk issues arising from their respective audits. Through a systematic and disciplined approach, internal audit helps EFG International Group accomplish its objectives by evaluating the effectiveness of risk management, control and governance processes and making recommendations for improvement. To ensure independence, internal audit reports directly to the EFG International audit committee, which reports on its activities to the Board of Directors. The Chief Auditor has, for the purpose of performing his duties, the right of unlimited access to all information, premises, resources and people necessary for the performance of internal audits.

## 4. EXECUTIVE COMMITTEE

### 4.1 Members of the Executive Committee

**John Williamson** is the CEO of EFG International, effective June 2011. Since April 2013 he is also CEO of EFG International's wholly owned subsidiary EFG Bank, Zurich. He is also a member of the Board of Directors of EFG International's subsidiaries EFG Private Bank Ltd, London, Asesores y Gestores Financieros SA, Madrid, A&G Banca Privada SA, Madrid, EFG Bank von Ernst AG, Liechtenstein and Chairman of EFG Investment and Wealth Solutions Holding AG, Zurich.

He was formerly the CEO of EFG Private Bank Ltd., EFG International's UK and Channel Islands business, from 2002–2011. During this time he transformed the business into one of the most significant contributors to EFG International performance, and oversaw the merger of EFG Private Bank Ltd with EFG International ahead of the latter going public.

John Williamson has spent the whole of his career in private banking. Before EFG Private Bank Ltd, he spent over 16 years with Coutts in a variety of senior roles, ending up as COO for Coutts Group. From 1997 to 1999, he worked in the USA, as director and COO, first in New York then in Miami. In other roles, he was responsible for strategy, performance and planning, and also had experience of marketing and credit. For two years, he was a Client Relationship Officer, serving French and Belgian clients.

Mr. Williamson is a British national, was born in 1962, and has an MA in modern languages from St. Catharine's College, Cambridge.

**Piergiorgio Pradelli** has been the the CFO of EFG International Group and a member of the EFG International Executive Committee since June 2012. In this capacity, his responsibilities encompass the Group's Compliance function and Global Treasury operation. In January 2014, Mr. Pradelli was designated Deputy Chief Executive Officer of EFG International assuming additional oversight responsibilities for the Group's IT & Operations, General Counsel and Risk functions.

He is also a member of EFG International's subsidiaries EFG Private Bank Ltd, London and EFG Investment and Wealth Solutions Holding AG, Zurich.

Prior to his appointment as CFO and Deputy CEO, Mr. Pradelli was Head of International Operations at Eurobank Ergasias SA and member of the Executive Committee, from 2006 until 2012. Prior to this, he served as Deputy Finance Director in London for EFG Bank European Financial Group SA, from 2003 to 2006, participating in major EFG Bank European Financial Group SA restructuring and strategic initiatives.

Mr. Pradelli started his career at Deutsche Bank, working in a number of senior management positions including Head of Private & Business Banking in Italy, and Head of Business Development for the Private Clients and Asset Management Group in Frankfurt and London from 1991 until 2003.

Mr. Pradelli is an Italian citizen, was born in 1967, and has a degree in Economics and Business Administration from the University of Turin, Italy.

**Frederick Link** served as Group General Counsel of EFG International from March 2006 until 31 December 2010. He was appointed as CRO in July 2008 and continues in that role. Since April 2013 he is also CRO of EFG International's wholly owned subsidiary EFG Bank AG, Zurich. As CRO he is responsible for risk assessment, management and controlling throughout the EFG International Group.

Prior to joining EFG International, Mr. Link was with Allen & Overy LLP in London, where he represented financial institutions and corporate clients in relation to equity and debt capital markets offerings, mergers & acquisitions and in the regulatory and legal aspects of financial derivatives and other complex financial products.

Mr. Link is a US citizen and was born in 1975. He holds a Ph.D. in Economics from the Massachusetts Institute of Technology, a J.D. from Harvard Law School and an A.B. in Economics from the University of Michigan.

**Henric Immink** was appointed Group General Counsel and member of the Executive Committee of EFG International as of 1 January 2011. He joined EFG International in July 2010 as Senior Legal Counsel. Since April 2013 he is also General Counsel of EFG International's wholly owned subsidiary EFG Bank, Zurich.

Prior to joining EFG International, he was a partner at Python & Peter Attorneys-at-Law (2002–2010) in Geneva, a partner at Suter Attorneys-at-Law (1998–2001) in Geneva and a legal and tax advisor at PricewaterhouseCoopers (1995–1997) in Zurich.

He is a Swiss citizen and was born in 1965. He holds a Master of Law from the University of Geneva and he was admitted to the Geneva bar in 2004.

**Mark Bagnall** was appointed COO of EFG International and of its wholly owned subsidiary EFG Bank, Zurich, effective 1 January 2011. He joined EFG International in December 2008 as Global Chief Technology Officer.

Prior to this, he worked from 2004 to 2008 at Merrill Lynch in London and Geneva, where he was Head of International Private Client & Wealth Management Technology, having previously held IT management roles in Capital Markets & Investment Banking in London & New York from 1998 to 2003. He started his career on the IT graduate program with British Petroleum in 1989, before moving to JP Morgan in 1994.

Mr. Bagnall was born in 1967 and is a UK citizen. He holds a BSc in Mathematics & Computer Science from Liverpool University.

**James T. H. Lee** was appointed Head of Investment Solutions of EFG International and of its wholly owned subsidiary EFG Bank, Zurich, effective April 2013. Since January 2014, he assumes in addition responsibility for Wealth Solutions. He is also CEO Asset Management (having been appointed in June 2009). Previously, he was the Deputy CEO of EFG International and EFG Bank (2003–2009). He joined EFG Bank in 2001 as an advisor and was appointed Head of Merchant Banking and Chairman of the credit committee and a member of the management in January 2002.

Prior to 2001, Mr. Lee worked for UBS on strategic and tactical acquisitions in the field of private banking (1999–2000), and was the Global Head of International Private Banking for Bank of America (1997–1998). Between 1973–1997 he held various positions at Citigroup in Corporate, Investment and Private Banking, including being responsible for the Private Bank's Ultra-High Net Worth business in Asia and for the Global Investment Advisory business of the Private Bank. In 2000, Mr. Lee acted as advisor to several start-up businesses active in the fields of e-commerce and healthcare and co-founded an e-commerce company in the UK to build portals for specific industries in which he no longer holds any interest.

Mr. Lee is a UK citizen and was born in 1948. He obtained a Bachelors of Science (Honours) degree in Electrical Engineering in 1970 and a Master degree in Management Science and Operational Research, both from Imperial College, University of London.

**Keith Gapp** joined EFG International in July 2007 as Head of Strategic Marketing & Communications. He was appointed Head of Strategy & Marketing of EFG International and of its wholly owned subsidiary EFG Bank, Zurich, effective April 2013.

Previously (1999–2007), he was a co-founder and managing partner of GMQ, a strategic consulting boutique serving a blue chip client base of leading private banks/wealth managers in Europe, the Middle East and US. He was also co-author of leading industry journal The Wealth Partnership Review. Before founding these businesses, Mr. Gapp spent 13 years at Barclays Group. He held a variety of management roles, including Head of Premier International, and Head of Finance, Planning & Compliance, Barclays Offshore Services.

Mr. Gapp is a UK citizen, was born in 1964, and read Economics at King's College, Cambridge University.

**Adrian Kyriazi** was appointed Regional Business Head of Continental Europe & Switzerland and member of the Executive Committee in July 2014.

Mr. Adrian Kyriazi was previously with Credit Suisse, where from 2010 to 2014 he was Managing Director, Market Group Head for Greece, CEE/Poland. Previously he spent nineteen years at HSBC in a variety of different roles, including: Managing Director, Private Banking and Co-CEO, HSBC Private Bank, Monaco; CEO of West Coast Region, USA, HSBC Private Bank; and CEO of Global Practices (encompassing wealth and tax advisory, corporate finance, and family office), HSBC Private Bank.

Mr. Adrian Kyriazi is a Greek citizen, was born in 1960, and holds a degree in law from Robinson College, Cambridge University.

### 4.2 External mandates and vested interests

There are no external mandates and vested interests of any members of the Executive Committee other than mentioned in the biographies above (see section 4.1 above).

### 4.3 Provisions on the number of permitted external mandates in the Articles of Association

Rules pursuant to article 12 para. 1 point 1 of the Ordinance on the number of permitted external mandates of the members of the Executive Committee are outlined in article 37 of the Articles of Association. The members of the Executive Committee may upon approval by the Board of Directors or the Remuneration Committee each have up to three mandates of which a maximum of one may be in a listed company. No member of the Executive Committee holds an external mandate as of 31 December 2014.

### 4.4 Management contracts

EFG International and its subsidiaries have not entered into management contracts with third parties.

## 5. COMPENSATION, SHAREHOLDINGS AND LOANS OF THE MEMBERS OF THE BOARD AND THE EXECUTIVE COMMITTEE

In application of article 5 and 13 of the Ordinance, the Board of Directors issued a Compensation Report for the year ended 31 December 2014. The Compensation Report includes all compensation directly or indirectly paid to current members of the Board of Directors and of the Executive Committee, as well as any direct or indirect remuneration to former members of the Board of Directors and of the Executive Committee in connection with their prior functions. The Compensation Report also discloses the loans and credits granted directly or indirectly by the Company to the members of the Board of Director and the Executive Committee as well as loans, credits and remuneration to closely related parties thereof, which are not granted at market conditions.

Details can be found in the Compensation Report, presented separately on pages 74–88 of this annual report.

In addition to the aforementioned, you may find further details on the compensation and compensation related elements granted to the members of the Board of Directors and of the Executive Committee in the following provisions of the Articles of Association:

- Article 32 and 33 of the Articles of Association determining the basic principles and elements of the compensation for members of the Board of Directors and the Executive Committee (for further details see page 78);
- Article 30 of the Articles of Association describing the authorities and the procedure of determining the form and amount of compensation for members of the Board of Directors and the Executive Committee (for further details see pages 75 ff);
- Article 35 of the Articles of Association on the principles applicable to performance-related variable compensation and to the allocation of equity securities or RSUs as part of the Company's shareholding programs for members of the Executive Committee (for further details see pages 78 and 81);
- Article 34 of the Articles of Association determining the available additional amount for payments to members of the Executive Committee appointed after the vote-on-pay at the general meeting of shareholders;
- As at 31 December 2014 no statutory basis existed for loans and credits facilities for members of the Board and the Executive Committee (for further details see page 84);

- Article 36 of the Articles of Association containing the rules on pension benefits not based on occupational pension schemes;
- Articles 17 and 18 of the Articles of Association defining the mechanism for the approval of the compensation of the Board of Directors and the Executive Committee by the general meeting of shareholders (for further details see page 82).

Details of the compensations paid to the members of the Board of Directors and the Executive Committee in 2014 and 2013 can be found on page 85–87. With regard to shareholdings of the members of the Board of Directors and the Executive Committee, see the financial statements, note 21, page 203.

## 6. SHAREHOLDERS' RIGHTS OF PARTICIPATION

### 6.1 Voting-rights restriction and representation

Persons who acquired registered shares will, upon application, be entered in the register of shares without limitation as shareholders with voting power, provided they expressly declare themselves to have acquired the shares concerned in their own name and for their own account and comply with the disclosure requirement stipulated by the Stock Exchange Act (for details please refer to section 2.6 above).There are no voting right restrictions, no statutory group clauses and hence no rules on making exceptions.

Former employees' vested RSUs are exercised upon the last day of their employment and held in a mandatory depository account administered by the custodian appointed by EFG International. Such shares are blocked until the first day of the exercise period and do not entitle the former employee to voting rights pertaining to the shares or to any dividends, distributions made out of the reserves from capital contributions, reimbursements of capital etc.

Shareholders can exercise their voting rights either by themselves or appoint a third party authorized in writing or – with the entering into force of the Ordinance on 1 January 2014 – the independent proxy to vote on their behalf. Such representatives need not to be shareholders. All shareholders receive with the invitation to the general meeting a proxy appointment form for the appointment of the independent proxy and instruct him regarding each agenda item and additional ad-hoc motions.

Since 2014, EFG International offers to their shareholders the possibility to exercise their voting rights prior to the general meeting via the online platform of Smartprimes. Furthermore, at the general meeting 2014 the voting took place in electronic form for the first time. All shareholders present received a tele-voting device for this purpose. The tele-voting devise allows a timely and accurate result delivery during the general meeting of shareholders.

### 6.2 Statutory quorums

No statutory quorums other than those defined by Swiss Corporate Law and the Swiss Federal Merger Act apply.

### 6.3 Convocation of the Annual General Meeting

The statutory rules on the convocation of the general meeting of shareholders correspond with legal provisions. Accordingly, the general meeting of shareholders is summoned at least 20 days before the date of the meeting by notice published in the Swiss Official Gazette of Commerce and by letter sent to the addresses of the shareholders entered in the register of shares.

### 6.4 Agenda

The Board of Directors announces the agenda. Shareholders representing shares with a nominal value of at least CHF one million may request that an item of business be placed on the agenda until 40 days at the latest before the date of the meeting. Such request must be in writing and must state the relevant motions.

### 6.5 Registrations in the share register

There is no statutory rule on the deadline for registering shareholders in connection with the attendance of the general meeting. However, for organizational reasons, no shareholders will be entered into the share register during the period beginning 15 days prior to a general meeting and ending immediately after the close of the general meeting.

## 7. CHANGES OF CONTROL AND DEFENCE MEASURES

### 7.1 Duty to make an offer

EFG International has not taken any defense measures against take-over attempts. Therefore, there are no statutory rules on "opting up" and "opting out". The Articles of Association contain no provision which would rule out the obligation of an acquirer of shares exceeding the threshold of 33⅓% of the voting rights to proceed with a public purchase offer (opting out provision pursuant to Art. 22 para. 2 SESTA) or which would increase such threshold to 49% of the voting rights (opting up provision pursuant to Art. 32 para. 1 SESTA).

### 7.2 Clauses on changes of control

Options and RSUs granted to employees would become exercisable during the extended offer period granted by the offeror upon a mandatory or a voluntary tender offer that becomes unconditional according to the SESTA.

In the event that more than 90% of EFG International registered shares are acquired by a company listed at a recognized stock exchange, options or RSUs become exercisable or the outstanding options can be exchanged prior to the start of the exercise period by replacing the options or RSUs with options to acquire shares of the successor company (Successor Options) on terms and conditions which will result in such Successor Options being in all other material aspects identical to those that apply to options or RSUs.

## 8. AUDITORS

### 8.1 Duration of mandate and term of office of Head Auditor

PricewaterhouseCoopers SA (PwC), Geneva, were appointed as statutory auditors and group auditors of EFG International on 8 September 2005, when EFG International was incorporated. The shareholders must confirm the appointment of the auditors on an annual basis at the general meeting.

Mr. Alex Astolfi took up office as lead audit partner on 29 April 2008. He will hand over this position in 2015 (mandatory rotation of lead audit partner).

### 8.2 Auditing fees

PwC received fees totaling CHF 4.1 million for the 2014 audits of EFG International and its subsidiaries.

### 8.3 Additional fees

For additional audit-related services covering topics such as accounting, control reporting as well as compliance, the EFG International Group paid PwC fees totaling CHF 0.8 million during the 2014 financial year.

For additional consulting-related services comprising legal, IT, tax and other project-related counseling, the EFG International Group paid PwC fees totaling CHF 0.2 million during the 2014 financial year.

### 8.4 Supervisory and control instruments vis-à-vis the auditors

The audit committee, on behalf of the Board of Directors, monitors the qualification, independence and performance of the EFG International Group auditors and their lead partners. The audit committee confers with the EFG International Group auditors about the effectiveness of the internal control systems in view of the risk profile of the EFG International Group.

The audit committee reviews the annual written statement submitted by the external auditors as to their independence. Mandates to the EFG International Group auditors for additional audit, audit-related and permitted non audit work are subject to preapproval by the audit committee.

The external auditors provide timely reports to the audit committee on critical accounting policies and practices used, on alternative treatments of financial information discussed with management, and other material written communication between external auditors and management.

The audit committee regularly meets with the lead partners of the external auditors, and at least four times per year. It also regularly meets with the Head of Group Internal Audit.

At least once per year, the chairman of the audit committee discusses with the lead partners of PwC the audit work performed, the main findings and critical issues that arose during the audit.

The chairman of the audit committee reports back to the Board of Directors about their contacts and discussions with the external auditors.

The external auditors have direct access to the audit committee at all times.

## 9. INFORMATION POLICY

EFG International regularly informs its shareholders and the public by means of the annual and half-year reports, remuneration reports, pillar III disclosures as well as press releases and presentations as needed. The documents are available, in both electronic form at:
www.efginternational.com/financial-reporting
and
www.efginternational.com/press-releases
as well as in printed form upon request.

Interested parties can subscribe to the e-mail distribution service to receive free and timely notifications of potentially price-sensitive facts and media releases:
www.efginternational.com/newsalert

These releases are also published on the EFG International website at the same time as they are sent to the subscribers, and are available online for several years (www.efginternational.com/press-releases).

Additional corporate information, such as documents related to general meeting of shareholders, Articles of Association and Organizational and Management Regulations, can be found at
www.efginternational.com/context

**Financial calendar**
Important Dates:
24 April 2015: Annual General Meeting 2015, Zurich
28 April 2015: Ex-dividend date
29 April 2015: Record date
30 April 2015: Dividend payment date
29 July 2015: Publication of half-year results 2015

The financial calendar of upcoming events relevant to shareholder, analysts, the media and other interested parties can be found on our investor relations homepage at
www.efginternational.com/investors

The company's notices are published in the Swiss Official Gazette of Commerce (SOGC).

Contact address can be found on the back cover.

www.efginternational.com

**Investor Relations**
Jens Brueckner, Head of Investor Relations
Telephone +41 (0)44 212 7377
investorrelations@efginternational.com

# COMPENSATION REPORT

## 1. GENERAL

At the annual general meeting 2014 the shareholders of EFG International (or the Company) have adopted a first tranche of amendments to the Articles of Association required for the implementation of the Ordinance against Excessive Compensation in Listed Companies (hereafter called "Ordinance"). Subsequently the Board of Directors and the remuneration committee have continued to prepare for the further amendments necessary to the Articles of Association and for the binding and separate shareholders votes on the compensation of the Board of Directors and the Executive Committee (at the annual general meeting 2015).

According to the Ordinance, the Board of Directors has the new non-transferable and inalienable duty to issue on an annual basis a written Compensation Report (articles 5 and 13 of the Ordinance). EFG International has already issued a Compensation Report in previous years and continues this tradition with this report. The Compensation Report 2014 sets forth the additional information pursuant to the articles 14–16 of the Ordinance.

In-line with the requirements of the Ordinance, our statutory auditors, Pricewater-houseCoopers Ltd, have reviewed whether the Compensation Report complies with the law and the Ordinance (see their report on page 88).

In addition to the implementation of the requirements of the Ordinance, EFG International has already implemented in 2011 the principles of the FINMA Circular 2010/1, which defines minimum standards for remuneration schemes applicable to financial institutions. These standards have been transposed into a comprehensive internal Group Remuneration Policy and include:

- Categorization of employees and governing bodies in accordance with their risk profile; defined categories are:

(a) Members of the Board of Directors of EFG International and of its subsidiaries;
(b) CEO and other members of the Executive Committee of EFG International;
(c) Members of the Global Business Committee (members of the Executive Committee, Regional CEOs and other senior executives by invitation of EFG International CEO);
(d) International Management Forum (members of the Executive Committee and their direct reports, Regional CEOs and their local CEOs/heads of private banking or equivalent);
(e) Key Executives (defined according to criteria laid down from time to time by the remuneration committee of EFG International);
(f) Local Business Heads;
(g) Client Relationship Officers;
(h) Employees in control functions (Audit, Compliance, Risk and Human Resources);
(i) Other staff members.

- Remuneration of each category aligned with business strategy and risk profile;
- Performance-related remuneration based on a combination of the performance of the individual concerned, the performance of their business and, where applicable, the overall results of the organization;

- Transparent remuneration scheme for Client Relationship Officers designed in a way that any negative contribution directly results in a reduction of the variable remuneration elements;
- Share-based deferred payment mechanisms for the members of the Executive Committee, the Global Business Committee and Key Executives as well as some control functions identified as “higher risk” job categories over a minimum period.

Compensation of the members of the Board of Directors and the Executive Committee are in-line with the Ordinance and the FINMA Circular 2010/1.

The remuneration committee currently consists of the following members of the Board of Directors who were individually elected by the annual general meeting 2014 for a term of office of one year until the conclusion of the annual general meeting 2015:

- Niccolò H. Burki (Chairman);
- Emmanuel L. Bussetil;
- Jean Pierre Cuoni;
- Hugh N. Matthews; and
- Périclès Petalas.

According to article 30 paragraph 2 of the Articles of Association and in application of the Ordinance, the remuneration committee has the following specific tasks and responsibilities in relation to the compensation of the Board of Directors and the Executive Committee:

- To establish the compensation strategy for the Company, and to approve the compensation and to make recommendations to the Board of Directors with regard to certain compensation matters, in particular to review, on behalf of the Board of Directors and within the limits set by the general meeting of shareholders, the amount of compensation to be paid to the members of the Board of Directors and the members of the Executive Committee;
- To annually review, and make a recommendation to the Board of Directors regarding the form and amount of the compensation of the members of the Board of Directors and any additional compensation to be paid for service as Chairman of the Board of Directors, for service on Board-delegated committees and for service as a Chairman of Board-delegated committees;
- To annually (a) review and assess the corporate goals and objectives upon which the compensation of the CEO and the other members of the Executive Committee is based and (b) evaluate the performance of the CEO and the other members of the Executive Committee in light of these goals and objectives;
- After the evaluation of the CEO's performance, the remuneration committee to make a recommendation to the Board of Directors of appropriate compensation levels for the CEO;
- To annually review the amount of compensation of the other members of the Executive Committee and make a recommendation to the Board of Directors regarding the appropriate level of their compensation as to (a) the annual base salary, (b) the annual variable compensation, (c) the long-term compensation component and (d) any special or supplemental benefits.

In addition, and in accordance with the Organizational and Management Regulations, the Group Remuneration Policy and the Terms of Reference of the remuneration committee, the remuneration committee has, among others, the following additional responsibilities and competencies:

- It ensures that EFG International and its subsidiaries maintain and observe an up-to-date procedure whereby the provisions of the FINMA Circular 2010/1 are implemented and observed;
- It ensures that annual salary increases and all discretionary variable compensation amounts are within the overall budget and guidelines approved by the Board of Directors;
- It ensures that the policy on variable compensation and other variable elements of employee remuneration is not in conflict with client interests, shareholder interest or FINMA Circular 2010/1;
- It decides on the contractual arrangements of the members and the Chairman of the Board of Directors, the CEO and other members of the Executive Committee of EFG International which have to be all in-line with the Articles of Association and those of other Key Executives, including those of the company's subsidiaries, as appropriate;
- It approves all salary increases to other staff members, with the exception of those resulting from existing contractual conditions, in cases where the increase places the person into the Key Executive group;
- It sets the rules for staff loans, in particular for those loans made against shares of EFG International and the thresholds above which any staff loan is to be submitted to the remuneration committee for approval;
- It decides on the granting of loans and credits to members of the Board of Directors and related parties thereof as well as to members of the Executive Committee and Regional CEOs (for loans and credits exceeding CHF 500,000);
- It decides on EFG International's contribution to pension and social institutions for the Swiss entities and their branches;
- It reviews the overall annual salary, annual increases and variable compensation as proposed by the management for all other staff of EFG International and its subsidiaries;
- It is informed by the CEO each year, in the context of the yearly compensation review, of a recommendation of Restricted Stock Units (RSUs) receivers. The remuneration committee shall consider the recommendations and, at its absolute discretion, determine the size of options or RSUs for each receiver, if any.

## 2. COMPENSATION PRINCIPLES

### 2.1 Members of the Board of Directors

#### 2.1.1 Fixed compensation

The fixed compensation of the members of the Board of Directors, subject to the approval by the general meeting of shareholders, consists of a fixed base fee paid in cash. For further details see article 32 of the Articles of Association.

#### 2.1.2 Variable compensation

To date no variable compensation has been granted/allocated to the members of the Board of Directors; though the Board of Directors is proposing to the annual general meeting 2015 an amendment of the Articles of Association to allow for variable compensations for members of the Board of Directors. Further details will be available in the invitation to the annual general meeting 2015.

### 2.2 Members of the Executive Committee

#### 2.2.1 Fixed compensation

The fixed compensation of the members of the Executive Committee, subject to the approval by the general meeting of shareholders, consists of a fixed base salary paid in cash. For further details see article 33 of the Articles of Association.

#### 2.2.2 Variable compensation

The award of variable compensation to the members of the Executive Committee is within the discretion of the remuneration committee and subject to the approval by the general meeting of shareholders (upon proposal by the Board of Directors). The remuneration committee considers a number of quantitative and qualitative elements to award variable compensation, such as profitability and share price evolution of the Company, the relation between variable compensation and key performance indicators, the risk profile of the Company and the individual performance of the members of the Executive Committee during the year. The remuneration committee approves targets and maximum award levels for each member of the Executive Committee taking into account position, responsibilities and tasks. The variable compensation is payable in cash and a certain percentage is awarded in the form of options and/or RSUs relating to shares of EFG International under the Employee Equity Incentive Plan. The minimum percentage awarded in the form of options and/or RSUs cannot be below 50% (as defined in the Articles of Association) and is determined annually by the remuneration committee, the current applicable minimum is 60%. For further details see articles 33 and 35 of the Articles of Association.

### 2.3 Other categories

#### 2.3.1 Fixed compensation

Fixed remuneration to other staff than members of the Board of Directors and Executive Committee is defined in line with the level of education, the degree of seniority, the level of expertise and skills required, the scope of the role and job experience and the relevant business sector and region.

In Switzerland, and certain other countries where reliable data is available, fixed remuneration is also linked to a professional annual remuneration survey conducted in the banking sector.

EFG International uses the performance reviews and market benchmarks on an individual basis to review whether a salary increase is necessary or strongly advised for talent retention.

There are countries in which legislation imposes a general minimum salary increase (e.g. legal indexation of salaries), whereby any extra increases would still then follow group wide procedures. Whilst salary surveys are used to help establish the appropriate remuneration for most members of staff they are rarely used at the highest level of management since an insufficient number of organizations with the same level of international complexity render comparison difficult.

All staff salaries are subject to review on a yearly basis first by local management and local Human Resources, then by Regional CEOs and the EFG International CEO and finally the remuneration committee.

Exceptional increases may occur during the year; above certain limits defined in the Group Remuneration Policy they need remuneration committee approval before commitment.

### 2.3.2 Variable compensation

Variable remuneration to other staff members than members of the Board of Directors and Executive Committee – and except Client Relationship Officers (see section 2.4 hereafter); some asset managers and certain Regional Business Heads – is discretionary and is determined by their individual performance (annual assessment), the performance of their business line and the performance of the organization. The relative importance of each level of the performance criteria is determined beforehand and balanced to take into account the position or responsibilities held by the staff member, defined by job category. The proportion of the variable remuneration that may be deferred will depend on the impact the job category can have on the risk profile of the organization and the responsibilities and tasks performed. The minimum deferral period for "higher risk" job categories is three years.

Variable compensation can be awarded in the form of cash, deferred cash or deferred equity.

Determination of the overall annual variable remuneration pool for other staff members is a combination of bottom up (starting at single staff level following the annual individual assessment) and top down (evaluating performance of local or region business) approach. A framework is in place to ensure critical appraisal of proposals by Regional CEOs, the EFG International CEO and the remuneration committee.

The variable compensation review is carried out annually. There is a strong emphasis on the personal contribution when determining the discretionary variable compensation for staff with a modest income. For Key Executives, there is a much stronger emphasis on corporate performance, in particular profitability, with a corresponding diminution of the impact of personal contribution.

For Key Executives, the remuneration committee considers a number of quantitative and qualitative elements such as the performance, both in profitability and stock price evolution, of EFG International through the year, the relation between variable compensation and key performance indicators, and the risk profile of the institution and the individual performance of Key Executives. Poor performance of the group can result in a significant reduction, or even elimination, of the discretionary variable compensation for Key Executives.

Staff contravening internal regulations or regulatory or legal requirements in particular and/or significantly raising the organization's risk exposure shall have their variable compensation reduced or eliminated.

Exceptional variable awards may occur during the year; above a certain minimum they need remuneration committee approval before commitment.

### 2.4 Client Relationship Officers

EFG International generally only hires experienced bankers as Client Relationship Officers (CROs) with previous business development experience in this role.

Fixed remuneration of CROs is defined at hiring in line with their historic remuneration package and may be reviewed from time to time to ensure correlation with market practices.

Variable compensation is contractual and formulaic (percentage of the business booked by the CRO). Booked business reflects the true net financial contribution of each CRO and does not "prepay" any future expected revenues. It includes all revenues and related costs attributable to them. Bona fide operating errors leading to losses are debited from the CRO's booked business and impact their variable remuneration. Losses arising from repetitive operating errors, serious mistakes, non-respect of internal and external regulations or law directly reduce their variable remuneration. CROs with a variable compensation over or equivalent to CHF 50,000 are required to take a mandatory 10% of their variable compensation under the form of RSUs, up to a maximum of 25%.

### 2.5 Employees in control functions

The remuneration level of employees in control functions is deemed to enable the employment of qualified and experienced personnel. The mix of fixed and variable remuneration for control function personnel is weighted in favor of fixed remuneration; variable part is based on function-specific objectives and is not determined by the individual financial performance of the business area they monitor.

## 3. SPECIFIC MECHANISMS OR INSTRUMENTS FOR VARIABLE COMPENSATION

### 3.1 Deferral obligations

The Group Remuneration Policy imposes deferral obligations on certain staff including members of the Executive Committee of EFG International, the Global Business Committee, Local Business Heads and any other functions defined with a risk profile justifying deferral. The remuneration committee and local management can also impose a level of deferral on all staff at their discretion.

### 3.2 Employee Equity Incentive Plan

The EFG International Group has adopted an equity incentive plan for employees and executive officers of EFG International and its subsidiaries on 20 September 2005 (the "Employee Equity Incentive Plan") in order to strengthen the group's ability to furnish incentives for members of the Executive Committee and other key employees and to increase long-term shareholder value by improving operations and profitability. The Employee Equity Incentive Plan has been reviewed and amended in 2011 and will cover any options granted during the financial years 2005 to 2014 and which last up to the point in time that all options and RSUs granted under the Employee Equity Incentive Plan have either been exercised or have expired. Some subsidiaries have implemented local variations to the Employee Equity Incentive Plan.

The CEO identifies and recommends to the remuneration committee annually all persons who are eligible to participate in the Employee Equity Incentive Plan. The remuneration committee then considers the recommendation and, at its absolute discretion, determines within the limits of the Articles of Association and the approval of the shareholders at the annual general meeting the level of equity incentives to be granted to each eligible person.

Until vested the options and/or RSUs are subject to claw-back or forfeiture. Claw-back arises in the event of proven fraudulent behavior or if decisions or actions taken in the reference year of the variable award subsequently cause the organization to be impacted by losses. This is reflected in the employment contract or other documentation enacted with the employee at the time of the variable compensation award. The options and/or RSUs are also subject to forfeiture on the resignation of the employee or termination for cause.

The remuneration committee may exceptionally decide to grant accelerated vesting to leavers depending on the circumstances of the departure.

### 3.3 Other compensation

Sign-on payments, guaranteed compensation, severance payments or any other special remuneration packages are subject to clearly established rules and are made only in exeptional cases; above certain minima such proposals must be submitted to the remuneration committee for approval before commitment.

No other compensation has been granted to members of the Board of Directors and the Executive Committee (see sections 4.1 and 4.2 hereafter as well as articles 18 and 20 of the Ordinance).

## 4. IMPLEMENTATION OF COMPENSATION PRINCIPLES

### 4.1 Members of the Board of Directors

The compensation of those members of the Board of Directors who receive compensation is determined by the remuneration committee and subject to the approval by the shareholders at the annual general meeting (see articles 17 and 18 of the Articles of Association). It is a prospective approval of the fixed compensation for the terms of office until the closure of the next annual general meeting.

Mr. Robert Chiu receives a variable compensation for his service as non-executive Chairman of EFG Bank Asia in 2014, subject to approval by the shareholders at the annual general meeting in 2015.

Details of the compensations paid to the members of the Board of Directors in 2014 and 2013 can be found on pages 85–87.

No agreement with members of the Board of Directors forsees a sign-on or a severance payment.

### 4.2 Executive Committee

The compensation of the members of the Executive Committee is determined annually by the remuneration committee and subject to the approval by the shareholders at the annual general meeting (see articles 17 and 18 of the Articles of Association). The fixed compensation is awarded prospectively for the current year and the variable compensation retrospectively (awarded in the current year based on the performance in the business year preceding the annual general meeting).

The following elements of compensation are applied at the level of the Executive Committee:

- Base salary in cash (including other cash compensations, such as relocation allowances);
- Variable compensation defined annually (including EFG International Employee Equity Incentive Plan);
- Social charges.

Subject to approval by the shareholders at the annual general meeting, variable compensation for members of the Executive Committee is determined entirely within the discretion of the remuneration committee based upon recommendations of the CEO (except in relation to his own variable compensation). The remuneration committee has defined a minimum of 60% of the variable remuneration of the members of the Executive Committee to be taken under the form of RSUs and deferred over a period of a minimum three years with progressive vesting.

On an exceptional basis the remuneration committee may approve modifications of this rule for specific events.

Variable compensation shall be awarded on the basis of an assessment of individual performance and the performance of EFG International as a whole. Factors discussed by the remuneration committee include personal performance, subordinates' performance, sound management, budget control, and the realization of defined objectives, realization of last minute projects/objectives and any other contributions to the benefit of EFG International.

The variable component of pay to members of the Executive Committee amounted from 13.3% to 127.5% of the fixed component, averaging at 62.0%. The average variable component to total compensation is 32.0%, of which average deferral for an Executive Committee member is 61.9%.

One member of the Executive Committee had the right to 12 months' notice in his employment contract in the event of a change of control up to and including 2014, as opposed to an otherwise 6 months' notice. Another member of the Executive Committee has the same right until 2015.

The remuneration committee may exceptionally decide to grant accelerated vesting to leavers depending on the circumstances of the departure.

Details of the compensations paid to the members of the Executive Committee in 2014 and 2013 can be found on pages 85–87.

No employment contract with members of the Executive Committee forsees a sign-on, a severance payment, or other exceptional payment.

### 4.3 International Management Forum

The International Management Forum (IMF) meets on a regular basis and provides a discussion forum for global business topics and challenges. The IMF includes the members of the Executive Committee and their direct reports, Regional CEOs, and their local CEOs/heads of private banking or equivalent. The IMF counted 49 members for 2014.

The compensation of the members of the IMF is determined as for all staff and is reviewed annually by the remuneration committee. The same elements of compensation as for the Executive Committee apply to the IMF (see section 4.2 Executive Committee above). It should be noted that all members of the IMF are not remunerated for their membership in the IMF.

The deferral requirements imposed on IMF members vary in view of their business activity and risk profile. Regional CEOs and Local Business Heads are subject to minimum 50% deferral of their variable compensation. The senior management in control and operational functions has a minimum deferral of 25% with an average deferral of 39%.

The variable component of pay to members of the IMF amounted from 0 to 383.5% of the fixed component, averaging at 90.0%. The average variable component to total compensation is 34.4%, of which average deferral for an IMF member is 38.6%.

No members of the IMF received a sign-on or severance payment in 2014.

### Compensation of International Management Forum

Compensation year ended 2014

| | *Base compensation (1)* | *Variable compensation (2)* | | *Other compensation* | *Social charges (4)* | 2014 Total |
|---|---|---|---|---|---|---|
| | Cash | Cash bonus | Share options (3) | | | |
| | CHF | CHF | CHF | CHF | CHF | CHF |
| **Total IMF** | **24,049,598** | **13,019,324** | **7,605,362** | **380,828** | **3,261,246** | **48,316,358** |
| Average IMF | 480,992 | 260,386 | 152,107 | 7,617 | 65,225 | 966,327 |

Notes
1) Including employees' contributions for social charges.
2) Including the amounts of the members of the Executive Committee, subject to approval by the shareholders at the annual general meeting 2015.
3) The amount represents the value of equity incentives granted in 2015 (related to past services) to members of the IMF. For specific valuation of the Employee Equity Incentive Plans, refer to note 54 of the consolidated financial statements.
4) Including employer pension contributions.

### 4.4 Staff Costs

For information on staff costs, please refer to page 143 (note 13 to the consolidated financial statements).

## 5. LOANS AND CREDITS

After the Ordinance entered into force on 1 January 2014, no new loans and credits to the members of the Board of Directors and the Executive Committee were granted. At the annual general meeting 2015 the Board of Directors will propose to the shareholders an amendment of the Articles of Association for granting loans and credits at market conditions or generally applicable employee conditions to the members of the Board of Directors and the Executive Committee. Further details will be available in the invitation to the annual general meeting 2015.

The remuneration committee decides on the granting of loans and credits to members of the Board of Directors and their related parties as well as members of the Executive Committee and Regional CEOs (for loans and credits exceeding CHF 500,000). All other loans and credits to members of the Executive Committee and Regional CEOs, not falling under the competences of the remuneration committee, are dealt with by the Approval Body of EFG International. The Approval Body comprises three members of the Executive Committee and, as a backup, the Head of the Credit Department. Details on pre-existing loans and credits granted to members of the Board of Directors and the Executive Committee can be found on page 87.

## 6. EXTERNAL ADVICE

EFG International uses local market surveys where available and an independent consultant (a former member of the Executive Committee of EFG International) with a high level of expertise and knowledge of the business and operations including Risk, Human Resources and Compliance. Other than the above mentioned no other mandates have been undertaken.

## 7. COMPENSATION OF THE BOARD OF DIRECTORS AND THE EXECUTIVE COMMITTEE

### (i) Compensation year ended 2014

| | *Base compensation (1)* | *Variable compensation (2)* | | *Other compen-sation* | Social charges | Total |
|---|---|---|---|---|---|---|
| | Cash CHF | Cash bonus CHF | Share options (3) CHF | CHF | (4) CHF | *2014* CHF |
| **Board of Directors** | | | | | | |
| Jean Pierre Cuoni, Chairman | 660,000 | | | | 40,426 | 700,426 |
| Hugh N. Matthews, Vice-Chairman | 345,000 | | | | 20,124 | 365,124 |
| Niccolo H. Burki, member | 236,258 | | | | 16,423 | 252,681 |
| Emmanuel L. Bussetil, member (5) | | | | | | – |
| Erwin R. Caduff, member | 125,004 | | | | 9,040 | 134,044 |
| Robert Y. Chiu, member** | 93,753 | 741,805 | 741,805 | | 4,976 | 1,582,339 |
| Michael N. Higgin, member | 265,004 | | | | 17,176 | 282,180 |
| Spiro J. Latsis, member (5) | | | | | | – |
| Bernd-A. Freiherr von Maltzan, member | 150,000 | | | | 8,801 | 158,801 |
| Hans Niederer, member* | 50,000 | | | | 2,722 | 52,722 |
| Périclès Petalas, member (5) | | | | | | – |
| Daniel Zuberbühler, member** | 93,753 | | | | 4,976 | 98,729 |
| **Total Board of Directors** | **2,018,772** | **741,805** | **741,805** | **–** | **124,664** | **3,627,046** |
| | | | | | | |
| **Executive Committee** | | | | | | |
| **Total Executive Committee** | **6,980,896** | **1,673,256** | **2,584,884** | **95,658** | **1,083,934** | **12,418,628** |
| of which highest paid: John Williamson, CEO | 1,603,612 | 560,000 | 840,000 | 29,511 | 250,651 | 3,283,774 |

**  Left in April 2014*
*** Joined in April 2014*

Notes
1) Including employees' contributions for social charges.
2) Subject to approval by the shareholders at the annual general meeting 2015.
3) The amount represents the value of RSUs granted in 2015 (related to past services). For specific valuation of the Employee Equity Incentive Plans, refer to note 54 of the consolidated financial statements.
4) Employer social charges of the Executive Committee of CHF 1,083,934 includes an amount of CHF 369,329 of pension contributions.
5) No compensation has been paid to this member of the Board of Directors.

No compensation has been granted to related parties of members of the Board of Directors and the Executive Committee.

Members of the Board of Directors and the Executive Committee benefit from the same preferential conditions for transactions executed in-house (EFG Bank AG) that are available to all employees of the EFG International Group.

(ii) Compensation year ended 2013

| | *Base compensation (1)* | *Variable compensation* | | *Other compen-sation* | Social charges | Total |
|---|---|---|---|---|---|---|
| | Cash | Cash bonus | Share options | | (4) | *2013* |
| | CHF | (2) CHF | (3) CHF | CHF | CHF | CHF |
| **Board of Directors** | | | | | | |
| Jean Pierre Cuoni, Chairman | 660,000 | | | | 40,702 | 700,702 |
| Hugh N. Matthews, Vice-Chairman | 335,004 | | | | 19,670 | 354,674 |
| Niccolo H. Burki, member* | 81,255 | | | | 5,916 | 87,171 |
| Emmanuel L. Bussetil, member (5) | | | | | | – |
| Erwin R. Caduff, member | 106,257 | | | | 7,737 | 113,994 |
| Michael N. Higgin, member | 150,000 | | | | 10,778 | 160,778 |
| Spiro J. Latsis, member (5) | | | | | | – |
| Bernd-A. Freiherr von Maltzan, member* | 87,504 | | | | 6,371 | 93,875 |
| Hans Niederer, member | 150,000 | | | | 8,234 | 158,234 |
| Périclès Petalas, member (5) | | | | | | – |
| **Total Board of Directors** | **1,570,020** | **–** | **–** | **–** | **99,408** | **1,669,428** |
| | | | | | | |
| **Executive Committee** | | | | | | |
| **Total Executive Committee** | **6,959,836** | **1,877,800** | **1,916,700** | **146,923** | **1,098,566** | **11,999,825** |
| of which highest paid: | | | | | | |
| John Williamson, CEO | 1,603,612 | 440,000 | 660,000 | 99,927 | 206,636 | 3,010,175 |

* *Joined in April 2013*

Notes
1) Including employees' contributions for social charges.
2) The amounts represent the recorded expense for the 2013 cash bonuses.
3) The amount represents the value of RSUs granted in 2014 (related to past services). For specific valuation of the Employee Equity Incentive Plans, refer to note 54 of the consolidated financial statements.
4) Employer social charges of the Executive Committee of CHF 1,098,566 includes an amount of CHF 431,543 of pension contributions.
5) No compensation has been paid to this member of the Board of Directors.

Under an agreement with the former Chief Executive Officer (until 24 June 2011) the amount paid was CHF 1,5 million in 2013 as long as he does not compete in any respect with EFG International AG activities and interest.

No compensation has been granted to related parties of members of the Board of Directors and the Executive Committee.

Members of the Board of Directors and the Executive Committee benefit from the same preferential conditions for banking transactions executed in-house (EFG Bank AG) that are available to all employees of the EFG International Group.

## 8. LOANS AND CREDITS TO THE BOARD OF DIRECTORS AND THE EXECUTIVE COMMITTEE

The following pre-existing loans and credits granted by subsidiaries to members of the Board of Directors and the Executive Committee are outstanding at the end of the year. These loans and credits were granted before the Ordinance entered into force on 1 January 2014.

| | 2014 CHF | 2013 CHF |
|---|---|---|
| **Board of Directors** | | |
| Emmanuel L. Bussetil, member | 3,879 | 11,008 |
| Robert Y. Chiu*, member | 1,469,340 | 2,388,156 |
| **Total Board of Directors** | **1,473,219** | 2,399,164 |
| | | |
| **Executive Committee** | | |
| John Williamson, CEO (highest amount granted to an individual member of the Executive Committee)** | 1,443,872 | 1,443,060 |
| Other members of the Executive Committee | 680,791 | 639,738 |
| **Total Executive Committee*** ** | **2,124,663** | 2,082,798 |

* *Joined in April 2014*
** *Fully collateralised loans*
*** *Amounts drawn within the pre-existing credit limits*

No loans or credits were granted to related parties of members of the Board of Directors and the Executive Committtee by EFG International and its subsidiaries.

Report of the statutory auditor
to the General Meeting of
EFG International AG
Zurich

**Report of the statutory auditor to the general meeting on the Compensation Report 2014**

We have audited the accompanying Compensation Report report dated 24 February 2015 of EFG International AG for the year ended 31 December 2014.

## Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the Compensation Report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

## Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying Compensation Report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Compensation Report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the Compensation Report  with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the Compensation Report , whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the Compensation Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Opinion

In our opinion, the Compensation Report of EFG International AG for the year ended 31 December 2014 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers Ltd

| | |
|---|---|
| Alex Astolfi<br>Audit expert<br>Auditor in charge | Christophe Kratzer<br>Audit expert |

Geneva, 24 February 2015

A private bank unlike any other.

Technical expertise.
Crafted into advice. Delivered one
relationship at a time.

# EFG INTERNATIONAL CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

# CONSOLIDATED INCOME STATEMENT
# FOR THE YEAR ENDED 31 DECEMBER 2014



| | Note | Year ended 31 December 2014 CHF millions | Year ended 31 December 2013 CHF millions |
|---|---|---|---|
| Interest and discount income | | 458.3 | 417.2 |
| Interest expense | | (211.1) | (204.0) |
| **Net interest income** | 5 | **247.2** | **213.2** |
| | | | |
| Banking fee and commission income | | 477.7 | 429.3 |
| Banking fee and commission expense | | (96.4) | (86.0) |
| **Net banking fee and commission income** | 6 | **381.3** | **343.3** |
| | | | |
| Dividend income | 7 | 1.1 | 3.5 |
| Net trading income | 8 | 69.8 | 74.5 |
| Net (loss)/gain from financial instruments measured at fair value | 9 | (3.0) | 7.8 |
| Gains less losses on disposal of available for sale investment securities | 10 | 18.2 | 10.6 |
| Other operating income | | 2.0 | 13.1 |
| **Net other income** | | **88.1** | **109.5** |
| | | | |
| **Operating income** | | **716.6** | **666.0** |
| | | | |
| Operating expenses | 12 | (575.0) | (547.2) |
| Other provisions | 41 | (64.1) | (33.7) |
| Reversal of impairment on financial assets held-to-maturity | 31 | 2.5 | |
| Reversal of impairment/(impairment) on loans and advances to customers | 11 | 0.3 | (1.4) |
| Gain on disposal of subsidiaries | 14 | | 0.5 |
| **Profit before tax** | | **80.3** | **84.2** |
| | | | |
| Income tax expense | 16 | (17.7) | (8.2) |
| | | | |
| **Net profit for the year from continuing operations** | | **62.6** | **76.0** |
| | | | |
| **Discontinued operations** | | | |
| Profit for the year from discontinued operations | 15 | | 46.7 |
| | | | |
| **Profit for the year** | | **62.6** | **122.7** |
| | | | |
| **Net profit for the year attributable to:** | | | |
| Net profit attributable to owners of the Group | | 61.4 | 111.8 |
| Net profit attributable to non-controlling interests | | 1.2 | 0.6 |
| Net profit attributable to non-controlling interests from discontinued operations | | | 10.3 |
| | | **62.6** | **122.7** |

*The notes on pages 98 to 189 form an integral part of these consolidated financial statements*

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)



| Earnings per ordinary share | Note | Year ended 31 December 2014 CHF | Year ended 31 December 2013 CHF |
|---|---|---|---|
| Basic | | | |
| From continuing operations | | 0.41 | 0.50 |
| From discontinued operations | | | 0.25 |
| | 51.1 | **0.41** | **0.75** |
| Diluted | | | |
| From continuing operations | | 0.40 | 0.49 |
| From discontinued operations | | | 0.24 |
| | 51.2 | **0.40** | **0.73** |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014



| | Note | Year ended 31 December 2014 CHF millions | Year ended 31 December 2013 CHF millions |
|---|---|---|---|
| **Profit for the year** | | **62.6** | **122.7** |
| **Items that may be reclassified subsequently to the Income Statement:** | | | |
| Net gain/(loss) on hedge of investments in foreign operations, with no tax effect | | 17.1 | (3.3) |
| Currency translation differences, with no tax effect | | 21.1 | 3.1 |
| Fair value gains on available-for-sale investment securities, before tax | 30 | 27.5 | 0.1 |
| Tax effect on available-for-sale investment securities | 30 | (1.1) | 0.8 |
| Transfer to the Income Statement of realised available-for-sale investment securities reserve, before tax | 30 | (18.2) | (10.6) |
| **Items that will not be reclassified to the Income Statement:** | | | |
| Defined benefit (costs)/gains | 44 | (29.4) | 18.2 |
| **Comprehensive income for the year, net of tax** | | **17.0** | **8.3** |
| **Total comprehensive income for the year** | | **79.6** | **131.0** |
| **Total comprehensive income for the year attributable to:** | | | |
| Owners of the Group | | 78.4 | 119.7 |
| Non-controlling interests | | 1.2 | 11.3 |
| | | **79.6** | **131.0** |

*The notes on pages 98 to 189 form an integral part of these consolidated financial statements*

# CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2014

## CONSOLIDATED FINANCIAL STATEMENTS

| | Note | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with central banks | 19 | 2,855.3 | 848.9 |
| Treasury bills and other eligible bills | 21 | 626.0 | 631.2 |
| Due from other banks | 22 | 2,108.8 | 2,200.2 |
| Loans and advances to customers | 23 | 13,031.1 | 11,561.8 |
| Derivative financial instruments | 26 | 569.5 | 560.4 |
| Financial assets at fair value: | | | |
| Trading assets | 27 | 105.6 | 113.3 |
| Designated at inception | 28 | 329.7 | 349.8 |
| Investment securities: | | | |
| Available-for-sale | 29 | 4,093.5 | 3,844.5 |
| Held-to-maturity | 31 | 1,159.1 | 1,107.1 |
| Intangible assets | 33 | 274.9 | 266.9 |
| Property, plant and equipment | 34 | 21.1 | 22.5 |
| Deferred income tax assets | 17 | 32.8 | 36.3 |
| Other assets | 35 | 136.7 | 155.7 |
| **Total assets** | | **25,344.1** | **21,698.6** |
| **Liabilities** | | | |
| Due to other banks | 36 | 466.0 | 290.1 |
| Due to customers | 37 | 18,564.5 | 16,443.8 |
| Subordinated loans | 38 | 246.3 | 245.1 |
| Derivative financial instruments | 26 | 661.1 | 544.9 |
| Financial liabilities designated at fair value | 39 | 369.2 | 310.7 |
| Other financial liabilities | 40 | 3,030.7 | 2,421.5 |
| Debt issued | 38 | 411.1 | |
| Current income tax liabilities | | 6.0 | 5.0 |
| Deferred income tax liabilities | 17 | 35.4 | 34.6 |
| Provisions | 41 | 38.0 | 26.8 |
| Other liabilities | 42 | 340.7 | 269.6 |
| **Total liabilities** | | **24,169.0** | **20,592.1** |
| **Equity** | | | |
| Share capital | 45.1 | 75.5 | 74.0 |
| Share premium | 45.2 | 1,243.8 | 1,238.4 |
| Other reserves | 46 | (72.5) | (49.1) |
| Retained earnings | | (90.5) | (161.6) |
| | | **1,156.3** | 1,101.7 |
| Non-controlling interests | | 18.8 | 4.8 |
| **Total shareholders' equity** | | **1,175.1** | **1,106.5** |
| **Total equity and liabilities** | | **25,344.1** | **21,698.6** |

*The notes on pages 98 to 189 form an integral part of these consolidated financial statements*

| | Note | *Attributable to owners of the group* | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Share capital CHF millions | Share premium CHF millions | Other reserves CHF millions | Retained earnings CHF millions | Total CHF millions | Non-controlling Interests CHF millions | Total Equity CHF millions |
| **Balance at 1 January 2013** | | **77.2** | **1,239.0** | **119.9** | **(260.1)** | **1,176.0** | **100.3** | **1,276.3** |
| Net profit for the period | | | | | 111.8 | 111.8 | 10.9 | 122.7 |
| Currency translation differences, net of tax | | | | (0.1) | | (0.1) | (0.1) | (0.2) |
| Fair value losses on available-for-sale investment securities, net of tax | | | | (9.7) | | (9.7) | | (9.7) |
| Defined benefit gains | | | | 17.7 | | 17.7 | 0.5 | 18.2 |
| **Total Comprehensive Income for the year** | | **–** | **–** | **7.9** | **111.8** | **119.7** | **11.3** | **131.0** |
| Dividend paid on ordinary shares | 52 | | | | (14.7) | (14.7) | | (14.7) |
| Dividend paid on Bons de Participation | 52 | | | | (1.9) | (1.9) | | (1.9) |
| Reduction in non-controlling interests | | | | | | – | (1.9) | (1.9) |
| Ordinary shares sold | 45 | | 0.8 | | | 0.8 | | 0.8 |
| Ordinary shares repurchased | 45 | | (0.2) | | | (0.2) | | (0.2) |
| Employee equity incentive plans amortisation | 54 | | | 12.0 | | 12.0 | | 12.0 |
| Employee equity incentive plans exercised | | 0.6 | | (0.9) | 3.3 | 3.0 | | 3.0 |
| Repurchase of Bons de Participation | 45 | (3.8) | (1.2) | (183.4) | | (188.4) | | (188.4) |
| Disposal of subsidiary | 15 | | | (4.6) | | (4.6) | (104.9) | (109.5) |
| **Balance at 31 December 2013** | | **74.0** | **1,238.4** | **(49.1)** | **(161.6)** | **1,101.7** | **4.8** | **1,106.5** |

*The notes on pages 98 to 189 form an integral part of these consolidated financial statements*

| | Note | *Attributable to owners of the group* Share capital CHF millions | Share premium CHF millions | Other reserves CHF millions | Retained earnings CHF millions | Total CHF millions | Non-controlling Interests CHF millions | Total Equity CHF millions |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2014** | | **74.0** | **1,238.4** | **(49.1)** | **(161.6)** | **1,101.7** | **4.8** | **1,106.5** |
| Net profit for the period | | | | | 61.4 | 61.4 | 1.2 | 62.6 |
| Currency translation differences, net of tax | | | | 38.2 | | 38.2 | | 38.2 |
| Fair value gains on available-for-sale investment securities, net of tax | | | | 8.2 | | 8.2 | | 8.2 |
| Defined benefit costs | | | | (29.4) | | (29.4) | | (29.4) |
| **Total Comprehensive Income for the year** | | **–** | **–** | **17.0** | **61.4** | **78.4** | **1.2** | **79.6** |
| Dividend paid on ordinary shares | 52 | | | | (29.7) | (29.7) | | (29.7) |
| Dividend paid on Bons de Participation | 52 | | | | (0.4) | (0.4) | | (0.4) |
| Ordinary shares sold | 45 | 0.1 | 1.7 | | | 1.8 | | 1.8 |
| Ordinary shares repurchased | 45 | | (0.8) | | | (0.8) | | (0.8) |
| Employee equity incentive plans amortisation | 54 | | | 10.5 | | 10.5 | | 10.5 |
| Employee equity incentive plans exercised | | 1.4 | 4.5 | (1.4) | | 4.5 | | 4.5 |
| Transfer to retained earnings on lapse of employee equity incentive plans | | | | (28.2) | 28.2 | – | | – |
| Non-controlling interest put option | 4.2.1 c | | | (21.3) | | (21.3) | | (21.3) |
| Contribution by non-controlling interests into equity of subsidiary | | | | | 11.6 | 11.6 | 12.8 | 24.4 |
| **Balance at 31 December 2014** | | **75.5** | **1,243.8** | **(72.5)** | **(90.5)** | **1,156.3** | **18.8** | **1,175.1** |

*The notes on pages 98 to 189 form an integral part of these consolidated financial statements*

| | Note | Year ended 31 December 2014 CHF millions | Year ended 31 December 2013 CHF millions |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 405.9 | 363.1 |
| Interest paid | | (199.9) | (187.6) |
| Banking fee and commission received | | 474.9 | 442.7 |
| Banking fee and commission paid | | (99.1) | (83.1) |
| Dividend received | 7 | 1.1 | 3.5 |
| Net trading income | | 66.8 | 79.2 |
| Other operating receipts | | 1.8 | 12.4 |
| Staff costs paid | | (381.5) | (346.2) |
| Other operating expenses paid | | (133.4) | (144.2) |
| Income tax paid | | (12.6) | (13.5) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **124.0** | **126.3** |
| **Changes in operating assets and liabilities** | | | |
| Net (increase)/decrease in treasury bills | | (81.3) | 488.0 |
| Net decrease/(increase) in due from other banks | | 418.0 | (633.5) |
| Net decrease/(increase) in derivative financial instruments | | 107.8 | (24.1) |
| Net (increase) in loans and advances to customers | | (1,029.2) | (1,191.1) |
| Net decrease/(increase) in other assets | | 25.7 | (20.5) |
| Net increase in due to other banks | | 168.8 | 451.3 |
| Net increase in due to customers | | 1,582.6 | 447.0 |
| Net (decrease)/increase in other liabilities | | (13.5) | 95.9 |
| **Net cash flows from operating activities** | | **1,302.9** | **(260.7)** |
| **Cash flows from investing activities** | | | |
| Proceeds from disposal of business, net of cash disposed | | | (43.1) |
| Purchase of securities | | (3,723.6) | (6,508.8) |
| Proceeds from sale of securities | | 3,915.3 | 4,970.2 |
| Purchase of property, plant and equipment | 34 | (7.5) | (8.6) |
| Purchase of intangible assets | 33 | (7.6) | (5.4) |
| Proceeds from sale of property, plant and equipment | | 1.8 | 2.0 |
| **Net cash flows used in investing activities** | | **178.4** | **(1,593.7)** |
| **Cash flows from financing activities** | | | |
| Dividend paid on Bons de Participation | 52 | (0.4) | (1.9) |
| Dividend paid on ordinary shares | 52 | (29.7) | (14.7) |
| Capital contributions from minority shareholders | | 24.4 | |
| Cash received on employee share options exercised | | 5.0 | |
| Ordinary shares repurchased | 45 | (0.8) | (0.2) |
| Ordinary shares sold | 45 | 1.8 | 0.8 |
| Repurchase of Bons de Participation | | | (188.9) |
| Issuance of subordinated debt | | | 178.0 |
| Dept issued | | 392.0 | |
| Issuance of structured products | | 7,398.7 | 8,514.6 |
| Redemption of structured products | | (6,938.5) | (8,012.7) |
| **Net cash flows from financing activities** | | **852.5** | **475.0** |
| **Effect of exchange rate changes on cash and cash equivalents** | | **(87.3)** | **99.6** |
| **Net change in cash and cash equivalents** | | **2,246.5** | **(1,279.8)** |
| Cash and cash equivalents at beginning of period | 20 | 3,066.8 | 4,346.6 |
| Net change in cash and cash equivalents | | 2,246.5 | (1,279.8) |
| **Cash and cash equivalents** | **20** | **5,313.3** | **3,066.8** |

*The notes on pages 98 to 189 form an integral part of these consolidated financial statements*

## 1. GENERAL INFORMATION

EFG International AG and its subsidiaries (hereinafter collectively referred to as "The Group") are a leading global private banking group, offering private banking, wealth management and asset management services. The Group's principal places of business are in Bahamas, Cayman, Channel Islands, Hong Kong, Liechtenstein, Luxembourg, Monaco, Singapore, Spain, Switzerland, Taiwan, the United Kingdom and the United States of America. Across the whole Group, the number of employees at 31 December 2014 was 2,059 (31 December 2013: 1,989).

EFG International AG is a limited liability company and is incorporated and domiciled in Switzerland. The Group is listed on the SIX Swiss Exchange with its registered office at Bleicherweg 8, 8022 Zurich. For details of significant shareholders, refer to note 12 of the Parent Company Financial Statements.

These consolidated financial statements were approved for issue by the Board of Directors on 24 February 2015.

## 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Basis of preparation

The consolidated financial statements are for the year ended 31 December 2014. These financial statements have been prepared in accordance with those International Financial Reporting Standards ("IFRS") and International Financial Reporting Standards Interpretations Committee ("IFRS Interpretations Committee") interpretations issued and effective, or issued and early adopted which are applicable for the year ended 31 December 2014. These consolidated financial statements are subject to the approval of the shareholders.

The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, and of financial assets and financial liabilities (including derivative instruments) at fair value.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The process also requires management to exercise its judgement in the process of applying the group's accounting policies. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. Further information about critical estimates and judgements are presented in note 3.

The Group's presentation currency is the Swiss franc ("CHF") being the functional currency of the parent Company and of its major operating subsidiary EFG Bank AG.

The consolidated financial statements are also available in French and German, however the English version prevails.

In the current year, the Group considered all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee effective for accounting periods beginning on 1 January 2014. These are as follows:

**New and amended standards adopted by the Group:**
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2013.

There are several amendments that apply for the first time in 2014 further presented below. These do not impact the consolidated financial statements of the Group.

The nature and the impact of each new standard/amendment are described below:

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32. The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying right of set off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

(i) in the normal course of business,
(ii) the event of default and
(iii) the event of insolvency or bankruptcy.

Adoption of the amendments had no impact on these financial statements.

'Novation of Derivatives and Continuation of Hedge Accounting' (Amendments to IAS 39, 'Financial Instruments: Recognition and Measurement') provides relief from discontinuing hedge accounting when a derivative designated as a hedging instrument is novated to effect clearing with a central counterparty as a result of laws and regulations, provided certain criteria are met. Adoption of the amendments had no impact on these financial statements.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Group is not currently subject to significant levies, so the impact on the Group is not material.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

**Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Group:**

- Amendment to IAS 16 'Property, Plant and Equipment' clarifies that a revenue-based depreciation method is not appropriate. The Group will apply this amendment for the financial reporting period commencing on 1 January 2016. It is not expected to have any impact on the Group's financial statements.
- Amendment to IAS 38 'Intangible Assets' clarifies that a revenue-based amortisation method is not appropriate (with the exception of limited circumstances when the presumption can be overcome). The Group will apply this amendment for the financial reporting period commencing on 1 January 2016. It is not expected to have any impact on the Group's financial statements.

– IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:
  Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
  Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
  Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
  Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
  IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
  Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.
  The Group is currently assessing the impact on its financial statements.
– Amendment to IFRS 11 'Joint arrangements' includes the requirement for a joint operator to account for the assets, liabilities, revenues and expenses in relation to its involvement in a joint operation. The Group will apply this amendment for the financial reporting period commencing on 1 January 2016. It is not expected to have a material impact on the Group's financial statements.
– IFRS 15 'Revenue from Contracts with Customers', published in May 2014, determines how and when revenue is recognised and replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. The Group will apply this new standard for the financial reporting period commencing on 1 January 2017. The Group is currently assessing the impact on its financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

**(b) Consolidation**

(i) Subsidiaries

Subsidiary undertakings are all entities (including structured entities) over which the Group, directly or indirectly, has control. The Group controls an entity when the Group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The Group applies the acquisition method of accounting to account for business combinations. The cost of an acquisition is measured at the fair value of the assets acquired, equity instruments or liabilities undertaken at the date of acquisition including those resulting from contingent consideration arrangements. Costs related to the acquisition are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date irrespective of the extent of any non-controlling interests. The excess of the cost of acquisition over the fair value of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A listing of the Company’s main subsidiaries is set out in note 32.

(ii) Non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in Income Statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in the Statement of Comprehensive Income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in the Statement of Comprehensive Income are reclassified to the Income Statement.

(iv) Put options over non-controlling interests

A wholly owned subsidiary of EFG International wrote a put option on shares in a subsidiary that is held by non-controlling interests. As the risks and rewards of the shares subject to the put option have not been transferred to the Group, the Group has adopted the double credit approach for balance sheet recognition. It has continued to recognise the non-controlling interest and separately recognised the put option as a liability by reclassification from Group equity. This financial liability is measured at management’s best estimate of the redemption amount. Subsequent changes in the value of this liability are recorded in the Income Statement.

(v) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group’s investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in the Statement of Comprehensive Income is reclassified to the Income Statement where appropriate.

**(c) Foreign currencies**

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in CHF which is the Group's presentation currency, as the functional currency of the parent company and of its major operating subsidiary, EFG Bank AG. Assets and liabilities of foreign subsidiaries are translated using the closing exchange rate and Income Statement items at the average exchange rate for the period reported. All resulting exchange differences are recognised as a separate component of equity (currency translation adjustment) which are reflected in other reserves. Exchange differences arising from the retranslation of the net investment in foreign subsidiaries are taken to shareholders' equity until disposal of the net investment and then released to the Income Statement. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Year-end exchange rates and average exchange rates for translation of foreign denominated subsidiaries for the main currencies are as follows:

| | 2014<br>Closing rate | 2014<br>Average rate | 2013<br>Closing rate | 2013<br>Average rate |
|---|---|---|---|---|
| USD | 0.989 | 0.915 | 0.891 | 0.927 |
| GBP | 1.542 | 1.507 | 1.471 | 1.449 |
| EUR | 1.202 | 1.215 | 1.227 | 1.231 |

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in the Income Statement, and other changes in carrying amount are recognised in the Statement of Comprehensive Income.

**(d) Derivative financial instruments and hedging**

Derivative financial instruments are initially recognised in the balance sheet at fair value on the date on which the derivative contract is entered into, and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, including recent market transactions, discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is derived from its comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging), or based on a valuation technique whose variables include only data from observable markets.

Certain derivatives embedded in other financial instruments, such as the option in a structured product, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit and loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the Income Statement, unless the Group chooses to designate the hybrid contracts at fair value through profit and loss. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument; and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

i) hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments (fair value hedge)
ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge), or
iii) hedges of a net investment in a foreign operation (net investment hedge)

Hedge accounting is used for derivatives designated as such, provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.
The Group will discontinue hedge accounting in the following scenarios:

– when the Group determines that a hedging instrument is not, or has ceased to be, highly effective as a hedge,
– when the derivative expires or is sold, terminated or exercised,
– when the hedged item matures, is sold or repaid; or
– when forecast transactions are no longer deemed highly probable.

Hedge ineffectiveness represents the amount by which:
– the changes in the fair value of the hedging instrument differ from changes in the fair value of the hedged item attributable to the hedged risk, or
– the changes in the present value of future cash flows of the hedging instrument exceed changes (or expected changes) in the present value of future cash flows of the hedged item.

Such ineffectiveness is recorded in current period earnings in net gain/(loss) from financial instruments measured at fair value. Interest income and expense on derivatives designated as hedging instruments in effective hedge relationships is included in net interest income.

#### (i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, for which the effective interest method is used, is amortised to the Income Statement over the period to maturity.

#### (ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the Statement of Comprehensive Income. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. Amounts accumulated in the Statement of Comprehensive Income are recycled to the Income Statement in the periods in which the hedged item will affect profit or loss (for example, when the forecast transaction that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income Statement.

(iii) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the Statement of Comprehensive Income; the gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. Gains and losses accumulated in the Statement of Comprehensive Income are included in the Income Statement when the foreign operation is disposed of.

(iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement. The fair values of derivative instruments held for trading and hedging purposes are disclosed in note 26.

**(e) Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount presented in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Such a right of set off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

i) in the normal course of business,
ii) the event of default and
iii) the event of insolvency or bankruptcy.

**(f) Income Statement**

(i) Interest income and expenses

Interest income and expenses are recognised in the Income Statement for all interest bearing instruments on an accrual basis, using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and any other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Banking fees and commissions

Fees and commissions are generally recognised on an accrual basis. Fees and commissions relating to foreign exchange transactions, bank charges, brokerage activities and portfolio management are recognised, as applicable, on either a time-apportioned basis, at the transaction date or on completion of the underlying transaction.

Fees and commission arising from negotiating a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable contracts, usually on a time-apportioned basis. Asset management fees related to investment funds are recognised over the period in which the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance linked fees or fee components are recognised when the performance criteria are fulfilled and the fee can be reliably measured.

**(g) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Property, plant and equipment are periodically reviewed for impairment, with any impairment charge being recognised immediately in the Income Statement.

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment, to their residual values over their estimated useful life as follows:
– Leasehold improvements: 5–20 years
– Computer hardware: 3–5 years
– Furniture, equipment and motor vehicles: 3–10 years

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the Income Statement.

**(h) Intangible assets**

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired undertaking at the date of acquisition. Goodwill on acquisitions of subsidiaries is reported under 'Intangible assets', while goodwill on acquisition of associates is included in 'Investments in associates'. The carrying amount of goodwill is reviewed at least annually. Where evidence of impairment exists, the carrying amount of goodwill is re-assessed and written down to recoverable amount (where recoverable amount is defined as the higher of the asset's fair value less costs to sell and value in use). Goodwill is allocated to cash generating units for the purpose of impairment testing (note 33.3). Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Other intangible assets – Client Relationships

They are stated at estimated costs less accumulated amortisation calculated on a 4 to 13 year basis. The remaining life is reviewed periodically for reasonableness.

(iii) Other intangible assets – Trademarks

They are stated at estimated costs less accumulated amortisation calculated on a 10 to 14 year basis.

(iv) Other intangible assets – Non-compete agreements

They are stated at estimated costs less accumulated amortisation calculated on a 3 to 10 year basis (depending on contractual agreements).

(v) Other intangible assets – Computer software

Computer software is stated at cost less accumulated amortisation and impairment losses. It is periodically reviewed for impairment, with any impairment charge being recognised in the Income Statement. Amortisation is calculated using the straight-line method over a 3–5 year basis. The acquisition cost of software capitalised is on the basis of the cost to acquire and bring into use the specific software.

### (i) Financial assets and liabilities

All financial assets are recorded on the day the transaction is undertaken, with the exception of deposits and loans, which are entered in the balance sheet on their respective value dates. Purchases and sales of financial assets at fair value, held-to-maturity and available-for-sale are recognised on trade-date, which is the date on which the Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through the Income Statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value are included in the Income Statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in the Statement of Comprehensive Income, until the financial asset is derecognised or impaired. At this time the cumulative gain or loss previously recognised in the Statement of Comprehensive Income is recognised in the Income Statement. Interest calculated using the effective interest method, is recognised in the Income Statement. Dividends on available-for-sale equity instruments are recognised in the Income Statement when the entity's right to receive payment is established.

The fair value of quoted investments in active markets is based on current bid prices. If there is no active market for financial assets, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Life insurance policies are included as financial assets at fair value, available-for-sale and held-to-maturity. The Group uses a discounted cash flow valuation technique using non market observable inputs, which incorporates actuarially based assumptions on life expectancy to value life insurance policies.

Life insurance policies that are classified as held-to-maturity generate a return based on an effective Internal Rate of Return, included in Interest income and which increases the carrying value on the balance sheet. For policies transferred from available-for-sale, any available-for-sale equity reserve at the date of transfer is amortised into the Income Statement over the estimated remaining life of the life insurance policies. Any excess of death benefit compared to the carrying amount of an individual matured policy is amortised into the Income Statement over the remaining portion of the originally estimated life of the life insurance policies.

If objective evidence exists that a held-to-maturity investment is impaired, the impairment loss is measured as the difference between the asset's carrying value and the present value of the estimated future cash flows discounted using the original effective interest rate of the financial asset. The carrying amount of the asset is reduced accordingly and the loss is recognised in the Income Statement. Premiums paid are recognised as part of the cost of the investment and increase the carrying value on the balance sheet.

The Group classifies its financial assets in the following categories: at fair value; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

#### (i) Financial assets at fair value

This category has two sub-categories: financial assets held-for-trading, and those designated at fair value at inception.

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, or if so designated by management. Derivatives are also categorised as held-for-trading unless they are designated as hedging instruments.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group upon initial recognition designates as at fair value, or those that the Group upon initial recognition designates as available-for-sale. Assets classified as loans and receivables arise when the Group provides money, goods or services directly to a debtor.

(iii) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

(iv) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

(v) Financial liabilities at fair value

A financial liability is classified in this category if acquired principally for the purpose of buying in the short term, or if so designated by management as a hedge for an asset, or as a hedge for the derivative component of a structured product.

**(j) Impairment of financial assets**

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or portfolio of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified within the individual financial assets in the portfolio, including:
   – adverse changes in the payment status of borrowers in the portfolio; or
   – national or local economic conditions that correlate with defaults on the assets in the portfolio.

(i) Available-for-sale assets

The Group determines that available-for-sale investments are potentially impaired for:

– Equity investments when there has been a significant or prolonged decline in the fair value of the investments below their cost. In determining what is significant or prolonged, the Group's management exercises judgment. The Group evaluates among other factors, the normal volatility in valuation. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.
– Debt investments when indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the Income Statement – is removed from the Statement of Comprehensive Income and recognised in the Income Statement. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in the Income Statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Income Statement, the impairment loss is reversed through the Income Statement.

(ii) Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost ocurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Income Statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the Income Statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the Income Statement.

**(k) Debt securities in issue**

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the Income Statement over the life of the borrowings using the effective interest method. If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in gains less losses from other securities.

**(l) Leases**

The leases entered into by the Group are operating leases. The total payments made under operating leases are charged to the Income Statement on a straight-line basis over the life of the lease.

**(m) Deferred income tax**

Deferred income tax is provided, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The expected effective tax rates are used to determine deferred income tax. The principal temporary differences arise from goodwill impairment, property, plant and equipment depreciation, pension and other retirement benefits obligations, and revaluation of certain financial assets and liabilities, including derivative instruments.

Deferred tax assets are only recognised to the extent that it is probable that they will crystallise in the future. Deferred tax relating to changes in fair values of available-for-sale investments, which is taken directly to the Statement of Comprehensive income, is charged or credited directly to the Statement of Comprehensive Income and is subsequently recognised in the Income Statement together with the deferred gain or loss. Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

**(n) Employee benefits**

(i) Defined benefit obligations

The Group operates various pension schemes which are either defined contribution or defined benefit plans, depending on prevailing practice in each country. For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans and has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. This applies to most of the locations where the Group operates except for Switzerland.

A defined benefit plan is a pension plan that is not a defined contribution plan. The Switzerland pension plan in place is classified as a defined benefit plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.
In Switzerland, the Group maintains a pension plan according to Swiss pension law. The Group's legal obligation, in respect of this plan, is merely to pay contributions at defined rates (defined contribution). However, this plan incorporates certain guarantees of minimum interest accumulation and conversion of capital to pension. As a result, this plan has been reported as a defined benefit pension plan for IFRS purposes.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used as reference of risk free rates. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the Statement of Comprehensive Income in the period in which they arise. Past-service costs are recognised immediately in Income Statement.

(ii) Short-term employee benefits

The Group recognises short-term compensated absences and approved bonuses as a liability and an expense.

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options or restricted stock units is recognised as an expense over the vesting period for options or restricted stock units granted under the plan.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or restricted stock units granted, excluding the impact of any non-market vesting conditions (for example, profitability and revenue growth targets). Non-market vesting conditions are included in assumptions about the number of options and restricted stock units that are expected to become exercisable. The expense recognised during each period is the pro-rata amount of the fair value of options expected to become exercisable plus the impact of the revision of original estimates, if any, which is recognised in the Income Statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to the share capital (nominal value) and share premium when the options are exercised.

**(o) Related party transactions**

Related parties include associates, fellow subsidiaries, directors, their close families, companies owned or controlled by them and companies whose financial and operating policies they can influence. Transactions of similar nature are disclosed on an aggregate basis.

**(p) Provisions**

Provisions are recognised when:

a) The Group has a present legal or constructive obligation as a result of past events;
b) It is probable that an outflow of economic benefits will be required to settle the obligation; and
c) Reliable estimates of the amount of the obligation can be made.

Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

**(q) Share Capital**

Ordinary shares and non-voting Bons de Participation issued are classified as equity.

(i) Share issue costs

Incremental costs directly attributable to the issue of new shares or Bons de Participation are shown in equity as a deduction from the proceeds.

(ii) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders.

(iii) Treasury shares

Where the Group purchases its own equity share capital, the consideration paid is deducted from total shareholders' equity, and classified as treasury shares until they are cancelled. If such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

**(r) Fiduciary activities**

Where the Group acts in a fiduciary capacity, such as nominee, trustee or agent, assets and income arising on fiduciary activities, together with related undertakings to return such assets to customers, are excluded from the financial statements. See note 48.

**(s) Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, short term deposits and other short-term highly liquid investments with original maturities of three months or less.

**(t) Comparatives**

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the process of applying the Group's accounting policies, the Group's management makes various judgements, estimates and assumptions that may affect the reported amounts of assets and liabilities recognised in the financial statements in future periods. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### (a) Impairment of intangible assets

The Group tests at least annually whether goodwill has suffered impairment in accordance with the accounting policy stated in note 2 (h). The recoverable amounts of cash-generating units are the higher of the assets' value in use and fair value less costs of disposal which is determined on the basis of the best information available on the amount that could be obtained from the disposal of the assets in an arm's length transaction, after deduction of the costs of disposal. The value in use is determined by using a discounted cash-flow calculation based on the estimated future operating cash-flows of the asset. An impairment is recorded when the carrying amount exceeds the recoverable amount. For key assumptions used in value in use calculations and further information please refer to note 33.3.

### (b) Fair value of financial instruments

The fair value of financial instruments that are not quoted in an active market is determined using valuation techniques (note 4.2.1). Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the personnel that created them. All models are validated before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### (c) Financial assets at fair value – Life insurance policies

The Group follows the guidance of IFRS13 on the valuation of unquoted designated at fair value life insurance policies (note 4.2.1). The Group uses a discounted cash flow valuation technique using non-market observable inputs, which incorporates actuarially based assumptions on life expectancy. See note 4.2.1 for sensitivity analysis to changes in life expectancies on the valuation of the life insurance policies. By way of illustration, a 100 basis point increase in the market yield (IRR) would result in a loss of CHF (11.6) million through the Income Statement (2013: loss of CHF (11.4) million), and a 3 month increase in actual life expectancies would result in a loss of CHF (18.8) million (2013: loss of CHF (17.0) million).

### (d) Available-for-sale – Life insurance policies

The Group follows the guidance of IFRS13 on the valuation of unquoted available-for-sale life insurance policies. The Group uses a discounted cash flow valuation technique using non-market observable inputs, which incorporates actuarially based assumptions on life expectancy. See note 4.2.1 for sensitivity analysis to changes in life expectancies on the valuation of the life insurance policies. By way of illustration, a 100 basis point increase in the market yield (IRR) would result in a loss of CHF (1.3) million through the Statement of Comprehensive Income (2013: loss of CHF (1.2) million), and a 3 month increase in actual life expectancies would result in a loss of CHF (2.1) million (2013: loss of CHF (2.0) million).

### (e) Impairment of other available-for-sale investments

The Group determines any impairment of available-for-sale investments through a two-step process. The Group first performs a review at each reporting date to determine whether there is objective evidence that impairment exists for a financial asset. If such evidence exists, the Group measures and records the impairment loss in the reporting period. The Group determines that available-for-sale investments are potentially impaired when there has been a significant or prolonged decline in the fair value of the investments below their cost. In determining what is significant or prolonged, the Group's management exercises judgment. The Group evaluates among other factors, the normal volatility in valuation. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

**(f) Held-to-maturity investments – Life insurance policies**

The Group concluded that it is appropriate to classify certain life insurance policies as held-to-maturity for the reasons explained below and that these financial assets fall within the definition of IAS 39.9 related to held-to-maturity classification:

- Non-derivative financial asset: Life insurance policies are not treated as derivatives and are akin to fixed income instruments. A derivative typically involves only a percentage of the notional exposure being paid for and a leverage effect. However, the full value of the life insurance policies was paid when they were acquired and no leverage effect exists.
- Fixed or determinable payments: Cash flows relating to life insurance policies are the premium payments required to keep the policies in force and the death benefits receivable. The cash flow timing is determined by mortality assumptions derived from the standard mortality tables.
- Fixed maturity: No financial assets with indefinite lives can be classified as held-to-maturity. The life insurance policies have a prefixed event that determines the maturity of the instrument (i.e. the death of the insured which is estimated based on actuarial data).
- Intention and ability to hold to maturity: the Group concluded on recognition in 2010 that it had, and continues to have the intention and the ability to hold these life insurance policies until maturity.

**(g) Held-to-maturity investments – Others**

The Group follows the IAS 39 guidance on classifying non-derivative financial assets, with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. The Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity, it will be required to reclassify the entire category as available-for-sale. The investments would therefore be measured at fair value, not amortised cost.

**(h) Income taxes**

The Group is subject to income taxes in various jurisdictions. Estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

**(i) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The determination of whether an outflow is probable and the amount, which are assessed by Group management in conjunction with the Group's legal and other advisors requires the judgement of the Group's management.

**(j) Retirement benefit obligations**

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 44.

## 4. FINANCIAL RISK ASSESSMENT AND MANAGEMENT

The Group's activities are predominantly carried out on its clients' behalf, with the clients carrying the risk. As such, the Group takes limited credit risk, market risk and liquidity risk. Most credit risk is limited to interbank placements with rated financial institutions, investments in bonds of financial institutions, sovereign and corporate bodies, as well as mortgages, lombard loans, other secured loans and credit risk associated with the Group's holding of life insurance policies. Market risk is largely restricted to limited foreign exchange and interest rate gapping positions maintained by the Group. Ultimate responsibility for the supervision of risk management lies with EFG International's Board of Directors, which has delegated certain functions to its Risk Committee, which sets policies and risk appetite. Implementation of the Group's policies and compliance with procedures is the responsibility of the Executive Committee and its sub-committees for market risk and credit/counterparty risk.

The Board has delegated to the Risk Committee the responsibility to analyse the main risks the Group may be exposed to. These main risks are the credit, market and operational risk as detailed below. Monitoring of credit risk is based on the ratings diversification and evolution; the one for the market risk is based on the average positions over the last year and on the calculation of VaR (including stress scenario analysis); the one for the operational risk on its inventory of the identified risks with an indication of their probability of occurrence and the potential financial impacts estimated. In addition, the Group has taken into account in its analysis the risk mitigation measures and the internal control framework (including the internal procedures). The Board has also focused its attention to the guarantee of a constant monitoring and evaluation of these risks, as well as the measurement of the potential impact of these risks on the financial statements. Based on this analysis, the Board has approved the Risk Policy.

### 4.1 Credit risk

Credit risk refers to the possibility that a financial loss will occur as a result of a borrower's or counterparty's deteriorating creditworthiness and/or inability to meet its financial obligations. The Group's credit risk exposure is comparatively low because its primary credit exposures relate to loans collateralised by securities portfolios and by mortgages, or to rated financial institutions, sovereigns and corporates.

#### 4.1.1 Credit risk management

#### (a) Loans and advances

A basic feature of the credit approval process is a separation between the firm's business origination and credit risk management activities. Credit requests are initiated by Client Relationship Officers and must be supported by Regional Business Heads and are thereafter analysed and submitted to the competent credit approval bodies and processed by the credit departments.

The Executive Credit Committee of the Group has overall responsibility for the client credit business, including the implementation of credit policies and procedures defined by the Board of the Group. Certain duties, including monitoring of day-to-day operations, have been delegated to the various Credit Departments of the Group under the supervision of the Credit Department of EFG Bank AG. The approval of loans, ceilings and other exposures has been delegated, based on certain defined risk and size criteria, to senior members of the credit departments, certain credit committees of international units and to the Executive Credit Committee of the Group.

The approval of large and higher risk profile exposures is centralised in Switzerland, in compliance with local regulatory and legal requirements of the individual international business units.

Management insists on thoroughly understanding the background and purpose of each loan (which is typically for investment in securities, funds or investment related insurance policies) as well as the risks of the underlying collateral of each loan.

The Group's internal rating system assigns each client credit exposure to one of ten rating categories. The rating assesses the borrower's repayment ability and the value, quality, liquidity and diversification of the collateral securing the credit exposure. The credit policy and the nature of the loans ensure that the Group's loan book is of high quality. Consequently, an overwhelming majority of the Group's credit exposures are rated within the top 3 categories.

Group's internal ratings scale and comparison to external ratings:

| Group's ratings | Rating | Description of grade | S&P's rating |
|---|---|---|---|
| 1 | Top | Secured by "cash collateral or equivalent" – good diversification | AAA |
| 2 | High | High Secured by "cash collateral or equivalent" – imperfect diversification | AA |
| 3 | Very good | Secured by "other collateral" | A |
| 4 | Good | Partly secured by "cash collateral or equivalent" | BBB |
| 5 | Acceptable | Unsecured but prime borrower | BB |
| 6 | Weak | Borrower situation/collateral value is deteriorating | B |
| 7 | Poor | Conditions of initial credit are no longer being met | CCC |
| 8 | Unacceptable | Interest is no longer being paid – collateral is being held | CC to C |
| 9 | Potential loss | Bank holds illiquid – uncollectible or no collateral | D |
| 10 | Loss | No collateral or uncollectible collateral | D |

The ratings of a major rating agency (shown in the table above) are mapped to the Group's rating classes based on above internal definitions and on the long-term average default rates for each external grade. The Group uses the external ratings to benchmark its internal credit risk assessment.

### (b) Debt securities and other bills

For debt securities and other bills, external rating such as S&P's rating or their equivalents, are used by the Group for managing the credit risk exposures.

### 4.1.2 Risk limit control and mitigation policies

To qualify as collateral for a margin loan, a client's securities portfolio must generally be well diversified with differing margins applied depending on the type of risk profile and liquidity of the security. Additional margins are applied if the loan and the collateral are not in the same currency or diversification criteria are not fully met. Over 80% of mortgages are originated by EFG Private Bank Ltd (in the UK) and its subsidiaries. These mortgages are related predominantly to residential properties in prime London locations.

Credit departments monitor credit exposures against approved limits and pledged collateral. If necessary, they initiate rectification steps. Most collateral is valued daily (but may be valued more frequently during periods of high market volatility). However, structured notes, certain mutual and hedge funds are valued monthly, whereas insurance policies are valued at least annually. UK mortgage valuations are reviewed annually and updated using statistical (indexation) methods.

Management of exposure to financial institutions is based on a system of counterparty limits coordinated at the Group level, subject to country limits. Limits for exposure to counterparties are granted based upon internal analysis. The limits are set and supervised by the Executive Credit Sub- depending on each counterparty's S&P or Moody's ratings (with reference to individual and support ratings) and on the counterparties total equity. These limits are annually reported to the Risk Committee.

Other specific control and mitigation measures are outlined below.

**(a) Collateral**

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for credit exposures. The Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and advances are:

– Mortgages over residential and commercial properties;
– Charges over financial instruments such as debt securities and equities.

**(b) Derivatives**

The Group maintains a strict monitoring of credit risk exposure induced by over-the-counter derivatives transactions vs. dedicated limits granted. Credit risk exposure considers the current credit risk exposure through the Mark-to-Market of the transactions and the potential future exposure through dedicated add-on factors applied to the notional of the transactions. While being ignored in the computation of credit risk, EFGI Business units have signed mitigating agreements with its most important financial institutions counterparties; collateral paid or received being taken into consideration.

**(c) Credit related commitments**

Credit related commitments include the following:

– Guarantees, forward of risk and standby letters of credit – these carry the same credit risk as loans.
– Commitments to extend credit – these represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. The Group is potentially exposed to loss in an amount equal to the total unused commitments. However, commitments to extend credit are contingent upon customers maintaining specific credit standards.

For all of the above, the same standards apply regarding approval competences, collateral requirements and monitoring procedures as outlined under paragraph 4.1.1. a).

The guarantees and irrevocable lines of credit can be drawn by the customers only if the client has adequate collateral pledged with the Group. Should the guarantees and irrevocable lines of credit be drawn, the majority of the facilities would be rated by the Group with a rating of 1 or 2.

#### 4.1.3 Exposure to credit risk

The following table compares a worst case scenario of credit risk exposure to the Group at 31 December 2014 and 2013, before and after collateral held or other credit enhancements. Equity related financial instruments are not included in the below analysis as they are not considered as subject to credit risk.

| | Maximum exposure before collateral held or other credit enhancements | | Exposure after collateral held or other credit enhancements | |
|---|---|---|---|---|
| | 2014 CHF millions | 2013 CHF millions | 2014 CHF millions | 2013 CHF millions |
| Cash and balances with central banks | 2,855.3 | 848.9 | 2,855.3 | 848.9 |
| Treasury bills and other eligible bills | 626.0 | 631.2 | 626.0 | 631.2 |
| Due from other banks | 2,108.8 | 2,200.2 | 1,626.9 | 1,492.3 |
| Loans and advances to customers | | | | |
| Overdrafts, Lombard loans and term loans | 9,423.9 | 8,529.4 | 113.5 | 89.5 |
| Mortgages | 3,607.2 | 3,032.4 | | |
| Derivative financial instruments | 569.5 | 560.4 | 138.5 | 107.9 |
| Financial assets at fair value: | | | | |
| Trading Assets – Debt securities | 105.6 | 113.3 | 105.6 | 113.3 |
| Designated at inception – Debt securities | 329.7 | 349.4 | 30.9 | 79.5 |
| Investment securities – Debt securities | 5,223.2 | 4,925.1 | 5,223.2 | 4,925.1 |
| Other assets | 136.7 | 155.7 | 136.7 | 155.7 |
| **On-balance sheet assets** | **24,985.9** | **21,346.0** | **10,856.6** | **8,443.4** |
| Financial guarantees | 258.3 | 270.6 | 1.3 | 0.9 |
| Loan commitments, and other credit related guarantees | 168.7 | 170.6 | 36.3 | 43.4 |
| **Off-balance sheet items** | **427.0** | **441.2** | **37.6** | **44.3** |
| **Total** | **25,412.9** | **21,787.2** | **10,894.2** | **8,487.7** |

See note 25 Collateral for loans and advances to customers which shows that collateralised loans comprised 99.0% (2013: 99.0%) of the total. Mortgages are 100% secured.

**Exposure after collateral held or other credit enhancements by ratings**

31 December 2014 based on S&P's ratings:

| | AAA–AA CHF millions | A CHF millions | BBB–BB CHF millions | B–C CHF millions | Unrated CHF millions | Total CHF millions |
|---|---|---|---|---|---|---|
| Cash and balances with central banks | 2,840.7 | | 14.6 | | | 2,855.3 |
| Treasury bills and other eligible bills | 626.0 | | | | | 626.0 |
| Due from other banks | 899.0 | 328.1 | 0.1 | 0.1 | 399.6 | 1,626.9 |
| Loans and advances to customers: | | | | | | |
| Overdrafts, Lombard loans and term loans | | | 112.6 | 0.9 | | 113.5 |
| Mortgages | | | | | | – |
| Derivative financial instruments | 23.9 | 11.8 | | | 102.8 | 138.5 |
| Financial assets at fair value: | | | | | | |
| Trading Assets – Debt securities | | 99.0 | 6.6 | | | 105.6 |
| Designated at inception – Debt securities | 22.3 | 6.5 | | 2.1 | | 30.9 |
| Investment securities – Debt securities | 4,284.3 | 679.5 | 133.7 | 56.6 | 69.1 | 5,223.2 |
| Other assets | | | | | 136.7 | 136.7 |
| **Total on-balance sheet assets 2014** | **8,696.2** | **1,124.9** | **267.6** | **59.7** | **708.2** | **10,856.6** |
| Total on-balance sheet assets 2013 | 5,483.1 | 2,113.5 | 294.7 | 1.9 | 550.2 | 8,443.4 |
| Financial guarantees | | | | | 1.3 | 1.3 |
| Loan commitments, and other credit related guarantees | | | | | 36.3 | 36.3 |
| **Total off-balance sheet items 2014** | **–** | **–** | **–** | **–** | **37.6** | **37.6** |
| Total off-balance sheet items 2013 | – | – | – | – | 44.3 | 44.3 |

**Concentration of risks of financial assets with credit risk exposure**

The Group manages the risk of concentration by monitoring and reviewing on a regular basis its large exposures.

As of 31 December 2014 the carrying value of the exposure of the ten largest borrowers was CHF 1,864.0 million (2013: CHF 1,569.0 million).

**4.1.4 Loans and advances**

Loans and advances are summarised as follows:

| | | | 31 December 2014 | | 31 December 2013 |
|---|---|---|---|---|---|
| | | Loans and advances to customers CHF millions | Due from other banks CHF millions | Loans and advances to customers CHF millions | Due from other banks CHF millions |
| Neither past due nor impaired | a) | 13,002.3 | 2,108.8 | 11,491.0 | 2,200.2 |
| Past due but not impaired | b) | 28.8 | | 70.8 | |
| Impaired | | 7.3 | | 9.6 | |
| **Gross** | | **13,038.4** | **2,108.8** | **11,571.4** | **2,200.2** |
| Less: allowance for impairment | | (7.3) | | (9.6) | |
| **Net** | | **13,031.1** | **2,108.8** | **11,561.8** | **2,200.2** |

The total impairment provision for loans and advances of CHF 7.3 million (2013: CHF 9.6 million) comprises specific provisions against individual loans. Note 24 relates to the impairment allowance for loans and advances to customers.

### (a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group (refer to note 4.1.1 for definition of internal grades).

| | Loans and advances to customers | | |
|---|---|---|---|
| Grades | Overdrafts, Lombard and Term loans CHF millions | Mortgages CHF millions | Total CHF millions |
| **31 December 2014** | | | |
| Grade 1–2 | 6,358.7 | 692.7 | 7,051.4 |
| Grade 3 | 2,649.2 | 2,337.8 | 4,987.0 |
| Grade 4–5 | 182.2 | 532.3 | 714.5 |
| Grade 6–7 | 224.8 | 16.2 | 241.0 |
| Grade 8 | | | – |
| Grade 9–10 | 7.5 | 0.9 | 8.4 |
| | **9,422.4** | **3,579.9** | **13,002.3** |
| **31 December 2013** | | | |
| Grade 1–2 | 5,734.5 | 293.8 | 6,028.3 |
| Grade 3 | 2,668.7 | 2,240.4 | 4,909.1 |
| Grade 4–5 | 114.4 | 434.5 | 548.9 |
| Grade 6–7 | 2.5 | | 2.5 |
| Grade 8 | | | – |
| Grade 9–10 | 0.2 | 2.0 | 2.2 |
| | **8,520.3** | **2,970.7** | **11,491.0** |

The increase in loans categorized as Grade 6 relates to certain outstanding loans for approximately USD 226 million for which the Group was granted security over a portfolio of financial collateral by a pledgor whose parent company has been put into receivership and is in the process of being sold. The receiver has raised legal issues as to the validity and enforceability of the security and the loans. The Group considers the loans fully collateralized and thus fully recoverable and has not made a provision. In addition, the bank has the personal covenant of a UHNWI client. The Group has informed the competent regulatory authorities and fully cooperates with them in connection with their ongoing review of the matter.

### (b) Loans and advances past due, but not impaired

Loans and advances less than 180 days past due, are not considered impaired unless other information is available to indicate the contrary. The gross amount of loans and advances to customers by class, that were past due but not impaired, were as follows:

| | Overdrafts, Lombard and Term loans CHF millions | Mortgages CHF millions | Total CHF millions |
|---|---|---|---|
| **31 December 2014** | | | |
| Greater than 180 days, past due | 0.1 | 25.6 | 25.7 |
| Less than 180 days, past due | 0.5 | 2.6 | 3.1 |
| **Total** | **0.6** | **28.2** | **28.8** |
| | | | |
| Fair value of collateral | – | 42.8 | 42.8 |
| | | | |
| **31 December 2013** | | | |
| Greater than 180 days, past due | 8.5 | 53.6 | 62.1 |
| Less than 180 days, past due | 0.6 | 8.1 | 8.7 |
| **Total** | **9.1** | **61.7** | **70.8** |
| | | | |
| Fair value of collateral | 17.8 | 74.4 | 92.2 |

### 4.1.5 Impairment and provisioning policies

The internal and external rating systems described in note 4.1.1 focus primarily on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that are expected at the balance sheet date based on objective evidence of impairment (see note 2 (j)).

All the impairment provisions come from the bottom grade. The table below shows the percentage of the Group's on balance sheet items relating to loans and advances to customers, and the associated impairment provision for each of the Group's internal grade descriptions:

| Grade descriptions | 2014 Loans and advances % | 2014 Impairment provision % | 2013 Loans and advances % | 2013 Impairment provision % |
|---|---|---|---|---|
| Grade 1–2 | 54.1% | | 52.1% | |
| Grade 3 | 38.3% | | 42.4% | |
| Grade 4–5 | 5.5% | | 4.9% | |
| Grade 6–7 | 2.0% | | 0.5% | |
| Grade 8 | 0.0% | | 0.0% | |
| Grade 9–10 | 0.1% | 100.0% | 0.1% | 100.0% |
| | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

The internal rating tool assists management to determine whether objective evidence of impairment exists, based on criteria set out by the Group including delinquency in contractual payments of principal or interest, breach of loan covenants or conditions, initiation of bankruptcy proceedings, deterioration in the value of collateral; and downgrading below investment grade level.

### 4.1.6 Debt securities, treasury bills, other eligible bills and investment securities

The table below presents an analysis of debt securities, treasury bills, other eligible bills and investment securities subject to credit risk, by rating agency designation at 31 December 2014, based on internal ratings:

| | Treasury bills and other eligible bills CHF millions | Trading Assets CHF millions | Designated at inception CHF millions | Investment securities Available-for-sale CHF millions | Investment securities Held-to-maturity CHF millions | Total CHF millions |
|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | |
| Grade 1–2 | 626.0 | | 180.1 | 3,489.8 | 890.7 | 5,186.6 |
| Grade 3 | | 99.0 | 72.2 | 525.7 | 95.6 | 792.5 |
| Grade 4–5 | | 6.6 | 32.7 | 18.2 | 115.5 | 173.0 |
| Grade 6 | | | 11.0 | 2.1 | 54.5 | 67.6 |
| Unrated | | | 33.7 | 28.3 | 2.8 | 64.8 |
| **Total** | **626.0** | **105.6** | **329.7** | **4,064.1** | **1,159.1** | **6,284.5** |
| **31 December 2013** | | | | | | |
| Grade 1–2 | 631.2 | | 134.3 | 3,248.2 | 449.7 | 4,463.4 |
| Grade 3 | | 101.6 | 174.8 | 448.2 | 554.4 | 1,279.0 |
| Grade 4-5 | | 11.7 | 37.2 | 45.9 | 100.5 | 195.3 |
| Unrated | | | 3.1 | 75.7 | 2.5 | 81.3 |
| **Total** | **631.2** | **113.3** | **349.4** | **3,818.0** | **1,107.1** | **6,019.0** |

Life insurance policies were included in grade 6 as at 31 December 2014 for an amount of CHF 67.6 million. These policies were previously categorized under grade 5. The categorisation has been changed in 2014 following the change in rating agency used for assessing the credit risk associated with the policies.

### 4.2 Market risk

Market risk refers to fluctuations in interest rates, exchange rates, share prices and commodity prices. Market risk derives from trading in treasury and investment market products which are priced daily; as well as from more traditional banking business, such as loans.

The Group engages in trading of securities, derivatives, structured products, currencies, precious metals and commodities on behalf of its clients. This business is conducted primarily out of dealing rooms in Hong Kong, Geneva, London, Cayman and Miami.

The Group does not engage in proprietary trading in securities other than its holding of fixed income securities and life insurance policies in its banking book. The Group maintains small proprietary positions in foreign exchange instruments.

Due to the nature of the Group's business and the absence of any meaningful proprietary trading activities, the market risk resulting from trading positions is limited compared to overall market risk. The largest market risk exposures relate to currency risk in connection with the capital of subsidiaries that are denominated in local currencies and the valuation of life insurance policies.

As the Group's market risk exposures are low, sensitivities would be immaterial.

#### 4.2.1 Assets and liabilities measured at fair value

#### (a) Fair value hierarchy

IFRS 13 requires classification of financial instruments at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.
The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as price) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For financial instruments that are recognized at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

| | 31 December 2014 | | | | |
|---|---|---|---|---|---|
| | Level 1 CHF millions | Level 2 CHF millions | Level 3 CHF millions | Total CHF millions | Total CHF millions |
| Derivative financial instruments (assets): | | | | | |
| Currency derivatives | | 151.6 | | 151.6 | |
| Interest rate derivatives | 0.1 | 40.1 | | 40.2 | |
| Equity derivatives | | 318.0 | | 318.0 | |
| Other derivatives | | 3.5 | | 3.5 | |
| Life insurance related | | | 56.2 | 56.2 | |
| **Total derivatives assets** | | | | | **569.5** |
| Financial assets at fair value: | | | | | |
| Debt | 105.6 | | | 105.6 | |
| **Total trading assets** | | | | | **105.6** |
| Designated at inception: | | | | | |
| Life Insurance related | | | 329.7 | 329.7 | |
| **Total financial assets designated at inception** | | | | | **329.7** |
| Investment securities: Available-for-sale | | | | | |
| Equity | 0.3 | | 29.1 | 29.4 | |
| Debt | 3,368.4 | 654.8 | | 4,023.2 | |
| Life Insurance related | | | 40.9 | 40.9 | |
| **Total investment securities available-for-sale** | | | | | **4,093.5** |
| **Total assets measured at fair value** | **3,474.4** | **1,168.0** | **455.9** | **5,098.3** | **5,098.3** |
| Derivative financial instruments (liabilities): | | | | | |
| Currency derivatives | | 109.0 | | 109.0 | |
| Interest rate derivatives | 0.2 | 228.6 | | 228.8 | |
| Equity derivatives | | 321.4 | | 321.4 | |
| Other derivatives | | 1.9 | | 1.9 | |
| **Total derivatives liabilities** | | | | | **661.1** |
| Financial liabilities designated at fair value: | | | | | |
| Equity | | | 38.7* | 38.7 | |
| Life Insurance related | | | 330.5 | 330.5 | |
| **Total financial liabilities designated at fair value** | | | | | **369.2** |
| **Total liabilities measured at fair value** | **0.2** | **660.9** | **369.2** | **1,030.3** | **1,030.3** |
| **Assets less liabilities measured at fair value** | **3,474.2** | **507.1** | **86.7** | **4,068.0** | **4,068.0** |

* *Level 3 equity related financial liabilities designated at fair value of CHF 38.7 million comprises put options held by non-controlling interests with valuations based on contractual terms and therefore is not dependent on internal assumptions on inputs, but is classified as Level 3 due to the absence of quoted prices or observable inputs.*

| | 31 December 2013 | | | | |
|---|---|---|---|---|---|
| | Level 1 CHF millions | Level 2 CHF millions | Level 3 CHF millions | Total CHF millions | Total CHF millions |
| Derivative financial instruments (assets): | | | | | |
| Currency derivatives | | 107.6 | | 107.6 | |
| Interest rate derivatives | 0.8 | 101.6 | | 102.4 | |
| Equity derivatives | | 298.0 | | 298.0 | |
| Other derivatives | 0.1 | 4.2 | 1.5 | 5.8 | |
| Life insurance related | | | 46.6 | 46.6 | |
| **Total derivatives assets** | | | | | **560.4** |
| Financial assets at fair value: | | | | | |
| Equity | 0.1 | | | 0.1 | |
| Debt | 113.2 | | | 113.2 | |
| **Total trading assets** | | | | | **113.3** |
| Designated at inception: | | | | | |
| Equity | 0.4 | | | 0.4 | |
| Debt | 50.8 | | | 50.8 | |
| Life Insurance related | | | 298.6 | 298.6 | |
| **Total financial assets designated at inception** | | | | | **349.8** |
| Investment securities: Available-for-sale | | | | | |
| Equity | 0.9 | | 25.6 | 26.5 | |
| Debt | 3,248.8 | 530.0 | | 3,778.8 | |
| Life Insurance related | | | 39.2 | 39.2 | |
| **Total investment securities available-for-sale** | | | | | **3,844.5** |
| **Total assets measured at fair value** | **3,415.1** | **1,041.4** | **411.5** | **4,868.0** | **4,868.0** |
| Derivative financial instruments (liabilities): | | | | | |
| Currency derivatives | | 130.2 | | 130.2 | |
| Interest rate derivatives | | 110.0 | | 110.0 | |
| Equity derivatives | | 300.4 | | 300.4 | |
| Other derivatives | 0.8 | 3.5 | | 4.3 | |
| **Total derivatives liabilities** | | | | | **544.9** |
| Financial liabilities designated at fair value: | | | | | |
| Equity | | | 18.2* | 18.2 | |
| Life Insurance related | | | 292.5 | 292.5 | |
| **Total financial liabilities designated at fair value** | | | | | **310.7** |
| **Total liabilities measured at fair value** | **0.8** | **544.1** | **310.7** | **855.6** | **855.6** |
| **Assets less liabilities measured at fair value** | **3,414.3** | **497.3** | **100.8** | **4,012.4** | **4,012.4** |

* *Level 3 equity related financial liabilities designated at fair value of CHF 18.2 million comprises put options held by non-controlling interests with valuations based on contractual terms and therefore is not dependent on internal assumptions on inputs, but is classified as Level 3 due to the absence of quoted prices or observable inputs.*

(i) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily of quoted bonds and equity.

(ii) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:
– Quoted market prices or dealer quotes for similar instruments;
– The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
– The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;
– Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

### (b) Movements of Level 3 instruments

| | Assets in Level 3 | | | |
|---|---|---|---|---|
| | Derivative financial instruments CHF millions | Designated at inception CHF millions | Available-for-sale CHF millions | Total Assets in Level 3 CHF millions |
| **At 1 January 2014** | 48.1 | 298.6 | 64.8 | 411.5 |
| Total gains or losses | | | | |
| in the Income Statement – Interest and discount income | | 48.1 | 4.1 | 52.2 |
| in the Income Statement – Net trading income | 4.1 | | | 4.1 |
| in the Income Statement – Net loss from financial instruments designated at fair value | | (59.8) | | (59.8) |
| in the Statement of Comprehensive Income | | | (7.5) | (7.5) |
| Purchases/Premiums paid | | 34.9 | 6.0 | 40.9 |
| Disposals/Premiums received | | (25.8) | (0.9) | (26.7) |
| Transfer from Level 3 to Level 2 | (1.5) | | | (1.5) |
| Exchange differences | 5.4 | 33.7 | 3.6 | 42.7 |
| **At 31 December 2014** | **56.1** | **329.7** | **70.1** | **455.9** |
| Total gains or losses for the period included in the Income Statement for assets held at the end of the reporting period | 4.1 | (11.7) | 4.1 | (3.5) |

| | Liabilities in Level 3 | |
|---|---|---|
| | Financial liabilities designated at fair value CHF millions | Total Liabilities in Level 3 CHF millions |
| **At 1 January 2014** | 310.7 | 310.7 |
| Total gains or losses | | |
| in the Income Statement – Interest and discount income | 48.8 | 48.8 |
| in the Income Statement – Net gain from financial instruments designated at fair value | (49.9) | (49.9) |
| Increase through shareholder's equity* | 21.3 | 21.3 |
| Purchases/Premiums paid | 30.8 | 30.8 |
| Disposals/Premiums received | (25.2) | (25.2) |
| Exchange differences | 32.7 | 32.7 |
| **At 31 December 2014** | **369.2** | **369.2** |
| Total gains or losses for the period included in the Income Statement for liabilities held at the end of the reporting period | (1.1) | (1.1) |

* *In relation with put options held by non-controlling interests already issued.*

| | Assets in Level 3 | | | |
|---|---|---|---|---|
| | Derivative financial instruments CHF millions | Designated at inception CHF millions | Available-for-sale CHF millions | Total Assets in Level 3 CHF millions |
| **At 1 January 2013** | 58.2 | 329.9 | 71.4 | 459.5 |
| Total gains or losses | | | | |
| in the Income Statement – Interest and discount income | | 53.4 | 4.0 | 57.4 |
| in the Income Statement – Net trading income | (1.1) | | | (1.1) |
| in the Income Statement – Net loss from financial instruments designated at fair value | | (98.9) | | (98.9) |
| in the Statement of Comprehensive Income | | | (11.7) | (11.7) |
| Purchases/Premiums paid | 1.6 | 36.2 | 4.9 | 42.7 |
| Disposals/Premiums received | (6.4) | (14.2) | (2.8) | (23.4) |
| Effect of disposal of subsidiary | (3.0) | | | (3.0) |
| Exchange differences | (1.2) | (7.8) | (1.0) | (10.0) |
| **At 31 December 2013** | **48.1** | **298.6** | **64.8** | **411.5** |
| Total gains or losses for the period included in the Income Statement for assets held at the end of the reporting period | (1.1) | (45.5) | 4.0 | (42.6) |

| | Liabilities in Level 3 | | |
|---|---|---|---|
| | Derivative financial instruments CHF millions | Financial liabilities designated at fair value CHF millions | Total Liabilities in Level 3 CHF millions |
| **At 1 January 2013** | 7.0 | 329.4 | 336.4 |
| Total gains or losses | | | |
| in the Income Statement – Interest and discount income | | 52.5 | 52.5 |
| in the Income Statement – Net trading income | 0.1 | | 0.1 |
| in the Income Statement – Net gain from financial instruments designated at fair value | | (86.8) | (86.8) |
| Purchases/Premiums paid | | 32.1 | 32.1 |
| Disposals/Premiums received | | (9.0) | (9.0) |
| Effect of disposal of subsidiary | (7.1) | | (7.1) |
| Exchange differences | | (7.5) | (7.5) |
| **At 31 December 2013** | **–** | **310.7** | **310.7** |
| Total gains or losses for the period included in the Income Statement for liabilities held at the end of the reporting period | 0.1 | (34.3) | (34.2) |

**(c) Fair value methodology used for Level 3 instruments – valuation technique**

**Valuation governance**

The Group's model governance is outlined in a model vetting policy, which describes the Group's model risk governance framework, model validation approach and the model validation process.

A significant part of the independent price verification process is the estimation of the accuracy of modelling methods and input assumptions, which return fair value estimates derived from valuation techniques. As part of the model governance framework, benchmarking the fair values estimates is performed against external sources and recalibration performed on a continuous basis against changes in fair value versus expectations. Fair value measurements are compared with observed prices and market levels, for the specific instrument to be valued whenever possible.

As a result of the above and in order to align with independent market information and accounting standards, valuation adjustments may be made to the business's fair value estimate.

**Valuation techniques**

If the market for a financial instrument is not active, the Group establishes fair value by using one of the following valuation techniques:

i) Recent arm's length market transactions between knowledgeable, willing parties (if available)
ii) Reference to the current fair value of another instrument (that is substantially the same)
iii) Discounted cash flow analysis
iv) Option pricing models

| **Valuation techniques** | | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|---|
| **Discounted cash flow analysis** | **Products** | | |
| Derivatives | Credit default swaps | | 1.5 |
| Available-for-sale – Equity securities | Equities in stock exchanges and clearing houses | 28.7 | 25.6 |
| Available-for-sale – Equity securities | Private equity funds | 0.4 | |
| Financial liabilities designated at fair value | Liability to purchase non-controlling interests | (38.7) | (18.2) |
| **Discounted cash flow analysis and life expectancies (non-market observable inputs)** | | | |
| Derivatives | Synthetic life settlement policies | 56.2 | 46.6 |
| Financial assets at fair value | Physical life settlement policies | 30.9 | 29.6 |
| Financial assets at fair value | Physical life settlement policies* | 298.8 | 269.0 |
| Available-for-sale | Physical life settlement policies | 40.9 | 39.2 |
| Financial liabilities designated at fair value | Synthetic life settlement policies* | (330.5) | (292.5) |
| **Total** | | **86.7** | **100.8** |

* *Assets valued at CHF 298.8 million (2013: CHF 269.0 million) and similarly valued liabilities at CHF 330.5 million (2013: CHF 292.5 million) are linked and thus a change in value in one would be mostly reflected in the other.*

The Group values certain financial instruments at fair value using models which rely on inputs to the models that are not based on observable market data (unobservable inputs). These financial instruments are classified as Level 3. Below is a summary of the valuation techniques and unobservable inputs to the valuations of these Level 3 financial instruments that significantly affect the value, and describe the interrelationship between observable inputs and how they affect the valuation.

### (i) Life settlement policies

The Group uses a discounted cash flow valuation technique using non-market observable inputs for the valuation of physical and synthetic life settlement policies and related financial instruments. These incorporate:

– actuarially based assumptions on life expectancy, including changes in the market perception of changes in life expectancies that may arise (i.e. excluding actual changes in life expectancy based on actuarial evidence).
– premium estimates and
– market yield/discount factors – Internal rate of return ("IRR").

The assumptions on life expectancy are based on the Valuation Basic Table ("VBT") published by the Society of Actuaries and adjusted by external life settlement providers and actuaries to reflect the individual characteristics of a life settlement policy. Premium estimates are based on cost of insurance estimates, which are provided by independent parties specialised and experienced in the field of premium calculations for life settlement policies. The Group conducts a regular indepth review of such providers to ensure high quality standards and reliability of the forecasts. The IRR reflects the expected return an investor in a life settlement policy would expect to receive by buying a life settlement policy on the market and holding it until maturity. The market for life settlement policies is currently very illiquid and hence this IRR is unobservable in the current market, and as a result, assumptions are made in determining the relevant IRR.

The sensitivity to the Group's valuation of physical and synthetic life settlement policies and related financial instruments is included below:

| | | IRR | | Life Expectancy | | Premium Estimates | |
|---|---|---|---|---|---|---|---|
| | | –1% CHF millions | +1% CHF millions | –3 months CHF millions | +3 months CHF millions | –5% CHF millions | +5% CHF millions |
| **Life settlements sensitivity** | | | | | | | |
| Derivatives | Synthetic policies | 3.8 | (3.4) | 0.1 | (0.2) | | |
| Financial assets at fair value | Physical policies | 12.5 | (11.6) | 19.2 | (18.8) | 9.4 | (9.4) |
| Available-for-sale | Physical policies | 1.4 | (1.3) | 2.1 | (2.1) | 1.4 | (1.4) |
| Financial liabilities designated at fair value | Synthetic policies | (13.2) | 12.3 | (14.4) | 16.3 | | |

### (ii) Equity in stock exchanges and clearing houses

The participation in SIX Group is based on a valuation using the expected net asset value of SIX Group at the end of December 2014 which the Group understands would be the basis for any sale or purchase between SIX Group shareholders. As SIX Group has not yet published its December financial statements at the time of preparing these consolidated financial statements, the Group has made an estimate of the net asset value using unobservable data, being the estimated SIX Group year-end net profit as of December 2014. The sensitivity to this valuation is that the gain/loss taken through Comprehensive Income for a 30% higher and 30% lower 12 month 2014 estimated profit would be CHF 0.5 million gain or CHF (0.4) million loss on this position classified as available-for-sale.

(iii) Put option over non-controlling interests – liability to purchase non-controlling interest

The put options of the minority shareholders of Asesores y Gestores Financieros SA give rise to a financial liability designated at fair value of CHF 38.7 million that corresponds to the estimated discounted repurchase amount, which was deducted from shareholders' equity when the put options were created. In 2014 there were additional put options written by the Group to the minority shareholders for an amount of CHF 21.3 million.

The put options valuation methodology has been contractually agreed upon with the minority shareholders and is based on unobservable but objective accounting information (the Continuing Valuation Methodology – "CVM"). This valuation methodology takes into account three relevant accounting measures: EBITDA, Net revenues and Normalised Net Assets. The CVM shall contractually never be lower than the fixed price of EUR 32.2 million, which should be paid to minority shareholder upon the exercise of the put. The actual CVM calculated as per end of December is below the contractual CVM and thus the current sensitivity of the put options is considered to be zero, hence no sensitivity to this currently exists.

Put options held by non-controlling interests have valuations primarily based on contractual terms and depend on internal assumptions only to a limited extent and are classified as Level 3.

**(d) Offsetting**

The following financial assets and financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

| As at 31 December 2014 | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities set off in the balance sheet | Net amounts of recognised financial assets presented in the balance sheet | Related amounts not set off in balance sheet: Financial liabilities subject to netting agreements | Related amounts not set off in balance sheet: Cash collateral received | Net exposure |
|---|---|---|---|---|---|---|
| Derivatives | 618.8 | (49.3) | 569.5 | (152.8) | (313.7) | 103.0 |
| Life insurance policies – Designated at fair value at inception | 298.8 | | 298.8 | (298.8) | | – |
| **Total financial assets** | **917.6** | **(49.3)** | **868.3** | **(451.6)** | **(313.7)** | **103.0** |

| As at 31 December 2014 | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial assets set off in the balance sheet | Net amounts of recognised financial liabilities presented in the balance sheet | Related amounts not set off in balance sheet: Financial assets subject to netting agreements balance sheet | Related amounts not set off in balance sheet: Cash collateral paid | Net exposure |
|---|---|---|---|---|---|---|
| Derivatives | 710.4 | (49.3) | 661.1 | (152.8) | (225.7) | 282.6 |
| Life insurance policies – Designated at fair value at inception | 330.5 | | 330.5 | (298.8) | (109.6) | – |
| **Total financial liabilities** | **1,040.9** | **(49.3)** | **991.6** | **(451.6)** | **(335.3)** | **282.6** |

| As at 31 December 2013 | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities set off in the balance sheet | Net amounts of recognised financial assets presented in the balance sheet | Related amounts not set off in balance sheet: Financial liabilities subject to netting agreements | Related amounts not set off in balance sheet: Cash collateral received | Net exposure |
|---|---|---|---|---|---|---|
| Derivatives | 611.4 | (51.0) | 560.4 | (249.0) | (172.1) | 139.3 |
| Life insurance policies – Designated at fair value at inception | 269.0 | – | 269.0 | (269.0) | – | – |
| **Total financial assets** | **880.4** | **(51.0)** | **829.4** | **(518.0)** | **(172.1)** | **139.3** |

| As at 31 December 2013 | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial liabilities set off in the balance sheet | Net amounts of recognised financial liabilities presented in the balance sheet | Related amounts not set off in balance sheet | | |
|---|---|---|---|---|---|---|
| | | | | Financial assets subject to netting agreements balance sheet | Cash collateral paid | Net amount |
| Derivatives | 595.9 | (51.0) | 544.9 | (249.0) | (285.4) | 10.5 |
| Life insurance policies – Designated at fair value at inception | 292.5 | – | 292.5 | (269.0) | (100.0) | – |
| **Total financial liabilities** | **888.4** | **(51.0)** | **837.4** | **(518.0)** | **(385.4)** | **10.5** |

The Group is netting down legs of identified CDS where the counterparty, the maturities and the currency are matched and where the Group has a legal enforceable right to settle net with the counterparty, and where operationally the settlement is made on a net basis. At the end of December 2014 derivative financial instruments valued at CHF 50.9 million have been netted with derivative financial instruments with a negative value of CHF 49.3 million for a net presentation of derivative financial instruments as an asset with a value of CHF 1.6 million.

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Group and the counterparty allows for the net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party. Per the terms of each agreement, an event of default includes failure by a party to make payment when due; failure by a party to perform any obligation required by the agreement (other than payment) if such failure is not remedied within periods of 30 to 60 days after notice of such failure is given to the party; or bankruptcy.

### 4.2.2 Assets and liabilities not measured at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value. Changes in credit risk related to the Group are not reflected in the table below.

| | Note | Carrying value CHF millions | Fair value CHF millions | Difference CHF millions |
|---|---|---|---|---|
| **31 December 2014** | | | | |
| **Financial Assets** | | | | |
| Due from other banks | (i) | 2,108.8 | 2,108.8 | – |
| Loans and advances to customers | (ii) | 13,031.1 | 13,123.3 | 92.2 |
| Investment securities – Held-to-maturity – Life insurance related | (iii) | 774.2 | 525.4 | (248.8) |
| Investment securities – Held-to-maturity – Debt | (iv) | 384.9 | 368.0 | (16.9) |
| | | **16,299.0** | **16,125.5** | **(173.5)** |
| **Financial Liabilities** | | | | |
| Due to other banks | (v) | 466.0 | 465.5 | 0.5 |
| Due to customers | (vi) | 18,564.5 | 18,561.5 | 3.0 |
| Subordinated loans | (viii) | 246.3 | 265.3 | (19.0) |
| Other financial liabilities | (vii) | 3,030.7 | 3,037.6 | (6.9) |
| Debt issued | (ix) | 411.1 | 411.1 | – |
| | | **22,718.6** | **22,741.0** | **(22.4)** |
| **Net financial instruments not measured at fair value** | | **(6,419.6)** | **(6,615.5)** | **(195.9)** |
| **31 December 2013** | | | | |
| **Financial Assets** | | | | |
| Due from other banks | (i) | 2,200.2 | 2,204.7 | 4.5 |
| Loans and advances to customers | (ii) | 11,561.8 | 11,633.9 | 72.1 |
| Investment securities – Held-to-maturity – Life insurance related | (iii) | 689.2 | 482.3 | (206.9) |
| Investment securities – Held-to-maturity – Debt | (iv) | 417.9 | 371.9 | (46.0) |
| | | **14,869.1** | **14,692.8** | **(176.3)** |
| **Financial Liabilities** | | | | |
| Due to other banks | (v) | 290.1 | 287.1 | 3.0 |
| Due to customers | (vi) | 16,443.8 | 16,450.3 | (6.5) |
| Subordinated loans | (viii) | 245.1 | 258.7 | (13.6) |
| Other financial liabilities | (vii) | 2,421.5 | 2,432.4 | (10.9) |
| | | **19,400.5** | **19,428.5** | **(28.0)** |
| **Net financial instruments not measured at fair value** | | **(4,531.4)** | **(4,735.7)** | **(204.3)** |

(i) Due from other banks

Due from other banks includes inter-bank placements and items in the course of collection. The fair value of floating rate placements, overnight deposits and term deposits with a maturity of less than 90 days is assumed to be their carrying amount, as the effect of discounting is not significant. The fair values are within level 2 of the fair value hierarchy.

(ii) Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received up to the next interest reset date. Expected cash flows are discounted at current market rates to determine fair value. Determined fair values are within level 2 of the fair value hierarchy.

(iii) Investment securities – Held-to-maturity – Life insurance related

The fair value for held-to-maturity assets related to the life insurance portfolio is calculated using expected cash flows, which have been adjusted downwards to reflect actual versus expected mortality experience in the life settlement industry. These adjusted cash flows have been discounted at an Internal Rate of Return ("IRR") of 12.3%. This IRR is equivalent to an IRR of 16.0% using unadjusted cash flows (2013: 16.0%). The carrying value is derived from an acquisition value (based on an IRR at acquisition of 10.7%), premiums paid and an accrual on life insurance policies at year end. The overall yield of the investment (accrual and amortized death benefits of previously matured life insurance policies) is 3.4% (2013: 4.1%). The fair values are within level 3 of the fair value hierarchy. The methodology to determine the fair value of the life insurance portfolio is as described at note 4.2.1 c).

(iv) Investment securities – Held-to-maturity – Debt

Fair value for held-to-maturity assets is calculated using expected cash flows discounted at current market rates, based on estimates using quoted market prices for securities with similar credit, maturity and yield characteristics. Determined fair values are within level 2 of the fair value hierarchy.

(v) & (vi) Due to other banks and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. Expected cash flows are discounted at current market rates to determine fair value. Determined fair values are within level 2 of the fair value hierarchy.

(vii) Other financial liabilities

The value of structured products sold to clients is reflected on an accrual basis for the debt host (and on a fair value for the embedded derivative). The fair value of the debt host is based on the discounted amount of estimated future cash flows expected to be paid up to the date of maturity of the instrument. Expected cash flows are discounted at current market rates to determine fair value. The fair values are within level 3 of the fair value hierarchy.

(viii) Subordinated loans

The estimated fair value of the subordinated loans is based on the quoted market prices for these listed securities.

(ix) Debt issued

The estimated fair value of the debt issued is based on the quoted market prices for these listed securities.

### 4.2.3 Deferred day-1 profit or loss

The table reflects financial instruments for which fair value is determined using valuation models where not all inputs are market-observable. Such financial instruments are initially recognised in the Group's Financial Statements at their transaction price, although the values obtained from the relevant valuation model on day-1 may differ. The table shows the aggregate difference yet to be recognised in the Income Statement at the beginning and end of the period.

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| **At 1 January** | 1.5 | 1.5 |
| Recognised in the Income Statement | (0.2) | |
| **At 31 December** | **1.3** | **1.5** |

### 4.2.4 Market risk measurement techniques

Market risk exposure is measured in several ways: nominal and VaR exposure, gap reports, sensitivity to risk factors and stress tests. VaR is not used for regulatory reporting of risks. It is used internally only, for control and management purposes. As part of the management of market risk, the Group may from time to time, undertake various hedging strategies (note 26). The Group enters into interest rate swaps to hedge the interest rate risk associated with the fixed rate bond

assets as well as fixed rate liabilities.
The major measurement techniques used to measure and control market risk, are outlined below.

**(a) Value at Risk**

The Value at Risk (VaR) computation is a risk analysis tool designed statistically to estimate the maximum potential periodic loss from adverse movements in interest rates (excluding credit spreads), foreign currencies and equity prices, under normal market conditions. VaR is calculated using statistically expected changes in market parameters for a given holding period at a specified level of probability. The Group VaR methodology is based on a full revaluation historical VaR approach. The Group produces its VaR figures with an In-house tool using a 10-day holding period with a 201-day observation period.

The VaR computation does not purport to represent actual losses in fair value on earnings to be incurred by the Group, nor does it consider the effect of favorable changes in market rates. The Group cannot predict actual future movements in such market rates, and it does not claim that these VaR results are indicative of future movements in such market rates; or to be representative of any actual impact that future changes in market rates may have on the Group's future results of operations or financial position.

Daily risk reports review compliance with market risk limits. The following table presents VaR (as described above) for market risk, by risk type:

| VaR by risk type | At 31 December | 12 months to 31 December | | |
|---|---|---|---|---|
| | | Average | High | Low |
| | CHF millions | CHF millions | CHF millions | CHF millions |
| **2014** | | | | |
| Interest rate risk | 3.2 | 3.8 | 5.7 | 2.7 |
| Currency risk | 0.2 | 0.3 | 0.4 | 0.1 |
| Equity price risk | 0.6 | 0.3 | 0.6 | 0.2 |
| **VaR** | **4.0** | **4.4** | **6.7** | **3.0** |
| **2013** | | | | |
| Interest rate risk | 5.0 | 3.4 | 10.3 | 1.4 |
| Currency risk | 0.3 | 0.2 | 0.8 | 0.0 |
| Equity price risk | 0.2 | 0.3 | 0.9 | 0.2 |
| **VaR** | **5.5** | **3.9** | **12.0** | **1.6** |

The Group considers interdependencies between the risk variables to be insignificant.

**(b) Alternative sensitivity analysis**

Alternative sensitivity analysis is performed on the following financial instruments, which are not covered by VaR:

i) Trading assets and designated at fair value through profit or loss, which includes life insurance policies, structured products and unquoted equities
ii) Available-for-sale – life insurance policies
iii) Financial liabilities – life insurance policies and liabilities to purchase non-controlling interests.

The sensitivity analysis calculates the impact from changes in equity prices, interest rates and life expectancies.
The computation does not purport to represent actual gains and losses to be incurred by the Group. The Group cannot predict actual future movements in such market rates, and it does not claim that these results are indicative of future movements in such market rates; or to be representative of any actual impact that future changes in market rates may have on the Group's future results of operations or financial position.

The following risks exist for positions at 31 December 2014 for which i) VaR is not calculated above or ii) Sensitivity analysis is not presented in note 4.2.1 (c).

| Category | Product | Impact from | Price Risk Market value CHF millions | Price Risk Income Statement CHF millions | Price Risk Statement of Comprehensive Income CHF millions |
|---|---|---|---|---|---|
| **31 December 2014** | | | | | |
| Available-for-sale | Unquoted equities | 30% lower profits | 28.7 | | (0.4) |
| Available-for-sale | Private equity funds | 30% lower profits | 0.4 | | (0.1) |
| Financial liabilities at fair value | Liabilities to purchase non-controlling interests | 20% increase in revenue | (38.7) | | |
| **31 December 2013** | | | | | |
| Available-for-sale | Unquoted equities | 30% lower profits | 25.6 | | (0.5) |
| Financial liabilities at fair value | Liabilities to purchase non-controlling interests | 20% increase in revenue | (18.2) | | |

### (c) Stress tests

VaR calculations are complemented by various stress tests, which identify the potential impact of extreme market scenarios on portfolios values. These stress tests simulate both exceptional movements in prices or rates; and drastic deteriorations in market correlations. In addition to nominal limits and stop losses, they are the primary tools used by internal market risk management. Stress test results are calculated daily by the Market Risk Management Unit and reported to management.

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.
The stress tests include:

i) Risk factor stress testing, where stress movements are applied to each risk category, and
ii) Ad hoc stress testing, which includes applying possible stress events to specific positions or regions.

Results of the stress tests are reviewed by senior management in each business unit, and by the Risk Committee of the Board. Stress testing is tailored to the business and typically uses scenario analysis.

### (d) Earnings at risk

In line with the FINMA circular 08/6 related to interest rate income, Net Interest Income sensitivity (NII) and Interest Earnings at Risk (IEAR) measurements have been implemented and outcomes are regularly reviewed against defined stress scenario limits.

### 4.2.5 Interest rate risk

The Board sets limits for the interest repricing gap or mismatch; which is monitored by the Market Risk Management Unit. The table below summarises the Group's exposure to interest rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

| 31 December 2014 | Up to 3 months CHF millions | 3–12 months CHF millions | 1–5 years CHF millions | Over 5 years CHF millions | Non-interest bearing CHF millions | Total CHF millions |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with central banks | | | | | 2,855.3 | 2,855.3 |
| Treasury bills | 610.7 | 15.3 | | | | 626.0 |
| Due from other banks | 646.8 | 2.0 | | | 1,460.0 | 2,108.8 |
| Loans and advances to customers | 10,158.0 | 1,462.7 | 1,316.7 | 35.7 | 58.0 | 13,031.1 |
| Derivative financial instruments | 271.9 | 2.2 | 0.5 | 0.1 | 294.8 | 569.5 |
| Financial assets at fair value: | | | | | | |
| Trading Assets | 6.0 | 1.1 | 98.5 | | | 105.6 |
| Designated at inception | | | | 326.8 | 2.9 | 329.7 |
| Investment securities: | | | | | | |
| Available-for-sale | 532.5 | 357.2 | 1,204.6 | 1,964.3 | 34.9 | 4,093.5 |
| Held-to-maturity | | 384.9 | | 774.2 | | 1,159.1 |
| Other assets | | | | | 136.7 | 136.7 |
| **Total financial assets** | **12,225.9** | **2,225.4** | **2,620.3** | **3,101.1** | **4,842.6** | **25,015.3** |
| **Liabilities** | | | | | | |
| Due to other banks | 165.6 | | | | 300.4 | 466.0 |
| Due to customers | 7,364.5 | 656.0 | 73.4 | | 10,470.6 | 18,564.5 |
| Subordinated loans | | | | 246.3 | | 246.3 |
| Derivative financial instruments | 259.5 | 17.9 | 0.2 | 0.1 | 383.4 | 661.1 |
| Financial liabilities designated at fair value | | | | 330.5 | 38.7 | 369.2 |
| Other financial liabilities | 641.2 | 772.6 | 1,193.7 | 423.2 | | 3,030.7 |
| Debt issued | | | 411.1 | | | 411.1 |
| Provisions | | | | | 38.0 | 38.0 |
| Other liabilities | | | | | 340.7 | 340.7 |
| **Total financial liabilities** | **8,430.8** | **1,446.5** | **1,678.4** | **1,000.1** | **11,571.8** | **24,127.6** |
| On-balance-sheet interest repricing gap | 3,795.1 | 778.9 | 941.9 | 2,101.0 | (6,729.2) | 887.7 |
| Off-balance-sheet interest repricing gap | 2,495.5 | (178.0) | (902.6) | (1,414.9) | | – |
| **31 December 2013** | | | | | | |
| **Total financial assets** | **11,940.9** | **2,104.2** | **2,434.3** | **2,660.1** | **2,233.4** | **21,372.9** |
| **Total financial liabilities** | **7,058.3** | **1,269.0** | **1,451.1** | **507.9** | **10,266.2** | **20,552.5** |
| On-balance-sheet interest repricing gap | 4,882.6 | 835.2 | 983.2 | 2,152.2 | (8,032.8) | 820.4 |
| Off-balance-sheet interest repricing gap | 2,312.9 | 99.5 | (1,229.3) | (1,183.1) | | – |

**Fair value interest rate risk hedges**
The Group interest rate risk arises from long-term exposures to bonds. Holdings in bonds issued at fixed rates expose the Group to fair value interest rate risk. The Group enters into fixed-to-floating interest rate swaps to hedge the fair value interest rate risk arising where it has acquired fixed rate bonds. Interest rate swaps used for hedging purposes are disclosed in note 26.1.

For the sensitivity to changes in interest rate (internal rate of return) related to the Life Insurance portfolio see note 3(d).

**4.2.6 Foreign exchange risk**
The Group carries out foreign currency operations both for its clients, and for its own account. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments, in foreign operations. The overall net nominal positions per currency are monitored against overnight limits. In addition 10 sliding days stop loss limits are in place for VaR stress test. Entities in the Group use derivative contracts, such as forward or option contracts primarily to offset customer transactions.

Apart from the exposure to foreign currencies which relates to banking and trading activities in subsidiary companies, the Group is also exposed to foreign currency fluctuations because most of the subsidiaries and branches of EFG Bank AG use local currencies as their reporting currencies. From time to time the Group may enter into currency hedging arrangements to reduce the effects of exchange rate fluctuations on its income.

The Group takes on limited exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure. See note 4.2.4 which reflects the Currency risk VaR.

**4.3 Liquidity risk**
Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due, and to replace funds when they are withdrawn. The Group manages its liquidity risk in such a way as to ensure that sufficient liquidity is available to meet its commitments to customers, both in demand for loans and repayments of deposits, and to satisfy its own cash flow needs.

**4.3.1 Liquidity risk management process**
The Group attempts to avoid concentrations of its funding facilities. It observes its current liquidity situation and determines the pricing of its assets and credit business. The Group also has a liquidity management process in place that includes liquidity contingency plans. These contingency measures include the activation of repo transactions with prime counterparties, the liquidation of marketable securities and/or draw downs on lines of credit (Lombard facility) with the Swiss National Bank.

The Group complies with all regulatory requirements, including overnight liquidity limits in the various countries in which it operates banks. It reports its daily liquidity situation to management on an individual entity basis for its banking subsidiaries. Stress tests are undertaken monthly, or as necessary. Both the Group's capital, reserves position and conservative gapping policy ensure that the Group runs only a small liquidity risk when funding customer loans.

The Group's liquidity risk management process is carried out by the Financial Markets department and monitored by the Market Risk Management Unit. It includes:
– Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers
– Maintaining a portfolio of highly marketable assets that can easily be liquidated (repaid or sold) as protection against any unforeseen interruption to cash flow
– Monitoring balance sheet liquidity ratios against internal and regulatory requirements
– Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities, and the expected collection date of the financial assets (notes 4.3.3- 4.3.4).

Financial Markets also monitors unmatched medium-term assets and the usage of overdraft facilities.

#### 4.3.2 Funding approach

Sources of liquidity are regularly reviewed by Financial Markets to maintain a wide diversification by currency, geography, provider, product and term.

#### 4.3.3 Financial liabilities cash flows

The table below analyses the Group's financial liabilities by remaining contractual maturities, at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Up to 1 month CHF millions | 1–3 months CHF millions | 3–12 months CHF millions | 1–5 years CHF millions | Over 5 years CHF millions | Total CHF millions |
|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | |
| **Liabilities** | | | | | | |
| Due to other banks | 228.7 | 236.6 | 1.0 | | | 466.3 |
| Due to customers | 14,690.8 | 1,717.6 | 2,076.0 | 93.4 | | 18,577.8 |
| Subordinated loans | | | 14.1 | | 232.2 | 246.3 |
| Derivative financial instruments | 8,520.2 | 2,074.8 | 1,706.9 | 51.4 | | 12,353.3 |
| Financial liabilities designated at fair value | 38.7 | | | | 330.5 | 369.2 |
| Other financial liabilities | 425.7 | 142.4 | 779.9 | 1,130.2 | 560.1 | 3,038.3 |
| Debt issued | | | | 411.1 | | 411.1 |
| Provisions | | 8.0 | 30.0 | | | 38.0 |
| Other liabilities | 290.1 | 18.9 | 30.4 | 1.0 | 0.3 | 340.7 |
| **Total financial liabilities** | **24,194.2** | **4,198.3** | **4,638.3** | **1,687.1** | **1,123.1** | **35,841.0** |
| | | | | | | |
| **Total off balance-sheet** | **18.2** | **24.8** | **145.5** | **168.3** | **70.2** | **427.0** |
| | | | | | | |
| **31 December 2013** | | | | | | |
| **Liabilities** | | | | | | |
| Due to other banks | 110.1 | 86.7 | 93.7 | | | 290.5 |
| Due to customers | 13,479.3 | 1,993.0 | 878.9 | 101.1 | | 16,452.3 |
| Subordinated loans | | | | | 245.1 | 245.1 |
| Derivative financial instruments | 10,028.7 | 2,414.6 | 1,484.1 | 131.4 | 18.1 | 14,076.9 |
| Financial liabilities designated at fair value | 18.2 | | | | 292.5 | 310.7 |
| Other financial liabilities | 439.8 | 140.2 | 438.0 | 1,159.0 | 255.8 | 2,432.8 |
| Provisions | 23.9 | 0.7 | 2.2 | | | 26.8 |
| Other liabilities | 191.0 | 48.1 | 30.4 | 0.1 | | 269.6 |
| **Total financial liabilities** | **24,291.0** | **4,683.3** | **2,927.3** | **1,391.6** | **811.5** | **34,104.7** |
| | | | | | | |
| **Total off balance-sheet** | **11.4** | **16.4** | **267.2** | **74.0** | **72.2** | **441.2** |

For more detailed information on off-balance sheet exposures by maturity, refer to note 47.

#### 4.3.4 Summary of Liquidity

The Group's central treasury manages the liquidity and financing risks on an integrated basis. The liquidity positions of the Group's entities are monitored and managed daily and exceed the regulatory minimum, as required by the Group's market risk framework and policy. Overall, the Group, through its business entities, enjoys a favourable funding base with stable and diversified customer deposits which provide the vast majority of the Group's total funding. Together with its capital resources, the surplus of stable customer deposits over loans to the Group's customers is placed with the given treasury units where the Group's funding and liquidity are managed to ensure this complies with the different local regulatory requirements. In addition, all entities operate within the Group's liquidity policies and guidelines.

#### 4.3.5 Concentration risk

The Group monitors concentration risk through the following mechanisms:

– The overall level of market and credit exposures are tightly monitored by means of specific risk parameters and indicators approved by the Board of Directors and/or Board delegated Risk Committee and in line with the Group's overall committed level of risk appetite and avoidance of any concentration risk.
– These exposures and corresponding limits are proactively reviewed through Management Risk Committee and/or Board delegated Risk Committee to ensure full consideration is given to both market and liquidity conditions, the overall risk framework of the Group, and to avoid any possible concentration risk in light of changing market environments.

### 4.4 Capital Management

The Group's objectives when managing regulatory capital is to comply with the capital requirements set by regulators of the jurisdictions in which the Group entities operate and to safeguard the Group's ability to continue as a going concern.

Capital adequacy and the use of regulatory capital is continually monitored and reported by the Group's management, using the framework developed by the Bank for International Settlements ("BIS"). The regulatory capital requirement of the Group is ultimately determined by the rules implemented by the Swiss banking regulator, the Swiss Financial Market Supervisory Authority.

The Group's eligible capital comprises two tiers:

– Tier 1 capital: share capital (net of any book values of the treasury shares), non-controlling interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of acquisition related intangible assets net of acquisition related liabilities is deducted in arriving at Tier 1 capital.
– Tier 2 capital: subordinated loans, collective impairment allowances and unrealised gains arising on the fair valuation of security instruments held as available-for-sale.

Risk-weighted assets are determined according to specified requirements which reflect the varying levels of risk attached to assets and off-balance sheet exposures, and include amounts in respect of credit risk, market risk, non-counterparty related risk, settlement risk and operational risk.

The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2014 and 2013. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject.

| | Basel III Fully applied 31 December 2014 Unaudited CHF millions | Basel III Fully applied 31 December 2013 Unaudited CHF millions |
|---|---|---|
| **Tier 1 capital** | | |
| Share capital | 75.5 | 74.0 |
| Share premium | 1,243.8 | 1,238.4 |
| Other reserves | (72.5) | (49.1) |
| Retained earnings | (90.5) | (161.6) |
| Non-controlling interests | 18.8 | 4.8 |
| **IFRS: Total shareholders' equity** | **1,175.1** | **1,106.5** |
| Less: Proposed dividend on Ordinary Shares (note 52) | (37.7) | (29.5) |
| Less: Accrual for estimated expected future dividend on Bons de Participation | (0.1) | (0.1) |
| Less: Available-for-sale investment securities revaluation reserve | (22.2) | (16.7) |
| Less: Loans to employees | | |
| Less: Goodwill (net of acquisition related liabilities) and intangibles (excluding software) | (239.5) | (235.5) |
| Less: Bons de Participation | (16.1) | (16.4) |
| Less: Other Basel III deductions | (40.0) | (42.6) |
| **Common Equity Tier 1 (CET1)** | **819.5** | **765.7** |
| Additional Tier 1 (AT1): Bons de Participation | 16.1 | 16.4 |
| **Total qualifying Tier 1 capital** | **835.6** | **782.1** |
| | | |
| **Tier 2 capital** | | |
| Subordinated loans | 232.1 | 230.6 |
| Available-for-sale investment securities revaluation reserve (45% weighted) | 10.1 | 7.5 |
| **Total regulatory capital** | **1,077.8** | **1,020.2** |
| | | |
| **Risk-weighted assets** | | |
| Credit risk including Settlement risk | 4,226.3 | 4,120.5 |
| Non-counterparty related risk | 20.8 | 44.3 |
| Market risk* | 232.9 | 223.8 |
| Operational risk* | 1,285.1 | 1,272.2 |
| **Total risk-weighted assets** | **5,765.1** | **5,660.8** |

| | 31 December 2014 % | 31 December 2013 % |
|---|---|---|
| **Basel III – BIS CET1 Ratio (after deducting proposed dividend on Ordinary Shares)** | **14.2** | **13.5** |
| **Basel III – BIS Total Ratio (after deducting proposed dividend on Ordinary Shares)** | **18.7** | **18.0** |

* *Risk weighted figure calculated by taking 12.5 times the capital adequacy requirement.*

## 5. NET INTEREST INCOME

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| **Interest and discount income** | | |
| Banks and customers | 328.3 | 287.1 |
| Available-for-sale investment securities | 51.7 | 42.0 |
| Financial assets designated at fair value | 49.5 | 55.5 |
| Held-to-maturity investment securities* | 27.4 | 31.7 |
| Treasury bills and other eligible bills | 1.4 | 0.9 |
| **Total interest and discount income** | **458.3** | **417.2** |
| | | |
| **Interest expense** | | |
| Banks and customers | (162.7) | (155.9) |
| Financial liabilities | (27.8) | (31.6) |
| Subordinated loans | (17.5) | (16.5) |
| Debt issued | (3.1) | |
| **Total interest expense** | **(211.1)** | **(204.0)** |
| | | |
| **Net interest income** | **247.2** | **213.2** |

* Net of amortisation of revaluation loss recorded in available-for-sale equity reserve, relating to the life insurance policies transferred from available-for-sale to held-to-maturity, of CHF (10.4) million (2013: CHF (10.4) million).

Interest income accrued on impaired financial assets is CHF nil (2013: CHF nil).

## 6. NET BANKING FEE AND COMMISSION INCOME

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| **Banking fee and commission income** | | |
| Commission income | 477.7 | 429.3 |
| Commission expense | (96.4) | (86.0) |
| **Net banking fee and commission income** | **381.3** | **343.3** |

## 7. DIVIDEND INCOME

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Available-for-sale investment securities | 1.1 | 3.5 |
| **Dividend income** | **1.1** | **3.5** |

## 8. NET TRADING INCOME

Net trading income of CHF 69.8 million (2013: CHF 74.5 million) comprised of results from foreign exchange transactions and results on revaluation of assets and liabilities denominated in other currencies.

## 9. NET (LOSS)/GAIN FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| **Financial instruments measured at fair value** | | |
| Equity securities | 0.7 | (0.3) |
| Debt securities | (1.3) | 4.1 |
| Derivative financial instruments | 6.4 | 5.9 |
| Life insurance securities | (8.4) | (1.9) |
| Inefficiency on fair value hedges | (0.4) | |
| **Net (loss)/gain from financial instruments measured at fair value** | **(3.0)** | **7.8** |

| | | |
|---|---|---|
| **Inefficiency on fair value hedges** | | |
| Net (loss)/gain on hedging instruments | (109.2) | 61.1 |
| Net gain/(loss) on hedged items attributable to the hedged risk | 108.8 | (61.1) |
| **Net loss representing ineffective portions of fair value hedges** | **(0.4)** | **–** |

## 10. GAINS LESS LOSSES ON DISPOSAL OF AVAILABLE FOR SALE INVESTMENT SECURITIES

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| **Transfer from the Statement of Comprehensive Income** | | |
| Debt securities | 19.0 | 13.1 |
| Life insurance securities | (0.8) | (2.5) |
| **Gains less losses on disposal of available for sale investment securities** | **18.2** | **10.6** |

## 11. REVERSAL OF IMPAIRMENT/(IMPAIRMENT) ON LOANS AND ADVANCES TO CUSTOMERS

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Impairment on amounts due from customers | (0.2) | (2.4) |
| Reversal of impairment on amounts due from customers | 0.5 | 1.0 |
| **Reversal of impairment/(impairment) on loans and advances to customers (note 24)** | **0.3** | **(1.4)** |

## 12. OPERATING EXPENSES

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Staff costs (note 13) | (418.8) | (396.2) |
| Professional services | (17.5) | (19.2) |
| Advertising and marketing | (10.5) | (9.4) |
| Administrative expenses | (51.6) | (49.2) |
| Operating lease rentals | (26.8) | (27.1) |
| Depreciation of property, plant and equipment (note 34) | (7.8) | (7.8) |
| Amortisation of intangible assets | | |
| Computer software and licences (note 33) | (3.5) | (3.3) |
| Other intangible assets (note 33) | (3.5) | (4.5) |
| Legal and litigation expenses | (12.8) | (7.2) |
| Other | (22.2) | (23.3) |
| **Operating expenses** | **(575.0)** | **(547.2)** |

## 13. STAFF COSTS

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Wages, salaries and staff bonuses | (345.2) | (325.9) |
| Social security costs | (25.5) | (22.1) |
| Pension costs | | |
| Defined benefits (note 44) | (8.1) | (9.8) |
| Other net pension costs | (8.3) | (6.6) |
| Employee Equity Incentive Plans (note 54) | (10.5) | (12.0) |
| Other | (21.2) | (19.8) |
| **Staff costs** | **(418.8)** | **(396.2)** |

As at 31 December 2014 the number of employees of the Group was 2,059 and the average for the year was 2,048 (31 December 2013: 1,989 and average for the year 1,992).

## 14. GAIN ON DISPOSAL OF SUBSIDIARIES

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Gain on disposal of subsidiaries | | 0.5 |
| **Total** | **–** | **0.5** |

### 15. DISCONTINUED OPERATIONS

There were no discontinued operations in 2014.

During 2013, the Group realised a net gain of CHF 33.8 million on the disposal of Leonteq AG (previously EFG Financial Products). On 23 April 2013, the Group sold its remaining stake of 20.25% in Leonteq AG for an amount of CHF 70.2 million, Leonteq AG has been deconsolidated from that date. On disposal of Leonteq AG, non-controlling interests of CHF 104.9 million were derecognised from the shareholder's equity and CHF 4.3 billion of Assets under Management deconsolidated.

The results of the discontinued operation included in the Income Statement for the prior year and other information are set out below.

| | 31 December 2013<br>CHF millions |
|---|---|
| **Profit for the year from discontinued operations** | |
| Net interest expense | (0.8) |
| Net banking fee and commission income | 53.7 |
| Net other expense | (1.4) |
| | 51.5 |
| Operating expenses | (35.3) |
| Profit before tax | 16.2 |
| Attributable income tax expense | (3.3) |
| | 12.9 |
| Gain on disposal | 33.8 |
| Profit for the year from discontinued operations (attributable to owners of the Group) | 46.7 |
| Net profit attributable to owners of the Group | 36.4 |
| Net profit attributable to non-controlling interests from discontinued operations | 10.3 |
| | 46.7 |

## 16. INCOME TAX EXPENSE

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Current tax expense | (14.0) | (11.5) |
| Deferred tax (expense)/gain (note 17) | (3.7) | 3.3 |
| **Total income tax expense** | **(17.7)** | **(8.2)** |

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate of the Group, as follows:

| | | |
|---|---|---|
| Operating profit before tax | 80.3 | 84.2 |
| Tax at the weighted average applicable rate of 17% (2013: 16%) | (13.7) | (13.5) |
| | | |
| Tax effect of: | | |
| Income not subject to tax | 6.5 | 7.2 |
| Different tax rates in different countries | 0.3 | (6.1) |
| Current year losses not recognised | (10.9) | |
| Future years profits recognised | | 2.0 |
| Release of prior years tax over-provisions | | 2.7 |
| Prior years losses recognised | 0.7 | 1.6 |
| Other differences | (0.6) | (2.1) |
| **Total income tax expense** | **(17.7)** | **(8.2)** |

The weighted average tax rate of 17% is based on the operating entities local tax rates relative to the taxable income in these jurisdictions.

### 17. DEFERRED INCOME TAXES

Deferred income taxes are calculated under the liability method on all temporary differences, using the expected effective local applicable rate. Deferred income tax assets and liabilities comprise the following:

| | 31 December 2014<br>CHF millions | 31 December 2013<br>CHF millions |
|---|---|---|
| Deferred income tax assets | 32.8 | 36.3 |
| Deferred income tax liabilities | (35.4) | (34.6) |
| **Net deferred income tax (liabilities)/assets** | **(2.6)** | **1.7** |

The movement on the net deferred income tax account is as follows:

| | | |
|---|---|---|
| **At 1 January** | **1.7** | **(2.9)** |
| Charge for the period in the Income Statement | (3.7) | 3.3 |
| Available-for-sale adjustment through Comprehensive Income | (1.1) | 0.8 |
| Decrease on sale of subsidiary | | 1.5 |
| Exchange differences | 0.5 | (1.0) |
| **At 31 December** | **(2.6)** | **1.7** |

Deferred income tax assets and liabilities are attributable to the following items:

| | | |
|---|---|---|
| Tax losses carried forward | 27.5 | 31.7 |
| Differences between local tax rules and accounting standards | 4.1 | 3.8 |
| Employee equity incentive plans amortisation | 1.2 | 0.8 |
| **Deferred income tax assets** | **32.8** | **36.3** |
| | | |
| Arising from acquisition of intangible assets | (26.4) | (26.8) |
| Valuation of financial assets not reflected in local tax accounts | (7.2) | (6.5) |
| Sundry differences between local tax rules and accounting standards | (1.8) | (1.3) |
| **Deferred income tax liabilities** | **(35.4)** | **(34.6)** |
| | | |
| **Net deferred income tax (liabilities)/assets** | **(2.6)** | **1.7** |

The deferred income tax (expense)/gain in the Statement of Comprehensive Income comprises the following temporary differences:

| | | |
|---|---|---|
| Utilisation of tax losses carried forward | (2.9) | (0.8) |
| Tax losses recognised | | 2.9 |
| Deferred tax liabilities related to intangible amortisation | (0.4) | |
| Other temporary differences | (0.4) | 1.2 |
| **Deferred tax (expense)/gain** | **(3.7)** | **3.3** |

The Group has deferred tax assets related to tax losses carried forward of CHF 27.5 million as a result of subsidiaries with tax losses of CHF 179.0 million (2013: CHF 206.5 million) to carry forward against future taxable income. These tax losses will expire as summarised below:

| | 31 December 2014 CHF millions | Tax rate % | Carried Forward Losses CHF millions | Expiry in 1–3 years CHF millions | Expiry in 4–7 years CHF millions | Expiry after 7 years CHF millions |
|---|---|---|---|---|---|---|
| EFG International AG, Switzerland | 9.0 | 7.83% | 114.8 | | 114.8 | |
| EFG Bank (Luxembourg) S.A., Luxembourg* | 18.5 | 28.80% | 64.2 | | | 64.2 |
| **Total** | **27.5** | | **179.0** | **–** | **114.8** | **64.2** |

The Group has unused tax losses for which no deferred tax asset is recognised as follows:

| | 31 December 2014 CHF millions | Expiry in 1–3 years CHF millions | Expiry in 4–7 years CHF millions | Expiry after 7 years no expiry CHF millions |
|---|---|---|---|---|
| EFG International AG, Switzerland | 888.2 | 245.4 | 642.8 | |
| EFG Bank AG, Switzerland | 184.4 | | 184.4 | |
| EFG Bank (Luxembourg) S.A., Luxembourg * | 100.7 | | | 100.7 |
| **Total** | **1,173.3** | **245.4** | **827.2** | **100.7** |

* *Taxed as single fiscal unity with EFG Investment (Luxembourg) SA.*

## 18. ANALYSIS OF SWISS AND FOREIGN INCOME AND EXPENSES FROM ORDINARY BANKING ACTIVITIES, AS PER THE OPERATING LOCATION

| | Swiss CHF millions | Foreign CHF millions | Total CHF millions |
|---|---|---|---|
| **Year ended 31 December 2014** | | | |
| Interest and discount income | 143.1 | 315.2 | 458.3 |
| Interest expense | (52.2) | (158.9) | (211.1) |
| **Net interest income** | **90.9** | **156.3** | **247.2** |
| Banking fee and commission income | 102.2 | 375.5 | 477.7 |
| Banking fee and commission expense | (24.0) | (72.4) | (96.4) |
| **Net banking fee and commission income** | **78.2** | **303.1** | **381.3** |
| Dividend income | 1.1 | | 1.1 |
| Net trading income | 16.5 | 53.3 | 69.8 |
| Net gain/(loss) from financial instruments measured at fair value | (6.5) | 3.5 | (3.0) |
| Gains less losses on disposal of available-for-sale investment securities | (47.5) | 65.7 | 18.2 |
| Other operating income/(loss) | 115.1 | (113.1) | 2.0 |
| **Net other income** | **78.7** | **9.4** | **88.1** |
| **Operating income** | **247.8** | **468.8** | **716.6** |
| Operating expenses | (230.2) | (344.8) | (575.0) |
| Other provisions | (55.4) | (8.7) | (64.1) |
| Reversal of impairment on financial assets held-to-maturity | | 2.5 | 2.5 |
| Reversal of impairment on loans and advances to customers | 0.1 | 0.2 | 0.3 |
| Gain on disposal of subsidiaries | | | – |
| **Profit before tax** | **(37.7)** | **118.0** | **80.3** |
| Income tax expense | (3.4) | (14.3) | (17.7) |
| **Net profit for the period from continuing operations** | **(41.1)** | **103.7** | **62.6** |
| **Discontinued operations** | | | |
| Profit for the year from discontinued operations | | | – |
| **Profit for the year** | **(41.1)** | **103.7** | **62.6** |
| **Net profit for the period attributable to:** | | | |
| Net profit attributable to owners of the Group | (41.1) | 102.5 | 61.4 |
| Net profit attributable to non-controlling interests | | 1.2 | 1.2 |
| Net profit attributable to non-controlling interests from discontinued operations | | | – |
| | **(41.1)** | **103.7** | **62.6** |

| | Swiss CHF millions | Foreign CHF millions | Total CHF millions |
|---|---|---|---|
| **Year ended 31 December 2013** | | | |
| Interest and discount income | 124.6 | 292.6 | 417.2 |
| Interest expense | (46.1) | (157.9) | (204.0) |
| **Net interest income** | **78.5** | **134.7** | **213.2** |
| | | | |
| Banking fee and commission income | 95.9 | 333.4 | 429.3 |
| Banking fee and commission expense | (21.6) | (64.4) | (86.0) |
| **Net banking fee and commission income** | **74.3** | **269.0** | **343.3** |
| | | | |
| Dividend income | 3.5 | | 3.5 |
| Net trading income | | 74.5 | 74.5 |
| Net gain/(loss) from financial instruments measured at fair value | 23.4 | (15.6) | 7.8 |
| Gains less losses on disposal of available-for-sale investment securities | (1.1) | 11.7 | 10.6 |
| Other operating income/(loss) | 58.8 | (45.7) | 13.1 |
| **Net other income** | **84.6** | **24.9** | **109.5** |
| | | | |
| **Operating income** | **237.4** | **428.6** | **666.0** |
| | | | |
| Operating expenses | (230.4) | (316.8) | (547.2) |
| Other provisions | (14.5) | (19.2) | (33.7) |
| Gain on disposal of subsidiaries | | 0.5 | 0.5 |
| Impairment on loans and advances to customers | (0.5) | (0.9) | (1.4) |
| | | | |
| **Profit before tax** | **(8.0)** | **92.2** | **84.2** |
| | | | |
| Income tax expense | 2.7 | (10.9) | (8.2) |
| | | | |
| **Net profit for the period from continuing operations** | **(5.3)** | **81.3** | **76.0** |
| | | | |
| **Discontinued operations** | | | |
| Profit for the year from discontinued operations | 46.7 | | 46.7 |
| | | | |
| **Profit for the year** | **41.4** | **81.3** | **122.7** |
| | | | |
| **Net profit for the period attributable to:** | | | |
| Net profit attributable to owners of the Group | 31.1 | 80.7 | 111.8 |
| Net profit attributable to non-controlling interests | | 0.6 | 0.6 |
| Net profit attributable to non-controlling interests from discontinued operations | 10.3 | | 10.3 |
| | **41.4** | **81.3** | **122.7** |

## 19. CASH AND BALANCES WITH CENTRAL BANKS

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Cash in hand | 6.0 | 6.8 |
| Balances with central banks | 2,849.3 | 842.1 |
| **Cash and balances with central banks** | **2,855.3** | **848.9** |

## 20. CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with less than 90 days maturity:

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Cash and balances with central banks | 2,855.3 | 848.9 |
| Treasury bills and other eligible bills | 400.0 | 486.5 |
| Due from other banks – At sight | 1,553.7 | 859.7 |
| Due from other banks – At term | 504.3 | 871.7 |
| **Cash and cash equivalents with less than 90 days maturity** | **5,313.3** | **3,066.8** |

## 21. TREASURY BILLS AND OTHER ELIGIBLE BILLS

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Treasury bills | 626.0 | 388.1 |
| Other eligible bills | | 243.1 |
| **Treasury bills and other eligible bills** | **626.0** | **631.2** |
| | | |
| *Pledged treasury bills with central banks and clearing system companies.* | – | – |

## 22. DUE FROM OTHER BANKS

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| At sight | 1,553.7 | 859.7 |
| At term – with maturity of less than 90 days | 504.3 | 871.7 |
| At term – with maturity of more than 90 days | 50.8 | 468.8 |
| **Due from other banks** | **2,108.8** | **2,200.2** |
| | | |
| *Pledged due from other banks* | *378.0* | *256.9* |

## 23. LOANS AND ADVANCES TO CUSTOMERS

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Due from customers | 9,429.4 | 8,536.9 |
| Mortgages | 3,609.0 | 3,034.5 |
| **Gross loans and advances** | **13,038.4** | **11,571.4** |
| Less: Provision for impairment losses (note 24) | (7.3) | (9.6) |
| **Loans and advances to customers** | **13,031.1** | **11,561.8** |

Geographic sector risk concentrations within the Group's customer loan portfolio were as follows:

| | 31 December 2014 | | 31 December 2013 | |
|---|---|---|---|---|
| | CHF millions | % | CHF millions | % |
| Latin America and Caribbean | 3,625.5 | 27.8% | 3,126.3 | 27.0% |
| Asia and Oceania | 3,021.1 | 23.2% | 2,757.1 | 23.8% |
| Europe (other) | 2,488.4 | 19.1% | 2,331.1 | 20.2% |
| United Kingdom | 2,280.3 | 17.5% | 1,475.4 | 12.8% |
| United States and Canada | 544.0 | 4.2% | 400.2 | 3.5% |
| Africa and Middle East | 470.0 | 3.6% | 426.2 | 3.7% |
| Luxembourg | 361.5 | 2.8% | 814.4 | 7.0% |
| Switzerland | 240.3 | 1.8% | 231.1 | 2.0% |
| **Total** | **13,031.1** | **100.0%** | **11,561.8** | **100.0%** |

This analysis is based on the client's place of residence and not necessarily on the domicile of the credit risk.

Mortgages with a value of CHF 552.0 million are pledged as collateral for a debt issuance by a Group company, Chestnut Financing PLC (note 38).

## 24. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| **At 1 January** | **9.6** | **10.3** |
| (Reversal of impairment) / impairment on loans and advances to customers (note 11) | (0.3) | 1.4 |
| Utilisation of provision | (2.3) | (2.0) |
| Exchange differences | 0.3 | (0.1) |
| **At 31 December** | **7.3** | **9.6** |

## 25. COLLATERAL FOR LOANS

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Loans and advances to customers | | |
| Mortgages | 3,607.2 | 3,032.4 |
| Secured by other collateral | 9,310.4 | 8,439.9 |
| Unsecured | 113.5 | 89.5 |
| **Total loans and advances to customers** | **13,031.1** | **11,561.8** |
| Off-balance sheet commitments | | |
| Contingent liabilities secured by other collateral | 389.4 | 396.9 |
| Contingent liabilities unsecured | 37.6 | 44.3 |
| **Total off-balance sheet commitments** | **427.0** | **441.2** |

*The unsecured loans include CHF 34.0 million (2013: 28.0 million) of loans made with no collateral and CHF 79.5 million (2013: CHF 61.5 million) of loans where the collateral value is below the value of the loan. The uncollateralised portion of these loans is classified as "unsecured"; however they are within the approved unsecured lending limits for the customers.*

See note 4.1 for further details on collateral.

## 26. DERIVATIVE FINANCIAL INSTRUMENTS

### 26.1 Derivatives

The Group's credit risk represents the potential cost to replace the forward or swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Credit risk on index, interest rate and bond futures is negligible because futures contracts are collateralised by cash or marketable securities, and changes in their value are settled daily.

The notional amounts of financial instruments provide a basis for comparison, but do not indicate the amount of future cash flows, or the current fair value of the underlying instruments. Accordingly, they do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, credit spreads or foreign exchange rates, relative to their terms. The fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair values of derivative instruments held are set out in the following table:

| | 31 December 2014 Contract/ notional amount CHF millions | 31 December 2014 Fair values Assets CHF millions | 31 December 2014 Fair values Liabilities CHF millions | 31 December 2013 Contract/ notional amount CHF millions | 31 December 2013 Fair values Assets CHF millions | 31 December 2013 Fair values Liabilities CHF millions |
|---|---|---|---|---|---|---|
| **Derivatives held for trading** | | | | | | |
| Currency and precious metal derivatives | | | | | | |
| Forward contracts | 4,146.5 | 43.7 | 26.4 | 4,137.8 | 41.0 | 38.3 |
| Currency swaps | 7,664.9 | 82.6 | 56.6 | 9,829.0 | 44.2 | 69.6 |
| OTC currency options | 2,584.1 | 25.3 | 26.0 | 1,825.3 | 22.4 | 22.3 |
| | | **151.6** | **109.0** | | **107.6** | **130.2** |
| Interest rate derivatives | | | | | | |
| Interest rate swaps | 1,185.1 | 11.9 | 7.4 | 1,551.3 | 12.8 | 13.5 |
| OTC interest rate options | 226.3 | 25.4 | 27.2 | 347.8 | 51.4 | 51.4 |
| Interest rate futures | 0.5 | 0.1 | 0.2 | 0.4 | 0.8 | |
| | | **37.4** | **34.8** | | **65.0** | **64.9** |
| Other derivatives | | | | | | |
| Equity options and index futures | 2,267.3 | 318.0 | 321.4 | 3,107.8 | 298.0 | 300.4 |
| Credit default swaps | 196.4 | 2.0 | 0.4 | 171.5 | 4.9 | 3.4 |
| Total return swaps | 133.6 | 56.2 | | 120.3 | 46.6 | |
| Commodity options and futures | 33.7 | 1.5 | 1.5 | 70.4 | 0.9 | 0.9 |
| | | **377.7** | **323.3** | | **350.4** | **304.7** |
| **Total derivative assets/liabilities held for trading** | | **566.7** | **467.1** | | **523.0** | **499.8** |
| **Derivatives held for hedging** | | | | | | |
| Derivatives designated as fair value hedges | | | | | | |
| Interest rate swaps | 2,607.0 | 2.8 | 194.0 | 2,218.9 | 37.4 | 45.1 |
| **Total derivative assets/liabilities held for hedging** | | **2.8** | **194.0** | | **37.4** | **45.1** |
| **Total derivative assets/liabilities** | | **569.5** | **661.1** | | **560.4** | **544.9** |

### 26.2 Hedging activities

The hedging practices and accounting treatment are disclosed in note 2(d).

### Fair value hedges

The Group hedges its interest rate risk resulting from a potential decrease in the fair value of fixed rate bond assets or loans, by using interest rate swaps. The net fair value of these swaps at 31 December 2014 was negative CHF 191.2 million (2013: negative CHF 7.7 million).

## 27. FINANCIAL ASSETS AT FAIR VALUE – TRADING ASSETS

| | | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|---|
| Issued by non public issuers: | Banks | 99.0 | 106.7 |
| Issued by non public issuers: | Other | 6.6 | 6.6 |
| **Total** | | **105.6** | **113.3** |

The movement in the account is as follows:

| | | |
|---|---|---|
| **At 1 January** | **113.3** | **1,340.0** |
| Disposal of subsidiary | | (2,263.4) |
| Additions | 9.2 | 3,820.9 |
| Disposals (sale and redemption) | (19.5) | (2,784.7) |
| Accrued interest | 0.5 | 0.8 |
| Gains/(losses) from changes in fair value | 2.1 | (0.3) |
| **At 31 December** | **105.6** | **113.3** |

## 28. FINANCIAL ASSETS AT FAIR VALUE – DESIGNATED AT INCEPTION

| | | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|---|
| Issued by public issuers: | Government | | 50.8 |
| Issued by non public issuers: | Others | | 0.4 |
| Issued by other issuers: | US life insurance companies* | 298.8 | 269.0 |
| Issued by other issuers: | US life insurance companies | 30.9 | 29.6 |
| **Total** | | **329.7** | **349.8** |

| | | | |
|---|---|---|---|
| Equity securities | Unlisted but quoted | | 0.4 |
| Debt securities | Listed | | 50.8 |
| Life insurance policies securities | Unquoted – Discounted cash flow analysis* | 298.8 | 269.0 |
| Life insurance policies securities | Unquoted – Discounted cash flow analysis | 30.9 | 29.6 |
| **Total** | | **329.7** | **349.8** |

The movement in the account is as follows:

| | | |
|---|---|---|
| **At 1 January** | **349.8** | **381.4** |
| Additions | 34.9 | 21.3 |
| Disposals (sale and redemption) | (77.0) | (14.1) |
| Accrued interests | 48.0 | 53.4 |
| Losses from changes in fair value | (59.7) | (84.4) |
| Exchange differences | 33.7 | (7.8) |
| **At 31 December** | **329.7** | **349.8** |

* See note 39 Financial liabilities designated at fair value.

## 29. INVESTMENT SECURITIES – AVAILABLE-FOR-SALE

| | | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|---|
| Issued by public bodies: | Government | 1,664.2 | 2,007.5 |
| Issued by public bodies: | Other public sector | 541.7 | 206.7 |
| Issued by other issuers: | Banks | 1,461.8 | 1,347.0 |
| Issued by other issuers: | US life insurance companies | 40.9 | 39.2 |
| Issued by other issuers: | Other | 384.9 | 244.1 |
| **Total** | | **4,093.5** | **3,844.5** |

| | | | |
|---|---|---|---|
| Debt securities: | Listed/Quoted | 3,368.4 | 3,248.8 |
| Debt securities: | Unquoted – Discounted cash flow analysis | 654.8 | 340.9 |
| Debt securities: | Unlisted | | 189.1 |
| Equity securities: | Listed/Quoted | 0.3 | 0.9 |
| Equity securities: | Unquoted – Other valuation Models | 29.1 | 25.6 |
| Life insurance related: | Unquoted – Discounted cash flow analysis | 40.9 | 39.2 |
| **Total** | | **4,093.5** | **3,844.5** |
| *Pledged securities with central banks, clearing system companies or third party banks* | | *466.8* | *1,053.2* |

The movement in the account is as follows:

| | | |
|---|---|---|
| **At 1 January** | **3,844.5** | **3,297.8** |
| Additions | 3,624.7 | 2,801.3 |
| Disposals (sale and redemption) | (3,711.4) | (2,194.7) |
| Gains from changes in fair value | 27.5 | 0.1 |
| Accrued interest | 8.8 | 9.2 |
| Exchange differences | 299.4 | (69.2) |
| **At 31 December** | **4,093.5** | **3,844.5** |

The Group has pledged Financial Investment Securities as collateral for CHF 358.9 million (2013: CHF 842.5 million). This is related to the Group's role as collateral provider in relation to structured products issued by a subsidiary, where the holders of the structured products assume a default risk that varies according to the creditworthiness of the issuer. The insolvency of the issuer may result in a total loss for the investor. In order to minimise this risk, SIX Swiss Exchange offers a service for the collateralisation of structured products, and the Group has pledged assets to SIX Swiss Exchange.

## 30. INVESTMENT SECURITIES – AVAILABLE-FOR-SALE EQUITY RESERVE

**Statement of Comprehensive Income – revaluation of available-for-sale investment securities:**
Gains and losses arising from the changes in the fair value of available-for-sale investment securities are recognised in a revaluation reserve for available-for-sale financial assets in the Statement of Comprehensive Income (note 46).

The movement of the reserve is as follows:

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| **At 1 January** | **(86.4)** | **(76.7)** |
| Fair value gains on available-for-sale investment securities, before tax | 27.5 | 0.1 |
| Transfer to the Income Statement of realised available-for-sale investment securities reserve, before tax | (18.2) | (10.6) |
| Tax effect on available-for-sale investment securities | (1.1) | 0.8 |
| **At 31 December** | **(78.2)** | **(86.4)** |

## 31. INVESTMENT SECURITIES – HELD-TO-MATURITY

| | | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|---|
| Issued by public bodies: | Government | 48.2 | 49.3 |
| Issued by public bodies: | Other public sector | 336.7 | 368.6 |
| Issued by other issuers: | US Life insurance companies | 774.2 | 692.0 |
| **Gross investment securities – Held-to-maturity** | | **1,159.1** | **1,109.9** |
| Impairment on financial assets held-to-maturity | | – | (2.8) |
| **Total** | | **1,159.1** | **1,107.1** |

The movement in the account is as follows:

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| **At 1 January** | **1,107.1** | **1,093.6** |
| Additions/premiums paid | 54.8 | 54.2 |
| Redemptions | (107.4) | (66.7) |
| Accrued interest | 33.6 | 38.4 |
| Reversal of impairment | 2.5 | – |
| Exchange differences | 68.5 | (12.4) |
| **At 31 December** | **1,159.1** | **1,107.1** |

| | | |
|---|---|---|
| *Pledged securities with central banks and clearing system companies.* | – | – |

### 32. SHARES IN SUBSIDIARY UNDERTAKINGS

The following is a listing of the Group's main subsidiaries at 31 December 2014:

| Name | Line of business | Country of incorporation | % Ownership | % Non controlling interest | | Share Capital (000s) |
|---|---|---|---|---|---|---|
| **Main Subsidiaries** | | | | | | |
| EFG Bank AG, Zurich | Bank | Switzerland | 100 | 0 | CHF | 162,410 |
| EFG Bank (Monaco), Monaco | Bank | Monaco | 100 | 0 | EUR | 26,944 |
| EFG Bank & Trust (Bahamas) Ltd, Nassau | Bank | Bahamas | 100 | 0 | USD | 32,000 |
| EFG Bank von Ernst AG, Vaduz | Bank | Liechtenstein | 100 | 0 | CHF | 25,000 |
| EFG Bank (Luxembourg) S.A., Luxembourg | Bank | Luxembourg | 100 | 0 | EUR | 28,000 |
| EFG Private Bank Ltd, London | Bank | England & Wales | 100 | 0 | GBP | 1,596 |
| EFG Private Bank (Channel Island) Ltd | Bank | Guernsey | 100 | 0 | GBP | 5,000 |
| A&G Banca Privada S.A. | Bank | Spain | 55.99 | 44.01 | EUR | 20,204 |
| Asesores Y Gestores Financieros S.A., Madrid | Investment Advisory and holding | Spain | 55.99 | 44.01 | EUR | 118 |
| EFG Investment Services (Cayman) Ltd, George Town | Investment Advisory & Fund Administration | Cayman Islands | 100 | 0 | USD | – |
| EFG Investment Services Inc, Miami | Investment Advisory & Fund Administration | USA | 100 | 0 | USD | – |
| EFG Capital International Corp, Miami | Broker dealer | USA | 100 | 0 | USD | 12,200 |
| Chestnut Financing PLC | Finance Company | England & Wales | 0 | 100 | GBP | – |
| EFG Finance (Guernsey) Ltd, Guernsey | Finance Company | Guernsey | 100 | 0 | EUR | 26 |
| EFG Finance (Jersey) Ltd, Jersey | Finance Company | Jersey | 100 | 0 | CHF | 3 |
| EFG Funding (Guernsey) Ltd | Finance Company | Guernsey | 100 | 0 | CHF | – |
| EFG International (Guernsey) Ltd | Finance Company | Guernsey | 100 | 0 | EUR | 1 |
| EFG International Finance (Guernsey) | Structured product issuance | Guernsey | 100 | 0 | CHF | 5,000 |
| EFG Investment 2 (UK) Ltd | Holding | England & Wales | 90.01 | 9.99 | USD | 132,205 |
| EFG Investment (Luxembourg) SA, Luxembourg | Holding | Luxembourg | 100 | 0 | EUR | 579,803 |
| EFG Investment and Wealth Solutions Holding AG, Zurich | Holding | Switzerland | 100 | 0 | CHF | 600 |
| LFS Investment VII AB, Stockholm | Investment Company | Sweden | 10.7 | 89.3 | SEK | 100 |

The percentage shareholding of the main subsidiaries was unchanged from 2013 with the exception of Asesores Y Gestores Financieros SA., where the holding decreased from 72% to 55.99% in the current year.

LFS Investment VII AB is a subsidiary of the Group with only 10.7% ownership and voting rights. Management has assessed that the Group has control over this entity as it has power to make investment decisions. In addition, the entity's funding is dependent on the Group and therefore the Group is exposed to variable returns from the facilities granted.

Chestnut Financing PLC is an entity that is owned by a trust, however the Group is exposed to all the variable returns of the entity through the subordinated class of funding provided to the entity and none to the non-controlling interests.

The Group uses other entities to manage assets on behalf of its customers. These entities are subject to an investment management agreement in which the Group acts as administrator only and is remunerated via a fixed fee. In some of these entities the Group is participating in the funding by providing loan facilities granted which are secured by way of fund assets. The Management has assessed that the Group has no effective power over these entities nor over the operations of the entity, as it is not the asset manager, and also it is not exposed materially to a variability of returns from these entities. Transactions made with these entities are done at arm's length and returns on facilities granted are subject to normal credit risk exposure.

The total non-controlling interest for the period is CHF 18.8 million of which CHF 17.6 million is in respect of 44.01% interest in Asesores Y Gestores Financieros S.A., CHF Nil in respect of 89.3% interest in LFS Investment VII AB and CHF 1.2 million in respect of 9.99% interest in EFG Investment 2 (UK) Ltd. Non-controlling interest allocated to Asesores Y Gestores Financieros S.A. increased by CHF 12.8 million in 2014 as a result of additional capital contribution by the minority shareholders.

There are no significant restrictions on the parent company or its subsidiaries ability to access or use the assets and settle the liabilities of the Group, other than those that exist as a result of the subsidiaries being individually regulated banks.

The summarized information for Asesores Y Gestores Financieros S.A., which is the only non-controlling interest that is material for the Group is as follows:

| | 31 December 2014<br>CHF millions | 31 December 2013<br>CHF millions |
|---|---|---|
| **Summarised balance sheet** | | |
| **Assets** | | |
| Cash and balances with central banks | 14.6 | |
| Due from other banks | 101.5 | 30.8 |
| Loans and advances to customers | 172.1 | |
| Investment securities: Available-for-sale | 0.2 | 4.7 |
| Intangible assets | 3.6 | 3.3 |
| Other assets | 15.1 | 12.2 |
| | | |
| **Liabilities** | | |
| Due to other banks | (188.1) | |
| Due to customers | (61.4) | |
| Other liabilities | (17.1) | (37.5) |
| **Net assets** | **40.5** | **13.5** |
| | | |
| **Summarised income statement** | | |
| Operating income | 33.0 | 26.3 |
| Operating expenses | (28.8) | (24.2) |
| **Profit before tax** | **4.2** | **2.1** |
| Taxes | (1.0) | (0.1) |
| **Profit for the year** | **3.2** | **2.0** |
| | | |
| **Net profit for the year attributable to:** | | |
| Net profit attributable to owners of the Group | 2.0 | 1.4 |
| Net profit attributable to non-controlling interests | 1.2 | 0.6 |
| | **3.2** | **2.0** |

| | | |
|---|---|---|
| **Summarised cash flows** | | |
| Net cash flows from operating activities | 61.1 | (0.4) |
| Net cash flows used in investing activities | 2.4 | (5.4) |
| Net cash flows from financing activities – from non controlling interests | 24.4 | |
| Net cash flows from financing activities – other | (1.2) | 1.8 |
| Effect of exchange rate changes on cash and cash equivalents | (1.4) | 0.6 |
| **Net change in cash and cash equivalents** | **85.3** | **(3.4)** |
| | | |
| Cash and cash equivalents at beginning of period | 30.8 | 34.2 |
| Net change in cash and cash equivalents | 85.3 | (3.4) |
| **Cash and cash equivalents** | **116.1** | **30.8** |

## 33. INTANGIBLE ASSETS

| | Computer software and licences CHF millions | Other Intangible Assets CHF millions | Goodwill CHF millions | Total Intangible Assets CHF millions |
|---|---|---|---|---|
| **At 1 January 2013** | | | | |
| Cost | 66.9 | 190.8 | 611.7 | 869.4 |
| Accumulated amortisation and impairment | (44.3) | (154.5) | (376.0) | (574.8) |
| **Net book value** | **22.6** | **36.3** | **235.7** | **294.6** |
| | | | | |
| **Year ended 31 December 2013** | | | | |
| Opening net book amount | 22.6 | 36.3 | 235.7 | 294.6 |
| Decrease in scope of consolidation | (16.0) | | | (16.0) |
| Acquisition of computer software and licences | 3.9 | | | 3.9 |
| Amortisation charge for the year – Computer software and licences (note 12) | (3.3) | | | (3.3) |
| Amortisation charge for the year – Other intangible assets (note 12) | | (4.5) | | (4.5) |
| Disposal of Goodwill | | | (6.9) | (6.9) |
| Exchange differences | (0.1) | (0.2) | (0.6) | (0.9) |
| **Closing net book value** | **7.1** | **31.6** | **228.2** | **266.9** |
| | | | | |
| **At 31 December 2013** | | | | |
| Cost | 43.4 | 190.0 | 604.2 | 837.6 |
| Accumulated amortisation and impairment | (36.3) | (158.4) | (376.0) | (570.7) |
| **Net book value** | **7.1** | **31.6** | **228.2** | **266.9** |
| | | | | |
| **Year ended 31 December 2014** | | | | |
| Opening net book amount | 7.1 | 31.6 | 228.2 | 266.9 |
| Acquisition of computer software and licences | 5.1 | | | 5.1 |
| Acquisition of other intangible assets | | 2.5 | | 2.5 |
| Amortisation charge for the year – Computer software and licences (note 12) | (3.5) | | | (3.5) |
| Amortisation charge for the year – Other intangible assets (note 12) | | (3.5) | | (3.5) |
| Exchange differences | 0.2 | 0.3 | 6.9 | 7.4 |
| **Closing net book value** | **8.9** | **30.9** | **235.1** | **274.9** |

| **At 31 December 2014** | | | | |
|---|---|---|---|---|
| Cost | 45.8 | 192.8 | 608.0 | 846.6 |
| Accumulated amortisation and impairment | (36.9) | (161.9) | (372.9) | (571.7) |
| **Net book value** | **8.9** | **30.9** | **235.1** | **274.9** |

The Group has acquired several legal entities and/or businesses since its inception. These business combinations have generally been made in order to achieve one or several of the following objectives: acquiring "client relationships", acquiring specific know-how or products, or setting up a permanent establishment in a given location. The accounting for these business combinations was dependent on the accounting standard in force at the time of the acquisition.

### 33.1 Impairment charge for the year

No impairment charges were recorded for the year ended 31 December 2014 and 31 December 2013.

### 33.2 Revaluation of earn out obligations

No revaluation of earn-out obligations were recorded in the period (2013: CHF nil).

### 33.3 Impairment tests

The Group's goodwill and intangible assets (together "Intangibles") acquired in business combinations are reviewed at least annually for impairment by comparing the recoverable amount of each cash generating unit ("CGU") to which Intangibles have been allocated a carrying value. On the basis of the impairment testing methodology described below, the Group concluded that the year-end 2014 balances of Intangibles allocated to all its cash generating units remain recoverable.

Where the carrying values have been compared to recoverable amounts using the "value in use" approach, the risk adjusted discount rates used are based on observable market long-term government bond yields (10 years) for the relevant currencies plus a risk premium of 5.8% to 6.7% (2013: 4.6% to 4.9%). The risk premiums were determined using capital asset pricing model and are based on capital market data as of the date of impairment test. A period of 5 years is used for all cash flow projections.

Where the carrying values have been compared to "fair value less costs to sell", the fair values have been calculated using two methodologies. Firstly, on the basis of the recoverable Net Asset Value and Intangibles using comparable market transactions (1.5% to 2.5% of Assets under Management). Secondly, calculations have been performed using a PE approach (range between 12.0 and 14.0 for 2014 and 11.0 and 12.7 for 2013) based on similar transactions for comparable listed companies. The revenue basis for the PE approach was based on expected future revenues.

The carrying amounts of goodwill and intangible assets at 31 December 2014 allocated to each cash generating unit are as follows:

| Segment | Cash generating unit | Discount rate/ Growth rate | Period | Intangible Assets CHF millions | Goodwill CHF millions | Total CHF millions |
|---|---|---|---|---|---|---|
| **Value in use** | | | | | | |
| United Kingdom | Harris Allday | 8.47% / 4.30% | 5 years | 17.7 | 37.6 | 55.3 |
| Continental Europe | PRS Group | 8.60% / 1.00% | 5 years | | 36.7 | 36.7 |
| Continental Europe | Asesores y Gestores Financieros SA | 8.55% / 2.00% | 5 years | 1.2 | 22.4 | 23.6 |
| **Fair value less costs to sell** | | P/E | AuM multiple | | | |
| Continental Europe | Banque Edouard Constant | 13.0 | 2.9% | | 76.3 | 76.3 |
| Continental Europe | Banque Monégasque de Gestion | 13.0 | 2.9% | 3.8 | 23.2 | 27.0 |
| **Other** | | | | | | |
| Various | Other Cash Generating Units | Various* | | 8.2 | 38.9 | 47.1 |
| **Total carrying values** | | | | **30.9** | **235.1** | **266.0** |

** Discount rates for Value in use approach are between 6.3% and 9.2% (2013: 5.9% and 7.9%).*

The assessment for impairment of goodwill and intangibles of the Group considered the performance outlook of each cash generating unit and the underlying business operations, to determine whether the recoverable amount for these cash generating units covers its carrying amount. Based on the tests performed, the Group concluded that intangible assets and goodwill remained recoverable at 31 December 2014. Earnings are estimated based on current and future business initiatives and forecast results derived therefrom.

The table below shows the sensitivity to permanent declines in assets under management, which would have an impact on forecasted future profits. For sensitivity purposes the impact of a 20% and a 50% decline in forecasted profit before tax are presented.

| Cash generating unit | Impairment impact of 20% decline in forecast profit CHF millions | Impairment impact of 50% decline in forecast profit CHF millions | Impairment impact of 100 bp increase in discount rate CHF millions | Required decline in forecast profit to equal carrying value CHF millions |
|---|---|---|---|---|
| Banque Edouard Constant | – | 13.1 | – | 40% |
| Harris Allday | – | – | – | 61% |
| PRS Group | 2.7 | 15.4 | – | 14% |
| Banque Monégasque de Gestion | – | – | – | 62% |
| Asesores y Gestores Financieros SA | – | – | – | 56% |

## 34. PROPERTY, PLANT AND EQUIPMENT

| | Land and Buildings CHF millions | Leasehold improvements CHF millions | Furniture, equipment, motor vehicles CHF millions | Computer hardware CHF millions | Total CHF millions |
|---|---|---|---|---|---|
| **At 1 January 2013** | | | | | |
| Cost | 4.0 | 40.9 | 20.1 | 47.2 | 112.2 |
| Accumulated depreciation | (0.7) | (28.1) | (14.0) | (36.4) | (79.2) |
| **Net book value** | **3.3** | **12.8** | **6.1** | **10.8** | **33.0** |
| **Year ended December 2013** | | | | | |
| Opening net book amount | 3.3 | 12.8 | 6.1 | 10.8 | 33.0 |
| Additions | | 3.0 | 2.2 | 3.4 | 8.6 |
| Depreciation charge for the year (note 12) | (0.2) | (3.0) | (1.4) | (3.2) | (7.8) |
| Disposal of subsidiary | | (2.6) | (1.4) | (5.3) | (9.3) |
| Disposal and write-offs | | (0.3) | (1.3) | (0.3) | (1.9) |
| Exchange differences | (0.1) | | (0.1) | 0.1 | (0.1) |
| **Closing net book value** | **3.0** | **9.9** | **4.1** | **5.5** | **22.5** |
| **At 31 December 2013** | | | | | |
| Cost | 3.8 | 37.8 | 19.4 | 40.2 | 101.2 |
| Accumulated depreciation | (0.8) | (27.9) | (15.3) | (34.7) | (78.7) |
| **Net book value** | **3.0** | **9.9** | **4.1** | **5.5** | **22.5** |
| **Year ended December 2014** | | | | | |
| Opening net book amount | 3.0 | 9.9 | 4.1 | 5.5 | 22.5 |
| Additions | | 2.5 | 2.6 | 2.4 | 7.5 |
| Depreciation charge for the year (note 12) | (0.1) | (3.2) | (1.2) | (3.3) | (7.8) |
| Disposal and write-offs | | (0.2) | (1.2) | (0.4) | (1.8) |
| Exchange differences | 0.1 | 0.4 | 0.1 | 0.1 | 0.7 |
| **Closing net book value** | **3.0** | **9.4** | **4.4** | **4.3** | **21.1** |
| **At 31 December 2014** | | | | | |
| Cost | 4.0 | 40.1 | 20.7 | 41.0 | 105.8 |
| Accumulated depreciation | (1.0) | (30.7) | (16.3) | (36.7) | (84.7) |
| **Net book value** | **3.0** | **9.4** | **4.4** | **4.3** | **21.1** |

## 35. OTHER ASSETS

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Prepaid expenses and accrued income | 36.0 | 32.8 |
| Settlement balances | 34.8 | 41.2 |
| Current income tax assets | 5.4 | 5.8 |
| Other assets | 60.5 | 75.9 |
| **Other assets** | **136.7** | **155.7** |

Settlement balances of CHF 34.8 million (2013: CHF 41.2 million) reflect trade date versus settlement date accounting principle, which is applied on the issuance of structured products and is dependent on transactions executed over the year-end period.

### 36. DUE TO OTHER BANKS

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Due to other banks at sight | 261.8 | 231.7 |
| Due to other banks at term | 204.2 | 58.4 |
| **Due to other banks** | **466.0** | **290.1** |

### 37. DUE TO CUSTOMERS

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Non interest bearing | 10,470.6 | 9,483.6 |
| Interest bearing | 8,093.9 | 6,960.2 |
| **Due to customers** | **18,564.5** | **16,443.8** |

### 38. SUBORDINATED LOANS AND DEBT ISSUED

| | Weighted average interest rate % | Due dates | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|---|---|
| **Subordinated loans – issuers** | | | | |
| EFG International (Guernsey) Ltd – EUR 66,425,000 | 8.00% p.a. | January 2022 | 59.4 | 58.5 |
| EFG Funding (Guernsey) Ltd – CHF 180,000,000 | 4.75% p.a. | January 2023 | 186.9 | 186.6 |
| **Total subordinated loans** | | | **246.3** | **245.1** |

Notes are presented net of unamortised discount on issuance of CHF 29.3 million.

| | | | | |
|---|---|---|---|---|
| **Debt issued – issuers** | | | | |
| Chestnut Financing PLC – GBP 266,300,000 | 1.28% p.a. | August 2017 | 411.1 | |
| **Total debt issued** | | | **411.1** | **–** |

The debt issued by Chestnut Financing PLC is secured by a portfolio of mortgages over properties in the United Kingdom with a book value of CHF 552.0 million.

## 39. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

| | | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|---|
| Synthetic life insurance | Unquoted – Discounted cash flow analysis | 330.5 | 292.5 |
| Equities securities (liabilities to purchase non-controlling interests) | Discounted cash flow analysis | 38.7 | 18.2 |
| **Total Financial Liabilities designated at fair value** | | **369.2** | **310.7** |

### Credit rating impact

Changes in the fair value of financial liabilities designated at fair value are attributable to changes in market risk factors. The credit rating of the Group had no impact on the fair value changes of these liabilities.

### Synthetic life insurance

The synthetic life insurance liability relates to a structured transaction which is economically hedging a portfolio of life insurance policies classified as financial assets at fair value of CHF 298.8 million (2013: CHF 269.0 million, see note 28).

### Liability to purchase non-controlling shareholders interests

The non-controlling shareholders of Asesores y Gestores Financieros SA have the right to sell their shares to a wholly owned subsidiary of EFG International AG. This right applied from 1 January 2010 and that right expires on the occurrence of potential future events. According to IAS 32, these put options give rise to a financial liability that corresponds to the discounted repurchase amount. In 2014, the liability increased by reclassification from Group equity, when the non-controlling shareholders subscribed for additional capital in Asesores Y Gestores Financieros S.A.
As of 31 December 2014, the financial liability was valued at CHF 38.7 million (2013: CHF 18.2 million).

## 40. OTHER FINANCIAL LIABILITIES

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Structured products issued | 3,030.7 | 2,421.5 |
| **Total other financial liabilities** | **3,030.7** | **2,421.5** |

## 41. PROVISIONS

| | Provision for litigation risks CHF millions | Provision for restructuring CHF millions | Other provisions CHF millions | Total CHF millions |
|---|---|---|---|---|
| **At 1 January 2013** | 3.5 | 6.9 | 1.1 | 11.5 |
| Increase in provisions recognised in the Income Statement | 0.5 | 0.7 | 33.7 | 34.9 |
| Release of provisions recognised in the Income Statement | (0.4) | (0.7) | | (1.1) |
| Provisions used during the year | (1.5) | (5.5) | (11.9) | (18.9) |
| Exchange differences | 0.1 | 0.1 | 0.2 | 0.4 |
| **At 31 December 2013** | **2.2** | **1.5** | **23.1** | **26.8** |

| | Provision for litigation risks CHF millions | Provision for restructuring CHF millions | Other provisions CHF millions | Total CHF millions |
|---|---|---|---|---|
| **At 1 January 2014** | 2.2 | 1.5 | 23.1 | 26.8 |
| Increase in provisions recognised in the Income Statement | 33.7 | | 31.3 | 65.0 |
| Release of provisions recognised in the Income Statement | (0.9) | | | (0.9) |
| Provisions used during the year | (28.0) | (0.9) | (24.2) | (53.1) |
| Exchange differences | | | 0.2 | 0.2 |
| **At 31 December 2014** | **7.0** | **0.6** | **30.4** | **38.0** |
| | | | | |
| Expected payment within 12 months | 7.0 | 0.6 | 30.4 | 38.0 |
| Expected payment thereafter | | | | – |
| | **7.0** | **0.6** | **30.4** | **38.0** |

**Provision for litigation risks**

Includes CHF 7.0 million of provisions for various small litigation cases which are expected to be settled within a year. A provision for CHF 26.3 million relating to proceedings in Switzerland linked to fraudulently approved contracts, where the Court ruled against the Group, was made during the year and utilised in July to settle the claim.

**Provision for restructuring**

The Group made the decision to close the businesses in France and Sweden. The remaining provision of CHF 0.6 million relates to the closure costs of these entities which are part of the way through their closure programmes.

**Other provisions**

Other provisions of CHF 30.4 million comprise primarily the following:

(i) A provision of CHF 16.2 million related to the US Department of Justice's ("DOJ") Program for Swiss banks ("DOJ Program"). In December 2013 it was announced that EFG Bank AG (the "Bank") would take part in the DOJ Program for Swiss banks as a Category 2 bank with the objective of negotiating a non-prosecution agreement with the DOJ. Participation in the DOJ Program is in keeping with the recommendations of the Swiss authorities. Banks seeking non-prosecution agreements must provide the DOJ with information on how the Bank's US business was structured, operated and supervised, and the total number of US related accounts open from 1 August 2008 and their highest dollar value. In addition, upon execution of the non-prosecution agreement, the Bank will be required to provide the DOJ with additional information on each US related account closed since 1 August 2008. The Bank will have to pay penalties on behalf of US clients for whom the Bank fails to demonstrate that such assets are not undeclared or that another penalty reduction factor applies, for example accounts disclosed through the IRS Offshore Voluntary Disclosure Program. The Bank has provided for the residual estimated costs of outside legal counsel, other external advisers of CHF 5.4 million and the estimated cost of the penalty of CHF 10.8 million. The matter is expected to be settled during 2015.

(ii) A provision of CHF 8.0 million for an amount payable related to the withholding tax treaty between Switzerland and the UK. As the amount of undeclared assets held by UK citizens in Swiss banks and liable for the payment is substantially less than originally anticipated by the Swiss banking industry, the Swiss banks made up the shortfall. The asset pool was reduced by a high proportion of resident non-domiciled clients of Swiss banks with limited UK tax obligations. This is expected to be settled within a year.

(iii) A provision of CHF 5.8 million for potential UK client claims. This is expected to be settled within a year.

(iv) A provision of CHF 0.4 million for other small claims, that are expected to be settled within a year.

## 42. OTHER LIABILITIES

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Deferred income and accrued expenses | 168.2 | 167.5 |
| Settlement balances | 91.6 | 42.3 |
| Short term compensated absences | 5.7 | 5.8 |
| Retirement benefit obligations | 30.4 | 2.6 |
| Other liabilities | 44.8 | 51.4 |
| **Total Other liabilities** | **340.7** | **269.6** |

## 43. CONTINGENT LIABILITIES

The Group is involved in various legal and arbitration proceedings in the normal course of its business operations. The Group establishes provisions (see note 41) for current and threatened pending legal proceedings if management is of the opinion that the Group is more likely than not to face payments or losses and if the amount of such payments or losses can be reliably estimated.

The following contingent liabilities that management is aware of are related to legal proceedings which could have a material effect on the Group. However, based on current available information and advice received, it is not expected that any of these contingent liabilities will result in material provisions or other liabilities.

The Group is engaged in certain litigation proceedings mentioned below and is vigorously defending the cases. The Group believes it has strong defences to the claims. The Group does not expect the ultimate resolution of any of the below mentioned proceedings to which the Group is party to have a significantly adverse effect on its financial position.

(i) Several entities in the Group have been named as defendants in lawsuits by the liquidators of Fairfield Sentry Ltd. and Fairfield Sigma Ltd. in the US Bankruptcy Court for the Southern District of New York and in the High Court of Justice of the British Virgin Islands, asserting that redemption payments received by the Group entities on behalf of clients should be returned to Fairfield Sentry Ltd. and Fairfield Sigma Ltd. The amount claimed is uncertain, but the Group believes the amount claimed is approximately USD 160 million. The Group entities have obtained a complete and final dismissal of the lawsuits in the British Virgin Islands. They keep vigorously defending the lawsuits in New York and believe they have strong defences to the claims.

(ii) The Trustee of Bernard L, Madoff Investment Securities LLC ("BLMIS") has filed a complaint in the US Bankruptcy Court for the Southern District of New York asserting that redemption payments totalling USD 355 million allegedly received by certain Group entities on behalf of clients through Fairfield and Kingate feeder funds should be returned to BLMIS. This action includes the redemptions claimed by the Fairfield liquidators (see previous paragraph). The Group entities are vigorously defending the cases and believe they have strong defences to the claims.

(iii) The Group is engaged in litigation proceedings initiated by a client claiming that he has been misled insofar as he thought that his investments were capital protected, that the agreed investment strategy has not been followed and that unauthorized transactions were performed. The amount claimed is approximately CHF 57 million plus interest. The Group entities are vigorously defending the cases and believe they have strong defences to the claims.

(iv) The Group is engaged in litigation proceedings initiated by a former employee who claims on grounds of a series of agreements CHF 16.1 million plus interest. The Group entities are vigorously defending the cases and believe they have strong defences to the claims.

(v) Two Group entities are engaged in litigation proceedings initiated by the present trustee of a trust for which a Group entity previously acted as trustee. The trustee bases its claim on various legal arguments, mainly breach of trust, gross negligence and dishonest assistance. The amount claimed amounts to GBP 7 million. The concerned Group entities are vigorously defending the case and believe they have strong defences to the claims.

(vi) The Group is involved in a series of litigation proceedings, where the Group made a claim and a counterclaim for approximately US$ 5.5 million. However the Group is also defending itself vigorously against claims and counterclaims for US$ 16.6 million. These proceedings are related to mismanagement practices by a party unrelated to the Group, who was a former investment manager of a fund for which the Group acted as the administrator and custodian. In addition the Group is being sued by the investors in the fund and the fund itself for the amount of US$ 8.7 million on the grounds of various alleged breaches. The Group strongly believes that there has been no wrongdoing on its part and that it has strong defences to the claims.

In addition to the foregoing contingent liabilities related to litigation, there is one further matter which could, but is not currently expected to have a material effect on the Group.

The Group has provided loans for approximately USD 226 million for which the Group was granted security over a portfolio of financial collateral by a pledgor, whose parent company has been put into receivership and is in the process of being sold. The receiver has raised legal issues as to validity and enforceability of the security and the loans. The Group has informed the competent regulatory authorities and fully cooperates with them in connection with their ongoing review of the matter. The Group considers that the loans are fully collateralized and thus fully recoverable and has not made a provision. In addition, the bank has the personal covenant of a UHNWI client.

## 44. RETIREMENT BENEFIT OBLIGATIONS

The Group operates two plans which under IFRS are classified as defined benefit plans. These plans are in Switzerland ("the Switzerland plan") for EFG Bank AG and in the Channel Islands ("the Channel Islands plan"). The Switzerland plan is considered as a defined benefit plans under IFRS due to a minimum guaranteed return in Swiss pension legislation, the Group having no obligation relative to these funds other than to provide the minimum guaranteed return.

The Group operates a defined benefit plan in the Channel Islands ("the Channel Islands plan") which is not aggregated with the plan in Switzerland ("the Switzerland plan"), due to its relative size. The Channel Islands plan has funded obligations of CHF 4.8 million; the fair value of plan assets is CHF 5.1 million.

The Switzerland plan is a contribution based plans with guarantee, which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. Level of benefits is at minimum as required by the swiss law. Plan benefits are provided in case of retirement from service or on death or disability before retirement based on conversion rates established and reviewed regularly by the foundation. Pre-retirement death and disability benefits are covered by a Group insurance contract. When leaving the Group pre-retirement, the benefits vested according to the Swiss pension law will be transferred to the plan's participant's new pension scheme. Retirement benefits are based on the accumulation of defined contributions paid by employer and employees in individual accounts with interest. The plan provides limited guarantees of accumulated capital and interest.

The pension fund is organized as a registered Swiss employee welfare foundation, a separate legal entity and is administered by the board of the foundation and professional fund administrators appointed by the board of the foundation. Plan assets held in trusts are governed by local regulations and practice, as is the nature of the relationship between the Group and the foundation or its board. According to Swiss pension law, the responsibility for governance of the plans – including investment decisions and contribution schedules – lies jointly with the fund administrators and the board of the pension foundation. The board of the pension foundation must be composed of representatives of the company and plan participants in accordance with the plan's regulations.

The disclosures below relates to the Switzerland plan.

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| **Net amount recognised in the Balance sheet** | | |
| Present value of funded obligation | 238.9 | 185.6 |
| Fair value of plan assets | 208.5 | 183.0 |
| **Liability recognised in the Balance sheet** | **30.4** | **2.6** |
| **Net amount recognised in the Balance sheet at the beginning of year** | **2.6** | **24.5** |
| Net amount recognised in the Income Statement – continuing operations | 8.1 | 9.8 |
| Net amount recognised in the Income Statement – non continuing operations | | (2.5) |
| Net amount recognised in the Statement of Comprehensive Income | 29.4 | (18.2) |
| Company contribution paid in year | (9.7) | (11.0) |
| **Net amount recognised in the Balance sheet at the end of year** | **30.4** | **2.6** |

| | Present value of obligation CHF millions | Fair value of plan assets CHF millions | Total CHF millions |
|---|---|---|---|
| **1 January 2014** | **185.6** | **(183.0)** | **2.6** |
| Current service cost | 6.2 | | 6.2 |
| Interest expense/(income) | 4.6 | (4.6) | – |
| Administrative costs and insurance premiums | 1.9 | | 1.9 |
| Disposal of subsidiary | | | – |
| **Net amount recognised in the income statement** | **12.7** | **(4.6)** | **8.1** |
| Remeasurements: | | | |
| Return on plan assets, excluding amounts included in interest expense/(income) | | (8.7) | (8.7) |
| Actuarial loss on defined benefit obligation | 38.1 | | 38.1 |
| **Net amount recognised in the Statement of Comprehensive Income** | **38.1** | **(8.7)** | **29.4** |
| Plan participants contributions | 5.3 | (5.3) | – |
| Company contributions | | (9.7) | (9.7) |
| Administrative costs and insurance premiums | (1.9) | 1.9 | – |
| Benefit payments | (0.9) | 0.9 | – |
| **Total transactions with fund** | **2.5** | **(12.2)** | **(9.7)** |
| **31 December 2014** | **238.9** | **(208.5)** | **30.4** |

| | Present value of obligation CHF millions | Fair value of plan assets CHF millions | Total CHF millions |
|---|---|---|---|
| **1 January 2013** | **214.0** | **(189.5)** | **24.5** |
| Current service cost | 7.1 | | 7.1 |
| Interest expense/(income) | 3.7 | (3.3) | 0.4 |
| Administrative costs and insurance premiums | 2.3 | | 2.3 |
| Disposal of subsidiary | (27.2) | 24.7 | (2.5) |
| **Net amount recognised in the income statement** | **(14.1)** | **21.4** | **7.3** |
| Remeasurements: | | | |
| Return on plan assets, excluding amounts included in interest expense/(income) | | (4.1) | (4.1) |
| Actuarial gain on defined benefit obligation | (14.1) | | (14.1) |
| **Net amount recognised in the Statement of Comprehensive Income** | **(14.1)** | **(4.1)** | **(18.2)** |
| Plan participants contributions | 6.2 | (6.2) | – |
| Company contributions | | (11.0) | (11.0) |
| Administrative costs and insurance premiums | (2.3) | 2.3 | – |
| Benefit payments | (4.1) | 4.1 | – |
| **Total transactions with fund** | **(0.2)** | **(10.8)** | **(11.0)** |
| **31 December 2013** | **185.6** | **(183.0)** | **2.6** |

| | 31 December 2014 | 31 December 2013 | 31 December 2012 |
|---|---|---|---|
| **Significant actuarial assumptions** | | | |
| Discount rate | 1.35% | 2.50% | 1.90% |
| Salary growth rate | 1.00% | 1.00% | 1.00% |
| Pension growth rate | 0.00% | 0.00% | 0.00% |

| **Assumptions regarding future mortality** | Years | Years | Years |
|---|---|---|---|
| Longevity at age 65 for current pensioners: | | | |
| male | 21.4 | 21.3 | 19.6 |
| female | 23.9 | 23.8 | 21.9 |
| Longevity at age 65 for future pensioners (aged 50): | | | |
| male | 22.8 | 22.7 | |
| female | 25.2 | 25.1 | |

| | Change in assumption | Impact of an increase in assumption on present value of obligation CHF millions | Impact of a decrease in assumption on present value of obligation CHF millions |
|---|---|---|---|
| **Sensitivity analysis** | | | |
| Discount rate | 0.10% | (3.7) | 3.7 |
| Salary growth rate | 0.10% | 0.5 | (0.5) |
| Pension growth rate | 0.10% | 2.0 | |
| Life expectancy | 1 year | 3.0 | (3.0) |

Actuarial assumptions of both financial and demographic nature are established as unbiased best estimates of future expectations. Assumptions are changed from time to time to reflect changes in the information available to use in formulating best estimates. There were no changes in the methodology used to determine assumptions used.

The assumptions regarding expected mortality rates are set based on advice, published statistics such as LPP2010 generational tables and experience. In particular in-service death and disability rates have been adjusted to correspond to recent EFG experience. The plan liability is calculated assuming that the pension conversion rate currently in effect will still be in effect for the next decade. Future changes to conversion rates, whereas probable, cannot be estimated and therefore are ignored.

Financial assumptions include the discount rate, the expected rate of salary growth and the expected rate of pensions increases. The discount rate is set based on consideration of the yields of high quality corporate debt of duration similar to that of the pension liabilities. Where availability of such data is limited, the company considers yields available on government bonds and allowing for credit spreads available in other deeper and more liquid markets for high quality corporate debt. The salary growth assumption is set based on the employer's expectation for inflation and market forces on salaries. The actuarial loss for the year of CHF 38.1 million includes CHF 37.8 million negative effect of financial assumptions, CHF 0.3 million negative effect of experience and no change in demographic assumptions.

The plan does not guarantee any pension increases although in the event that the plan developed a surplus according to Swiss pension law, then a discretionary pension adjustment could be possible. At the present time, projections for the plan development do not indicate any likelihood of surplus or a pension adjustment and so it is assumed that pensions are fixed.

The sensitivity of the valuation result to changes in assumptions is illustrated by introducing changes to one specific assumption at a time and comparing the result before and after the change. This is separately illustrated for changes in the discount rate and the expected rate of future salary increases. In practice there may be some correlation in changes of assumptions, and for the purposes of the valuation the effect is ignored.

The operation of the pension plan involves exposure to a range of risks most significant being presented further below. The impact of these risks is shared between the Group and the plan participants in case of negative effects. In situations where the pension fund will accumulate surplus assets after providing the target benefits, the board of the foundation may consider a distribution of the surplus to participants. No part of the surplus may be attributed to the Group.

(i) Investment risk.

Plan assets are invested to achieve a target return. The actual returns earned each year are likely to vary with a result higher or lower than the target. There is a risk that the long term average return may be higher or lower than the target. If the long term return is lower than the target then the fund will not have sufficient assets for plan benefits. The year on year variation in the return will generally be reflected directly in the defined benefit remeasurements.

A component of the return earned each year is derived from investment in bonds, and these bond returns are reflected in changes in the discount rate used to measure the defined benefit obligation. As a result benefit remeasurements through the statement of comprehensive income resulting from asset volatility may be reduced by changes in the related obligation resulting from changes in the discount rate.

(ii) Longevity risk.

The plan provides an annuity option to individuals on retirement. The annuity option is calculated using a conversion rate which is established by the foundation and reviewed periodically.

The conversion rate is calculated with an assumption for the target rate of return and the life expectancy of the pensioner. Historic experience is that life expectancy improved faster than actuarial tables predicted and so longevity risk tended to be “loss generating.”

(iii) Interest volatility risk.

There is a substantial year-on-year liability volatility due to the volatility of the discount rate used in the model which is based on market yields on bonds of a specified type. The fund allocates a substantial proportion of assets to bonds, but the availability of bonds of duration and characteristics similar in nature to the discount rate is limited so that interest rate volatility risk cannot be eliminated. Interest rate volatility does not result in any effect on the Group performance but rather on the remeasurements recognised in Statement of Comprehensive Income.

(iv) Death and disability risk.

The number of cases of death and disability of active employees may fluctuate considerably from year to year. To mitigate the effect of this risk the foundation has contracted an insurance contract covering the cost of death and disability benefits arising in each year.

The foundation has established a written investment policy whereby the foundation periodically establishes an allocation strategy with target allocations and tactical ranges for the principal classes of investments (equity, fixed income, real estate and liquidity) which aims to maximize the returns on plan assets.

Plan assets are invested under mandates to a number of investment portfolio managers. Investment portfolio managers' performance is regularly evaluated against its established strategy. The actual return on plan assets was CHF 13.3 million in 2014 (2013: CHF 7.4 million). The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the income statement.

The plan assets do not include any shares of the EFGI Group or of any of its subsidiaries.

The asset allocation is as follows:

| | Quoted CHF millions | Unquoted CHF millions | 2014 Total CHF millions | 2014 in % | 2013 Total CHF millions | 2013 in % |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 33.8 | | 33.8 | 16.2% | 16.7 | 9.1% |
| Equity Instruments | 76.0 | | 76.0 | 36.5% | 65.3 | 35.7% |
| Debt instruments | 75.9 | | 75.9 | 36.4% | 78.8 | 43.1% |
| Other | 8.3 | 14.5 | 22.8 | 10.9% | 22.2 | 12.1% |
| **Total plan assets at the end of the year** | **194.0** | **14.5** | **208.5** | **100.0%** | **183.0** | **100.0%** |

Plan assets of CHF 5.4 million (2013: CHF 4.0 million) have been pledged as collateral to third parties who have provided employees with mortgages for financing their main residence. The expected employer contributions to the post-employment benefit plan for the year ending 31 December 2015 are CHF 9.6 million. The weighted average duration of the defined benefit obligation is 16.2 years. The expected maturity analysis of undiscounted pension benefits is as follows:

| **Expected maturity analysis of undiscounted pension benefits** | CHF millions |
|---|---|
| Less than a year | 16.0 |
| Between 1–2 years | 10.7 |
| Between 2–5 years | 19.6 |
| Over 5 years | 242.4 |
| **Total** | **288.7** |

## 45. SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

The following is an analysis of the movement of share capital and share premium. The par value of EFG International AG registered shares issued is CHF 0.50 (ordinary shares) and the par value of the Group's Bons de Participation (Preference shares) is CHF 15. All EFG International AG shares and Bons de Participation are fully paid.

### 45.1 Share capital

| | Ordinary shares with voting rights CHF millions | Bons de Participation without voting rights CHF millions | Treasury shares Ordinary shares CHF millions | Treasury Shares Bons de Participation CHF millions | Net CHF millions |
|---|---|---|---|---|---|
| **At 1 January 2013** | **73.3** | **4.0** | **(0.1)** | **–** | **77.2** |
| Ordinary shares sold | | | | | – |
| Ordinary shares repurchased | | | | | – |
| Employee equity incentive plans exercised | 0.6 | | | | 0.6 |
| Repurchase and cancellation of Bons de Participation | | (3.8) | | | (3.8) |
| **At 31 December 2013** | **73.9** | **0.2** | **(0.1)** | **–** | **74.0** |
| Ordinary shares sold | | | 0.1 | | 0.1 |
| Ordinary shares repurchased | | | | | – |
| Employee equity incentive plans exercised | 1.4 | | | | 1.4 |
| **At 31 December 2014** | **75.3** | **0.2** | **–** | **–** | **75.5** |

### 45.2 Share premium

| | Ordinary shares with voting rights CHF millions | Bons de Participation without voting rights CHF millions | Treasury shares Ordinary shares CHF millions | Treasury Shares Bons de Participation CHF millions | Net CHF millions |
|---|---|---|---|---|---|
| **At 1 January 2013** | **1,330.6** | **1.3** | **(92.9)** | **–** | **1,239.0** |
| Ordinary shares sold | | | 0.8 | | 0.8 |
| Ordinary shares repurchased | | | (0.2) | | (0.2) |
| Employee equity incentive plans exercised | | | | | – |
| Repurchase and cancellation of Bons de Participation | | (1.2) | | | (1.2) |
| **At 31 December 2013** | **1,330.6** | **0.1** | **(92.3)** | **–** | **1,238.4** |
| Ordinary shares sold | | | 1.7 | | 1.7 |
| Ordinary shares repurchased | | | (0.8) | | (0.8) |
| Employee equity incentive plans exercised | 4.5 | | | | 4.5 |
| **At 31 December 2014** | **1,335.1** | **0.1** | **(91.4)** | **–** | **1,243.8** |

### 45.3 Number of shares

The following is an analysis of the movement in the number of shares issued by the Group:

| | Ordinary shares with voting right | Bons de Participation without voting right | Treasury Shares Ordinary Shares | Treasury Shares Bons de Participation | Net |
|---|---|---|---|---|---|
| Nominal | CHF 0.50 | CHF 15.– | CHF 0.50 | CHF 15.– | |
| **At 1 January 2013** | 146,670,000 | 264,781 | (275,608) | – | |
| Ordinary shares sold | | | 81,758 | | |
| Ordinary shares repurchased | | | (16,637) | | |
| Employee equity incentive plans exercised | 1,207,040 | | | | |
| Repurchase and cancellation of Bons de Participation | | (251,399) | | (750) | |
| **At 31 December 2013** | **147,877,040** | **13,382** | **(210,487)** | **(750)** | |
| Ordinary shares sold | | | 168,759 | | |
| Ordinary shares repurchased | | | (78,976) | | |
| Employee equity incentive plans exercised | 2,818,394 | | | | |
| **At 31 December 2014** | **150,695,434** | **13,382** | **(120,704)** | **(750)** | |
| **Net share capital (CHF millions)** | **75.3** | **0.2** | **–** | **–** | **75.5** |

All transactions in EFG International AG shares were traded at market prices. The total number of treasury shares sold during 2014 is 168,759 (2013: 81,758) at an average price per share of CHF 10.74 (2013: CHF 9.64). The total number of treasury shares acquired during 2014 is 78,976 (2013: 16,637) and the average purchase price of these shares in the period was CHF 10.22 per share (2013: CHF 10.99).

At 31 December 2014 a total of 120,704 registered shares (2013: 210,487) and 750 (2013: 750) Bons de Participation were held by subsidiaries.

In 2014 1,207,040 shares were issued related to employee equity incentive plans which included 1,005,547 options with a strike price of CHF 5.0 per share resulting in proceeds on issuance of CHF 5.0 million.

#### Conditional share capital

The share capital may be increased by a maximum of CHF 1,019,783 (2013: CHF 1,678,980) by issuing up to 2,039,566 (2013: 3,357,960) fully paid up registered shares with a face value of CHF 0.50 each through the exercise of option rights granted to officers and employees at all levels of the company and its group companies. The preferential subscription rights of the shareholders and participants are excluded in favor of the holders of the option rights.

The share capital may be increased by a maximum of CHF 10,000,000 by issuing 20,000,000 fully paid up registered shares with a face value of CHF 0.50 each through the exercise of conversion and/or option rights granted in connection with the issuance of newly issued convertible debentures with option rights or other financing instruments by the company or one of its group companies. The preferential subscription rights of the shareholders and participants are excluded in favor of the holders of the conversion and/or option rights.

#### Authorised share capital

The Board of directors is authorised, at any time until 25 April 2016, to increase the share capital by a maximum of CHF 25,000,000 by issuing 50,000,000 fully paid up registered shares with a face value of CHF 0.50 each. Increases by firm underwriting, partial increases as well as increases by way of conversion of own free funds are permitted.

## 46. OTHER RESERVES

| | IAS 39 equity CHF millions | Employee share option plan CHF millions | Other CHF millions | Total CHF millions |
|---|---|---|---|---|
| **Balance at 1 January 2013** | **(76.7)** | **89.6** | **107.0** | **119.9** |
| Employee equity incentive plans amortisation | | 12.0 | | 12.0 |
| Employee equity incentive plans exercised | | (0.9) | | (0.9) |
| Repurchase of Bons de Participation | | | (183.4) | (183.4) |
| Disposal of subsidiary | | | (4.6) | (4.6) |
| Fair value gains on available-for-sale investment securities, before tax | 0.1 | | | 0.1 |
| Transfer to the Income Statement of realised available-for-sale investment securities reserve, before tax | (10.6) | | | (10.6) |
| Tax effect on changes in fair value of available-for-sale investment securities | 0.8 | | | 0.8 |
| Defined benefit costs | | | 17.7 | 17.7 |
| Currency translation differences | | | (0.1) | (0.1) |
| **At 31 December 2013** | **(86.4)** | **100.7** | **(63.4)** | **(49.1)** |
| | | | | |
| **Balance at 1 January 2014** | **(86.4)** | **100.7** | **(63.4)** | **(49.1)** |
| Employee equity incentive plans amortisation | | 10.5 | | 10.5 |
| Employee equity incentive plans exercised | | (1.4) | | (1.4) |
| Transfer to retained earnings on lapse of employee equity incentive plans | | (28.2) | | (28.2) |
| Fair value gains on available-for-sale investment securities, before tax | 27.5 | | | 27.5 |
| Transfer to the Income Statement of realised available-for-sale investment securities reserve, before tax | (18.2) | | | (18.2) |
| Tax effect on changes in fair value of available-for-sale investment securities | (1.1) | | | (1.1) |
| Defined benefit costs | | | (29.4) | (29.4) |
| Net gain on hedge of net investments in foreign operations, with no tax effect | | | 17.1 | 17.1 |
| Currency translation differences | | | 21.1 | 21.1 |
| Non controlling-interest put option | | | (21.3) | (21.3) |
| **At 31 December 2014** | **(78.2)** | **81.6** | **(75.9)** | **(72.5)** |

## 47. OFF-BALANCE SHEET ITEMS

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Guarantees issued in favour of third parties | 258.3 | 270.6 |
| Irrevocable commitments | 168.7 | 170.6 |
| Operating lease commitments | 133.3 | 103.3 |
| **Total** | **560.3** | **544.5** |

The following table summarises the Group's off-balance sheet items by maturity:

| | Not later than 1 year CHF millions | 1–5 years CHF millions | Over 5 years CHF millions | Total CHF millions |
|---|---|---|---|---|
| **31 December 2014** | | | | |
| Guarantees issued in favour of third parties | 117.8 | 70.3 | 70.2 | 258.3 |
| Irrevocable commitments | 70.7 | 98.0 | | 168.7 |
| Operating lease commitments | 27.7 | 77.4 | 28.2 | 133.3 |
| **Total** | **216.2** | **245.7** | **98.4** | **560.3** |
| **31 December 2013** | | | | |
| Guarantees issued in favour of third parties | 137.4 | 61.2 | 72.0 | 270.6 |
| Irrevocable commitments | 157.6 | 12.8 | 0.2 | 170.6 |
| Operating lease commitments | 25.9 | 48.8 | 28.6 | 103.3 |
| **Total** | **320.9** | **122.8** | **100.8** | **544.5** |

The financial guarantees maturities are based on the earliest contractual maturity date. The irrevocable commitments maturities are based on the dates on which loan commitments made to customers will cease to exist. Where a Group company is the lessee, the future minimum operating lease payments under non-cancellable operating leases are disclosed in the table above.

## 48. FIDUCIARY TRANSACTIONS

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Fiduciary transactions with third party banks | 951.1 | 1,278.6 |
| Loans and other fiduciary transactions | 5.4 | 5.1 |
| **Total** | **956.5** | **1,283.7** |

## 49. SEGMENTAL REPORTING

The Group's segmental reporting is based on how internal management reviews the performance of the Group's operations. In 2014, a reportable segment has been added for the Wealth Solutions business unit. The comparatives have been restated to align with this change. The primary split is between the Private Banking and the Wealth Management business and the Investment (previously called Asset Management) and Wealth Solutions business. The Private Banking and Wealth Management business is managed on a regional basis and is split into Continental Europe, Switzerland, Americas, United Kingdom and Asia. The Investment Solutions segment includes the business in all locations as it operates on a global basis. The basis for expense allocation between segments follows the arm's length principle. The Corporate Centre is responsible for managing the Life settlement policy related investments, certain investment portfolios, funding costs (including funding costs from structured products issuances), global brand related marketing and Swiss back-office and IT functions used on a global basis. In addition, the Corporate Centre includes businesses that have been restructured and are being wound down.

| | Private Banking and Wealth management | | | |
|---|---|---|---|---|
| | Switzerland CHF millions | Continental Europe CHF millions | Americas CHF millions | United Kingdom CHF millions |
| **At 31 December 2014** | | | | |
| Segment revenue | 168.4 | 120.5 | 106.8 | 170.8 |
| Segment expenses | (126.9) | (86.9) | (79.8) | (108.6) |
| Tangible assets and software depreciation | (1.3) | (1.2) | (1.0) | (1.1) |
| **Total Operating margin** | **40.2** | **32.4** | **26.0** | **61.1** |
| Cost to acquire intangible assets and impairment of intangible assets | (0.1) | (1.2) | (0.5) | (1.7) |
| Other provisions | (25.4) | | (2.4) | (0.7) |
| Reversal of impairment on financial assets held-to-maturity | | | | |
| Reversal of impairment on loans and advances to customers | 0.1 | | 0.2 | |
| **Segment profit / (loss) before tax** | **14.8** | **31.2** | **23.3** | **58.7** |
| Income tax expense | (1.2) | (2.0) | (0.8) | (4.1) |
| **Profit for the year** | **13.6** | **29.2** | **22.5** | **54.6** |
| Assets under management | 15,101 | 15,726 | 12,693 | 19,729 |
| Employees | 324 | 274 | 288 | 406 |
| **At 31 December 2013** | | | | |
| Segment revenue | 161.1 | 98.9 | 98.6 | 150.1 |
| Segment expenses | (123.6) | (73.3) | (76.8) | (94.7) |
| Tangible assets and software depreciation | (1.4) | (1.0) | (1.2) | (1.0) |
| **Total Operating margin** | **36.1** | **24.6** | **20.6** | **54.4** |
| Cost to acquire intangible assets and impairment of intangible assets | (0.2) | (1.2) | (1.3) | (1.7) |
| Gain on disposal of subsidiaries | | | | |
| Other provisions | | | | (19.2) |
| Impairment on loans and advances to customers | (0.6) | (0.6) | | (0.2) |
| **Segment profit/(loss) before tax** | **35.3** | **22.8** | **19.3** | **33.3** |
| Income tax (expense)/gain | 0.7 | (1.1) | (1.0) | (2.1) |
| Net profit for the year from continuing operations | 36.0 | 21.7 | 18.3 | 31.2 |
| Profit for the year from discontinued operations (1) | | | | |
| **Profit for the year** | **36.0** | **21.7** | **18.3** | **31.2** |
| Assets under management | 15,610 | 13,878 | 11,330 | 17,806 |
| Employees | 318 | 236 | 291 | 387 |

*(1) Discontinued operations include Financial Products business disposed during the year. Please refer to note 15.*

External revenues from clients have been recognised in both the Investment Solutions and Private Banking segments related to asset management mandates for private banking clients. This double count is eliminated to reconcile to the total operating income.

| | | Investment Solutions | Wealth Solutions | Corporate Overheads | Eliminations | Total |
|---|---|---|---|---|---|---|
| Asia CHF millions | Total CHF millions | CHF millions | CHF millions | CHF millions | CHF millions | CHF millions |
| 116.6 | 683.1 | 126.1 | 16.2 | 5.0 | (113.8) | 716.6 |
| (81.7) | (483.9) | (44.5) | (15.1) | (39.6) | 22.9 | (560.2) |
| (1.7) | (6.3) | (0.1) | (0.4) | (4.5) | | (11.3) |
| **33.2** | **192.9** | **81.5** | **0.7** | **(39.1)** | **(90.9)** | **145.1** |
| | (3.5) | | | | | (3.5) |
| | (28.5) | | | (35.6) | | (64.1) |
| | – | | | 2.5 | | 2.5 |
| | 0.3 | | | | | 0.3 |
| **33.2** | **161.2** | **81.5** | **0.7** | **(72.2)** | **(90.9)** | **80.3** |
| (4.5) | (12.6) | (2.5) | (0.1) | (2.5) | | (17.7) |
| **28.7** | **148.6** | **79.0** | **0.6** | **(74.7)** | **(90.9)** | **62.6** |
| 17,538 | 80,787 | 12,237 | | 1,062 | (8,978) | 85,108 |
| 364 | 1,656 | 119 | 106 | 183 | (5) | 2,059 |
| 120.1 | 628.8 | 80.3 | 15.5 | 10.8 | (69.4) | 666.0 |
| (82.0) | (450.4) | (34.9) | (13.0) | (48.5) | 15.2 | (531.6) |
| (1.7) | (6.3) | (0.1) | (0.4) | (4.3) | | (11.1) |
| **36.4** | **172.1** | **45.3** | **2.1** | **(42.0)** | **(54.2)** | **123.3** |
| | (4.4) | | | (0.1) | | (4.5) |
| | – | | | 0.5 | | 0.5 |
| | (19.2) | | | (14.5) | | (33.7) |
| | (1.4) | | | | | (1.4) |
| **36.4** | **147.1** | **45.3** | **2.1** | **(56.1)** | **(54.2)** | **84.2** |
| (5.4) | (8.9) | (1.4) | | 2.1 | | (8.2) |
| 31.0 | 138.2 | 43.9 | 2.1 | (54.0) | (54.2) | 76.0 |
| | – | | | | | 46.7 |
| **31.0** | **138.2** | **43.9** | **2.1** | **(54.0)** | **(54.2)** | **122.7** |
| 14,867 | 73,491 | 8,240 | | 1,141 | (6,018) | 76,854 |
| 361 | 1,593 | 108 | 102 | 189 | (3) | 1,989 |

## 50. ANALYSIS OF SWISS AND FOREIGN ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY

| | Swiss CHF millions | Foreign CHF millions | Total CHF millions |
|---|---|---|---|
| **31 December 2014** | | | |
| **Assets** | | | |
| Cash and balances with central banks | 1,969.1 | 886.2 | 2,855.3 |
| Treasury bills and other eligible bills | | 626.0 | 626.0 |
| Due from other banks | 1,578.4 | 530.4 | 2,108.8 |
| Loans and advances to customers | 3,669.3 | 9,361.8 | 13,031.1 |
| Derivative financial instruments | 97.3 | 472.2 | 569.5 |
| Financial assets at fair value: | | | |
| Trading Assets | | 105.6 | 105.6 |
| Designated at inception | | 329.7 | 329.7 |
| Investment securities: | | | |
| Available-for-sale | 78.2 | 4,015.3 | 4,093.5 |
| Held-to-maturity | 48.1 | 1,111.0 | 1,159.1 |
| Intangible assets | 97.9 | 177.0 | 274.9 |
| Property, plant and equipment | 6.3 | 14.8 | 21.1 |
| Deferred income tax assets | 9.3 | 23.5 | 32.8 |
| Other assets | 32.5 | 104.2 | 136.7 |
| **Total assets** | **7,586.4** | **17,757.7** | **25,344.1** |
| | | | |
| **Liabilities** | | | |
| Due to other banks | 2,307.9 | (1,841.9) | 466.0 |
| Due to customers | 4,778.6 | 13,785.9 | 18,564.5 |
| Subordinated loans | | 246.3 | 246.3 |
| Derivative financial instruments | 206.9 | 454.2 | 661.1 |
| Financial liabilities designated at fair value | | 369.2 | 369.2 |
| Other financial liabilities | | 3,030.7 | 3,030.7 |
| Debt issued | | 411.1 | 411.1 |
| Current income tax liabilities | 0.9 | 5.1 | 6.0 |
| Deferred income tax liabilities | 28.8 | 6.6 | 35.4 |
| Provisions | 25.5 | 12.5 | 38.0 |
| Other liabilities | 93.4 | 247.3 | 340.7 |
| | **7,442.0** | **16,727.0** | **24,169.0** |
| | | | |
| **Equity** | | | |
| Share capital | 75.5 | | 75.5 |
| Share premium | 1,243.8 | | 1,243.8 |
| Other reserves | 723.9 | (796.4) | (72.5) |
| Retained earnings | 112.9 | (203.4) | (90.5) |
| | **2,156.1** | **(999.8)** | **1,156.3** |
| | | | |
| Non-controlling interests | | 18.8 | 18.8 |
| **Total shareholders' equity** | **2,156.1** | **(981.0)** | **1,175.1** |
| **Total equity and liabilities** | **9,598.1** | **15,746.0** | **25,344.1** |

| | Swiss CHF millions | Foreign CHF millions | Total CHF millions |
|---|---|---|---|
| **31 December 2013** | | | |
| **Assets** | | | |
| Cash and balances with central banks | 787.5 | 61.4 | 848.9 |
| Treasury bills and other eligible bills | | 631.2 | 631.2 |
| Due from other banks | 1,546.0 | 654.2 | 2,200.2 |
| Loans and advances to customers | 3,469.5 | 8,092.3 | 11,561.8 |
| Derivative financial instruments | 97.8 | 462.6 | 560.4 |
| Financial assets at fair value: | | | |
| Trading Assets | | 113.3 | 113.3 |
| Designated at inception | 51.0 | 298.8 | 349.8 |
| Investment securities: | | | |
| Available-for-sale | 52.5 | 3,792.0 | 3,844.5 |
| Held-to-maturity | 49.2 | 1,057.9 | 1,107.1 |
| Intangible assets | 96.9 | 170.0 | 266.9 |
| Property, plant and equipment | 7.1 | 15.4 | 22.5 |
| Deferred income tax assets | 10.4 | 25.9 | 36.3 |
| Other assets | 30.5 | 125.2 | 155.7 |
| **Total assets** | **6,198.4** | **15,500.2** | **21,698.6** |
| | | | |
| **Liabilities** | | | |
| Due to other banks | 2,046.3 | (1,756.2) | 290.1 |
| Due to customers | 4,748.4 | 11,695.4 | 16,443.8 |
| Subordinated loans | | 245.1 | 245.1 |
| Derivative financial instruments | 87.0 | 457.9 | 544.9 |
| Financial liabilities designated at fair value | | 310.7 | 310.7 |
| Other financial liabilities | | 2,421.5 | 2,421.5 |
| Current income tax liabilities | 1.2 | 3.8 | 5.0 |
| Deferred income tax liabilities | 28.2 | 6.4 | 34.6 |
| Provisions | 16.3 | 10.5 | 26.8 |
| Other liabilities | 63.8 | 205.8 | 269.6 |
| **Total liabilities** | **6,991.2** | **13,600.9** | **20,592.1** |
| | | | |
| **Equity** | | | |
| Share capital | 74.0 | | 74.0 |
| Share premium | 1,238.4 | | 1,238.4 |
| Other reserves | 778.7 | (827.8) | (49.1) |
| Retained earnings | 97.1 | (258.7) | (161.6) |
| | **2,188.2** | **(1,086.5)** | **1,101.7** |
| | | | |
| Non-controlling interests | | 4.8 | 4.8 |
| **Total shareholders' equity** | **2,188.2** | **(1,081.7)** | **1,106.5** |
| **Total equity and liabilities** | **9,179.4** | **12,519.2** | **21,698.6** |

## 51. BASIC AND DILUTED EARNINGS PER ORDINARY SHARE

### 51.1 Basic

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Net profit for the year from continuing operations | 61.4 | 75.4 |
| Estimated pro-forma dividend on Bons de Participation | (0.3) | (0.9) |
| **Net profit for the year from continuing operations attributable to ordinary shareholders** | **61.1** | **74.5** |
| Net profit for the year from discontinued operations attributable to ordinary shareholders | | 36.4 |
| **Net profit for the year attributable to ordinary shareholders** | **61.1** | **110.9** |
| Weighted average number of ordinary shares ('000s of shares) | 150,508 | 147,626 |
| **Basic earnings per ordinary share (CHF)** | | |
| from continuing operations | 0.41 | 0.50 |
| from discontinued operations | | 0.25 |
| **Basic earnings per ordinary share (CHF)** | **0.41** | **0.75** |

Basic earnings per ordinary share is calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares owned by the Group amounting to 187,412 (2013: 250,819). For the purpose of the calculation of earnings per ordinary share, net profit for the period has been adjusted by an estimated, pro-forma accrued dividend on the Bons de Participation. The latter has been computed by using a dividend rate from 1st January 2014 until 30 April 2014 of 2.376%, 2.005% from 1 May 2014 until 30 October 2014 and a rate of 1.349% thereafter.

### 51.2 Diluted

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Net profit for the year from continuing operations | 61.4 | 75.4 |
| Estimated pro-forma dividend on Bons de Participation | (0.3) | (0.9) |
| **Net profit for the year from continuing operations attributable to ordinary shareholders** | **61.1** | **74.5** |
| Net profit for the year from discontinued operations attributable to ordinary shareholders | | 36.4 |
| **Net profit for the year attributable to ordinary shareholders** | **61.1** | **110.9** |
| Diluted-weighted average number of ordinary shares ('000s of shares) | 153,928 | 152,576 |
| **Diluted earnings per ordinary share (CHF)** | | |
| from continuing operations | 0.40 | 0.49 |
| from discontinued operations | | 0.24 |
| **Diluted earnings per ordinary share (CHF)** | **0.40** | **0.73** |

In the period Pursuant to its employee equity incentive plans, the Group issued in 2014 restricted stock units to purchase 1,029,115 (2013: 1,035,729) shares which increased the diluted-weighted average number of ordinary shares by 3,044,984 (2013: 4,950,140) shares to 153,927,830 (2013: 152,576,361) shares.

For information regarding the EFG International equity incentive plan, see note 54.

## 52. DIVIDENDS

Final dividends per share are not accounted for until they have been ratified at the Annual General Meeting on 24 April 2015. A dividend in respect of 2014 of CHF 0.25 (2013: CHF 0.20) per share amounting to approximately CHF 37.7 million (2013: CHF 29.7 million), net of dividends not payable on treasury shares is to be proposed. The financial statements for the year ended 31 December 2014 do not reflect this resolution, which will be accounted for in shareholders' equity as an appropriation of retained profits, in the year ending 31 December 2015, with no tax effect for the Group.

| | At 31 December 2014 CHF millions | At 31 December 2013 CHF millions |
|---|---|---|
| **Dividends on ordinary shares** | | |
| CHF 0.20 per share related to 2013 paid in 2014 | 29.7 | |
| CHF 0.10 per share related to 2012 paid in 2013 | | 14.7 |
| | **29.7** | **14.7** |
| **Dividends on Bons de Participation** | | |
| For the period 1 November 2012 to 30 April 2013 at 2.096% | | 1.7 |
| For the period 1 May 2013 to 30 October 2013 at 1.815% | | 0.2 |
| For the period 1 November 2013 to 30 April 2014 at 2.376% | 0.2 | |
| For the period 1 May 2014 to 30 October 2014 at 2.005% | 0.2 | |
| | **0.4** | **1.9** |

## 53. RELATED PARTY TRANSACTIONS

### 53.1 Transactions

| | Significant Shareholders CHF millions | EFG Group CHF millions | Key management personnel CHF millions |
|---|---|---|---|
| **31 December 2014** | | | |
| **Assets** | | | |
| Derivatives | | 0.2 | |
| Loans and advances to customers | | | 3.6 |
| Other assets | | 0.5 | |
| **Liabilities** | | | |
| Due to other banks | | 2.5 | |
| Derivatives | | 0.1 | |
| Due to customers | 3.4 | 1.6 | 20.1 |
| Other liabilities | | 0.3 | |
| **Year ended 31 December 2014** | | | |
| Commission income | | 1.0 | 0.3 |
| Net other income | | 1.6 | |
| Operating expenses | | (1.4) | |

| | Significant Shareholders CHF millions | EFG Group CHF millions | Key management personnel CHF millions |
|---|---|---|---|
| **31 December 2013** | | | |
| **Assets** | | | |
| Due from other banks | | 0.2 | |
| Derivatives | | 0.2 | |
| Loans and advances to customers | 0.4 | | 2.1 |
| Other assets | | 0.6 | |
| **Liabilities** | | | |
| Due to other banks | | 6.9 | |
| Derivatives | | 0.3 | |
| Due to customers | 7.7 | 1.8 | 33.9 |
| Other liabilities | | 0.1 | |
| **Year ended 31 December 2013** | | | |
| Commission income | | 1.0 | 0.3 |
| Net other income | | 1.7 | |
| Operating expenses | | (0.4) | |

A number of banking transactions are entered into with related parties. These include loans, deposits, derivative transactions and provision of services. The amounts Due from other banks reflect cash deposits, which like other third party amounts classified as Due from other Banks are unsecured.

Key management personnel comprise directors, key members of the management of the company and of its parent, as well as closely linked parties.

No provisions have been recognised in respect of loans given to related parties (2013: nil).

### 53.2 Key management compensation (including directors)

The compensation of members of the Executive Committee relating to the year 2014 comprised of cash compensation of CHF 6,980,896 (2013: CHF 6,959,836), pension contributions of CHF 369,329 (2013: CHF 431,543) and restricted stock units valued at approximately CHF 2,584,884 (2013: CHF 1,916,700). Other compensation of CHF 95,658 (2013: CHF 146,923) included in 2013 an amount of CHF 1,628,571 representing a pro rata indemnity recognised over 3.5 years and zero in the current year.

The compensation of the members of the Board of Directors relating to the year 2014 comprised of cash compensation of CHF 2,018,772 (2013: CHF 1,570,020). No pension contributions are paid to Directors.

For additional details required under Swiss Law (Swiss Code of Obligations art. 663b bis) see note 21 of the parent company financial statements on page 200.

## 54. EMPLOYEE EQUITY INCENTIVE PLANS

The EFG International Employee Equity Incentive Plan (the "Plan") has different classes of options and restricted stock units, which have a vesting period of three years. The different classes have earliest exercise dates varying from three to five years from the grant date and ending seven years from the grant date.

The expense recorded in the Income Statement spreads the cost of the grants equally over the vesting period. Assumptions are made concerning the forfeiture rate which is adjusted during the vesting period so that at the end of the vesting period there is only a charge for vested amounts. Total expense related to the Plan in the Income Statement for the period ended 31 December 2014 was CHF 10.5 million (2013: CHF 12.0 million).

The Plan has been developed internally by the Group without the use of external consultants, although a service contract with an external company exists for the administration of the scheme.

The table below summarises the outstanding options and restricted stock units at 31 December 2014 which, when exercised, will each result in the issuance of one ordinary share:

| Year granted | Type | Exercise price CHF | At beginning of year | Granted | Lapsed | Exercised | Outstanding |
|---|---|---|---|---|---|---|---|
| 2007 | In-the-money | 32.83 | 954,255 | | 954,255 | | – |
| 2007 | At-the-money | 49.25 | 1,229,953 | | 1,229,953 | | – |
| 2008 | In-the-money | 24.00 | 492,319 | | 4,168 | 3 | 488,148 |
| 2008 | At-the-money | 35.95 | 757,378 | | 6,358 | | 751,020 |
| 2008 | Restricted stock units with 5 year lock-up | 0 | 33,676 | | | 2,393 | 31,283 |
| 2009 | In-the-money | 5.00 | 1,199,069 | | | 1,004,547 | 194,522 |
| 2009 | Restricted stock units with 3 year lock-up | 0 | 179,828 | | | 125,256 | 54,572 |
| 2009 | Restricted stock units with 5 year lock-up | 0 | 1,120,533 | | | 1,107,897 | 12,636 |
| 2010 | In-the-money | 12.19 | 91,036 | | | | 91,036 |
| 2010 | Restricted stock units with 3 year lock-up | 0 | 225,298 | | | 107,708 | 117,590 |
| 2010 | Restricted stock units with 5 year lock-up | 0 | 68,380 | | | | 68,380 |
| 2011 | Restricted stock units with 3 year lock-up | 0 | 722,588 | | 659 | 536,068 | 185,861 |
| 2011 | Restricted stock units with 5 year lock-up | 0 | 63,278 | | 268 | 8,562 | 54,448 |
| 2012 | Restricted stock units with 3 year lock-up | 0 | 994,455 | | 10,062 | 29,599 | 954,794 |
| 2012 | Restricted stock units with 5 year lock-up | 0 | 67,568 | | 881 | 805 | 65,882 |
| 2013 | Restricted stock units with 3 year lock-up | 0 | 975,393.0 | | 9,770 | 22,346 | 943,277 |
| 2013 | Restricted stock units with 5 year lock-up | 0 | 60,336.0 | | | | 60,336 |
| **2014** | **Restricted stock units with 3 year lock-up** | **0** | | **936,288** | **6,256** | **11,921** | **918,111** |
| **2014** | **Restricted stock units with 5 year lock-up** | **0** | | **111,004** | | | **111,004** |
| | | | **9,235,343** | **1,047,292** | **2,222,630** | **2,957,105** | **5,102,900** |

### 54.1 2014 incentive plan

EFG International granted 1,047,292 restricted stock units in 2014. There are two classes of restricted stock units. Those with a 3 year lock-up ("Restricted stock units with 3 year lock-up") vesting pro-rata temporis over 3 years with one third each year and with a 5 year lock-up ("Restricted stock units with 5 year lock-up") vesting over 3 years. The deemed value of each Restricted stock unit with 3 year lock-up is CHF 11.34 and each Restricted stock unit with 5 year lock-up is CHF 10.76. The values of the restricted stock units were determined using a model which takes into account the present value of the expected dividends during the period between the grant date and the earliest exercise date. The significant inputs into the model were spot share price (CHF 13.00) with a discounted dividend payout rate (20%) and the expected life of the restricted stock units (36 and 60 months).

### 54.2 2015 incentive plan

EFG International will grant restricted stock units in March 2015 at prices to be determined based on the relevant valuation inputs on the date of issue.

## 55. INFORMATION RELATING TO THE EFG FIDUCIARY CERTIFICATES IN CIRCULATION

In connection with the EUR 400,000,000 EFG Fiduciary Certificates, which were issued by Banque de Luxembourg on a fiduciary basis, in its own name but at the sole risk and for the exclusive benefit of the holders of the EFG Fiduciary Certificates, Banque de Luxembourg acquired 400,000 Class B Bons de Participation issued by EFG International and 400,000 Class B Shares issued by EFG Finance (Guernsey) Limited. The proceeds of issue of the Class B Shares issued by EFG Finance (Guernsey) Limited were invested by EFG Finance (Guernsey) Limited in income generating assets. The sole eligibility criterion for investing the proceeds of issue of the Class B Shares is that the investments have an investment grade credit rating of at least BBB- from Standard & Poor's, or an equivalent credit rating from Moody's or Fitch.

In prior years, holders of EFG Fiduciary certificates with a notional value of EUR 386.6 million have sold their holdings back to the Group. Certificates with a notional value of EUR 13.4 million remain outstanding.

## 56. ASSETS UNDER MANAGEMENT AND ASSETS UNDER ADMINISTRATION

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| **Character of client assets** | | |
| Equities | **21,957** | 19,846 |
| Deposits | **20,728** | 18,397 |
| Bonds | **16,778** | 15,367 |
| Loans | **13,128** | 11,915 |
| Structured notes | **2,499** | 2,275 |
| Hedge funds/Fund of hedge funds | **3,800** | 3,050 |
| Fiduciary deposits | **745** | 1,255 |
| EFG International shares | **912** | 1,002 |
| Other | **4,561** | 3,747 |
| **Total Assets under Management** | **85,108** | 76,854 |
| **Total Assets under Administration** | **8,368** | 8,074 |
| **Total Assets under Management and Administration** | **93,476** | 84,928 |

Assets under Administration are trust assets administered by the Group.

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| **Assets under Management** | | |
| **Character of assets under management:** | | |
| Assets in own administrated collective investment schemes | 3,410 | 2,493 |
| Assets with discretionary management agreements | 13,783 | 12,121 |
| Other assets under management | 54,787 | 50,325 |
| **Total Assets under Management (including double counts)** | **71,980** | **64,939** |
| *Thereof double counts* | *2,333* | 1,027 |
| Loans | 13,128 | 11,915 |
| Total Assets under Administration | 8,368 | 8,074 |
| **Total Assets under Management and Administration** | **93,476** | **84,928** |
| **Net new asset inflows (including double counts)** | **4,397** | **2,456** |

Double counts primarily include the self-managed collective investment schemes and structured products issued by Group companies which are also included in customer portfolios and already included in assets under management.

Net new assets consist of new client acquisitions, client departures and inflows or outflows attributable to existing clients (whether in cash or securities). New or repaid client loans and overdrafts of CHF 871 million (2013: CHF 1,427 million) and related interest expenses are included in net new assets. Interest and dividend income from assets under management, market or currency movements as well as fees and commissions are not included in net new assets. Effects resulting from any acquisition or disposal of Group companies are not included in net new assets.

## 57. POST BALANCE SHEET EVENTS

On 15 January 2015, the Swiss National Bank announced the abandonment of the cap on the Swiss franc against the euro. The abandonment of this cap had no impact on the Group's 2014 consolidated financial statements.

## 58. BOARD OF DIRECTORS

The Board of Directors of EFG International AG comprises:

Jean Pierre Cuoni*, Chairman
Hugh Napier Matthews*, Vice-chairman
Niccolo H. Burki*
Emmanuel L. Bussetil
Erwin Richard Caduff*
Robert Yin Chiu, appointed on 25 April 2014
Michael Higgin*
Spiro J. Latsis
Périclès Petalas
Bernd-A. von Maltzan*
Daniel Zuberbühler*, appointed on 25 April 2014

All Board Members have been appointed by and represent EFG International AG.

** independent directors.*

## 59. SWISS BANKING LAW REQUIREMENTS

The Group is subject to consolidated supervision by Swiss Financial Markets Supervisory Authority. The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS). Set out below are the deviations which would result if the provisions of the Banking Ordinance and the Guidelines of Swiss Financial Markets Supervisory Authority governing financial statement reporting, pursuant to Article 23 through Article 27 of Banking Federal Ordinance, were applied in the preparation of the consolidated financial statements of the Group.

### (a) Financial investments

Under IFRS, available-for-sale financial investments are carried at fair value. Changes in the fair value of available-for-sale financial investments are recorded as increases or decreases to shareholders' equity (refer to consolidated Statement of Comprehensive Income) until an investment is sold, collected or otherwise disposed of, or until an investment is determined to be impaired. At the time an available-for-sale investment is determined to be impaired, the cumulative unrealized gain or loss previously recognised in the Statement of Comprehensive Income is included in the Income Statement for the period. On disposal of an available-for-sale investment, the difference between the net disposal proceeds and carrying amount, including any previously recognised unrealised gain or loss arising from a change in fair value reported in the Statement of Comprehensive Income, is included in the Income Statement for the period.

Under Swiss law, financial investments are carried at the lower of cost or market value. Positive and negative balance of market-related and/or credit worthiness-related value adjustments to financial investments valued according to the lower of cost or market value principle are included in the Income Statement as sundry ordinary income and sundry ordinary expenses respectively. Gains or losses on disposals are recognized in the Income Statement as income from the sale of financial investments.

### (b) Fair value option

Under IFRS, the Group has two sub-categories of financial assets, those held for trading, and those designated as Fair value through profit and loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Under Swiss law, this option is not available. Only the financial assets held for trading are reflected on the balance sheet at fair value. Hybrid instruments are bifurcated: the embedded derivative is marked to market through net trading income and the host contract is accounted for on an accrued cost basis. No own credit adjustments are booked for hybrid instruments. Generally, loans are accounted for at amortized cost less impairment, loan commitments stay off-balance sheet and fund investments are accounted for as financial investments.

### (c) Derivative financial instruments

Under the specific rules of IAS 39, the majority of the Group's derivative financial instruments are classified as trading and reflected on the balance sheet at fair values. Changes in fair values are reflected in net trading income and replacement values are reported on a gross basis, unless certain restrictive requirements are met.

Under Swiss law, the Group's derivative instruments are recorded on Balance sheet at their fair values (gross positive and negative replacement values). Replacement values are reported on a net basis provided the netting agreements are legally enforceable. Hedging transactions are valued using the same principles as those for the underlying transactions being hedged.

### (d) Goodwill and intangible assets

Under both IFRS and under Swiss law, goodwill and intangible assets resulting from acquisitions and mergers are capitalized in the balance sheet.

Under IFRS, goodwill is not amortised but is tested for impairment at least annually and is carried at cost less accumulated impairment losses. Intangible assets are amortised on a systematic basis over their useful lives. In addition, intangible assets are tested for impairment when there is any indication that the asset may be impaired. Intangible assets are carried at cost less amortisation and accumulated impairment losses.

Under Swiss law, goodwill and intangible assets are amortised over the estimated economic life on a straight-line basis. The net carrying value of intangible assets is, in addition, reappraised annually, with any reduction to the net carrying value taken immediately as an expense in the Income Statement.

### (e) Extraordinary income and expense

Under IFRS, items of income and expense shall not be classified as extraordinary items, in the Income Statement or the statement of comprehensive income, or in the notes.

Under Swiss law, income and expense items related to other accounting periods, as long as they are attributable to corrections or mistakes from previous periods, and/or not directly related with the core business activities of the enterprise (realised gains on sale of investments in associated undertakings or property, plant and equipment) are recorded as extraordinary income or expense.

### (f) Discontinued operations

Under IFRS, assets and liabilities of an entity held-for-sale are separated from the ordinary balance sheet positions and reported in separate discontinued operations items. In addition, such assets and liabilities are remeasured at the lower of their carrying value or fair value less costs to sell.

Under Swiss law, these positions remain in the ordinary balance sheet positions until disposal and are not remeasured.

Report of the statutory auditor
to the General Meeting of
EFG International AG
Zurich

**Report of the statutory auditor on the consolidated financial statements**

As statutory auditor, we have audited the consolidated financial statements of EFG International AG, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes (pages 92 to 189), for the year ended 31 December 2014.

### Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

**Report on other legal requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd

Alex Astolfi
Audit expert
Auditor in charge

Christophe Kratzer
Audit expert

Geneva, 24 February 2015

# FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 31 DECEMBER 2014

EFG International, Zurich

# INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

EFG INTERNATIONAL, ZURICH

| | Note | Year ended 31 December 2014 CHF millions | Year ended 31 December 2013 CHF millions |
|---|---|---|---|
| **Income** | | | |
| Interest income from subsidiaries | | 14.5 | 13.1 |
| Income from subsidiaries | 13 | 40.3 | 90.6 |
| Gain on disposal of shares in subsidiary | 14 | | 59.3 |
| Foreign exchange gain | | 5.9 | |
| Other income | | 0.2 | 5.5 |
| **Total income** | | **60.9** | 168.5 |
| | | | |
| **Expenses** | | | |
| Staff expenses | | (11.5) | (12.6) |
| Operating expenses | 15 | (17.6) | (16.9) |
| Interest expenses paid to subsidiaries | | (1.6) | (1.8) |
| Impairment of investments in subsidiaries | 7 | (7.8) | (10.5) |
| (Increase in)/release of provision for guarantees | 16 | (8.9) | 13.3 |
| Foreign exchange losses | | | (1.4) |
| **Total expenses** | | **(47.4)** | (29.9) |
| | | | |
| Net profit before tax | | 13.5 | 138.6 |
| | | | |
| Tax expense | | (0.8) | (0.6) |
| | | | |
| **Net profit for the period** | | **12.7** | 138.0 |

# BALANCE SHEET AS AT 31 DECEMBER 2014

## EFG INTERNATIONAL, ZURICH

| | Note | Year ended 31 December 2014 CHF millions | Year ended 31 December 2013 CHF millions |
|---|---|---|---|
| **Assets** | | | |
| Due from subsidiaries | | 17.8 | 68.2 |
| Other assets | | 2.6 | 2.8 |
| **Current assets** | | **20.4** | 71.0 |
| | | | |
| Investments in subsidiaries | | 732.0 | 739.8 |
| Subordinated loans to subsidiaries | | 417.6 | 410.4 |
| **Non current assets** | | **1,149.6** | 1,150.2 |
| | | | |
| **Total assets** | | **1,170.0** | 1,221.2 |
| | | | |
| **Liabilities** | | | |
| Due to subsidiaries | | 39.6 | 90.5 |
| Accrued expenses and deferred income | | 7.4 | 7.4 |
| Other liabilities | | 1.9 | 0.2 |
| **Current liabilities** | | **48.9** | 98.1 |
| | | | |
| Provisions | 16 | 296.0 | 287.1 |
| | | | |
| **Total liabilities** | | **344.9** | 385.2 |
| | | | |
| **Equity** | | | |
| Share capital | 11 | 75.3 | 73.9 |
| Non-voting equity securities (Participation Certificates) | 11 | 0.2 | 0.2 |
| Legal reserves | | 1,740.2 | 1,765.2 |
| | | | |
| *of which Reserve from capital contributions* | | *1,739.2* | 1,763.9 |
| *of which Reserve for own shares from capital contributions* | | *1.0* | 1.3 |
| | | | |
| Retained earnings | 18 | (1,003.3) | (1,141.3) |
| Net profit for the period | | 12.7 | 138.0 |
| | | | |
| **Total shareholders' equity** | | **825.1** | 836.0 |
| | | | |
| **Total shareholders' equity and liabilities** | | **1,170.0** | 1,221.2 |

EFG International AG Parent Company financial statements are prepared in accordance with the Swiss Code of Obligations.

## 1. CONTINGENT LIABILITIES

EFG International AG has entered into several guarantee agreements mainly with subsidiaries which could theoretically lead to potential obligations of CHF 2,628 million (2013: CHF 2,346 million). Included in this amount is CHF 2,038 million (2013: CHF 2,147 million) related to structured products issued by a subsidiary company (which does not have a stand-alone credit rating) and are guaranteed by EFG International AG (which does have a credit rating). The risks related to these liabilities of the subsidiary are fully hedged by the subsidiary and are fully collateralised in the subsidiary by equal valued assets (primarily cash deposits).

## 2. BALANCE SHEET ASSETS WITH RETENTION OF TITLE TO SECURE OWN OBLIGATIONS

There are no such assets.

## 3. OFF-BALANCE SHEET OBLIGATIONS RELATING TO LEASING CONTRACTS

There are no such obligations.

## 4. FIRE INSURANCE VALUE OF TANGIBLE FIXED ASSETS

Tangible fixed assets amount to CHF nil (2013: CHF nil) and are covered by the fire insurance of a subsidiary for the Zurich premises for a total amount of CHF 0.5 million (2013: CHF 0.7 million).

## 5. LIABILITIES RELATING TO PENSION PLANS AND OTHER RETIREMENT BENEFIT OBLIGATIONS

There are no such liabilities.

## 6. BONDS ISSUED

There are no such liabilities.

## 7. PRINCIPAL PARTICIPATIONS

The company's principal participations are shown in the note 32, page 157, to the consolidated financial statements. In the current year the company impaired the carrying value of investments in subsidiaries by CHF 7.8 million (2013: CHF 15.7 million) where capital was invested in subsidiaries with net asset values below the carrying value of the subsidiaries. The existing carrying value is still below its original acquisition cost.

In 2013 an amount of CHF 5.2 million related to prior year impairments was reversed as a subsidiary previously impaired increased its net recoverable value (2014: CHF nil).

## 8. RELEASE OF UNDISCLOSED RESERVES

During the period, no undisclosed reserves were released (2013: nil).

## 9. REVALUATION OF LONG-TERM ASSETS TO HIGHER THAN COST

There was no such revaluation.

## 10. OWN SHARES HELD BY THE COMPANY AND BY GROUP COMPANIES

At 31 December 2014, 120,704 registered shares (2013: 210,487) and 750 (2013: 750) Bons de Participation "B" were held by subsidiaries. See note 45.3 of the consolidated financial statements on page 174.

## 11. SHARE CAPITAL

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| 150,695,434 (2013: 147,877,040) registered shares at the nominal value of CHF 0.50 | 75.3 | 73.9 |
| 13,382 (2013: 13,382) Bons de Participation "B" at the nominal value of CHF 15 | 0.2 | 0.2 |
| **Total share capital** | **75.5** | 74.1 |

### Conditional share capital

The share capital may be increased by a maximum of CHF 1,019,783 (2013: CHF 1,678,980) by issuing up to 2,039,566 (2013: 3,357,960) fully paid up registered shares with a face value of CHF 0.50 each through the exercise of option rights granted to officers and employees at all levels of the company and its group companies. The preferential subscription rights of the shareholders and participants are excluded in favor of the holders of the option rights.

The share capital may be increased by a maximum of CHF 10,000,000 by issuing up to 20,000,000 fully paid up registered shares with a face value of CHF 0.50 each through the exercise of conversion and/or option rights granted in connection with the issuance of newly issued convertible debentures with option rights or other financing instruments by the company or one of its group companies. The preferential subscription rights of the shareholders and participants are excluded in favor of the holders of the conversion and/or option rights.

### Authorised share capital

The Board of Directors is authorised, at any time until 25 April 2016, to increase the share capital by a maximum of CHF 25,000,000 by issuing up to 50,000,000 fully paid up registered shares with a face value of CHF 0.50 each. Increases by firm underwriting, partial increases as well as increases by way of conversion of own free funds are permitted.

## 12. SIGNIFICANT SHAREHOLDERS

The significant shareholders and groups of shareholders, whose participation exceed 5% of all voting rights are:

| | | 31 December 2014 | | 31 December 2013 |
|---|---|---|---|---|
| | Shares | Participation of % | Shares | Participation of % |
| EFG Bank European Financial Group SA | 82,545,117 | 54.8% | 82,545,117 | 55.9% |

EFG Bank European Financial Group SA is controlled by the Latsis Family interests through several intermediate parent companies.

### 13. INCOME FROM SUBSIDIARIES

Income from subsidiaries consists of the following:

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Dividends | 4.0 | 60.0 |
| Royalties | 14.0 | 13.6 |
| Management service fees | 3.5 | 3.7 |
| Administrator fees | 15.8 | 10.2 |
| Other services | 3.0 | 3.1 |
| **Total** | **40.3** | 90.6 |

### 14. GAIN ON DISPOSAL OF SUBSIDIARY

Following the Initial Public Offering on 18 October 2012 of EFG Financial Products Holding AG, Zurich ("EFG FP"), when EFG International AG reduced its holding to 20.25%, the company disposed of the remaining shares in April 2013 and recognised a gain on disposal of these shares of CHF 59.3 million. There was no disposal of subsidiary in 2014.

### 15. OPERATING EXPENSES

Operating expenses consist of the following:

| | 31 December 2014 CHF millions | 31 December 2013 CHF millions |
|---|---|---|
| Other operating expenses | (11.7) | (11.3) |
| Services provided by subsidiaries | (5.9) | (5.6) |
| **Total** | **(17.6)** | (16.9) |

### 16. PROVISIONS FOR GUARANTEES

Guarantees of CHF 492.6 million were provided to subsidiaries (2013: CHF 463.2 million), related to loans to other Group companies. Based on the net realisable assets of these Group companies, a potential liability of CHF 296.0 million (2013: CHF 287.1 million) exists at year end, assuming the guarantees are called.

### 17. GENERAL LEGAL RESERVE

In 2014 a dividend distribution of CHF 29.7 million (2013: CHF 14.7 million) has been paid from the Reserve from capital contributions representing CHF 0.20 per registered share (2013: CHF 0.10 per registered share). The general legal reserve increased by CHF 4.5 million during the period due to the exercise of employee equity incentive plans on shares previously constituted through conditional capital.

## 18. RETAINED EARNINGS

| | 31 December 2014<br>CHF millions | 31 December 2013<br>CHF millions |
|---|---|---|
| At 1 January | (1,141.3) | (1,214.5) |
| Net result of prior period | 138.0 | 73.2 |
| Transfer from Reserve from capital contributions for dividend payment | 29.7 | 14.7 |
| Dividend paid | (29.7) | (14.7) |
| **At 31 December** | **(1,003.3)** | (1,141.3) |

## 19. PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

The Board of Directors proposes, subject to the approval of the General Meeting of Shareholders, to carry forward the profit of the year of CHF 12.7 million as cumulative negative retained earnings and to proceed to a distribution to shareholders of CHF 0.25 per share, which will amount to a total distribution of CHF 37.7 million (excluding anticipated distribution not payable on the 53,077 shares held on 31 December 2014 by a subsidiary). The Board of Directors proposes to fully charge the proposed distribution for 2014 of CHF 0.25 per share to the balance sheet item “Reserve from capital contributions”. Subject to the adoption of this proposal by the General Meeting of Shareholders, such distribution will not be subject to the Swiss withholding tax.

## 20. RISK MANAGEMENT

See note 4 of consolidated financial statements on page 113.

## 21. COMPENSATION OF BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE

### (i) Compensation year ended 2014

| | *Base compensation (1)* | *Variable compensation (2)* | | *Other compensation* | Social charges | Total |
|---|---|---|---|---|---|---|
| | Cash | Cash bonus | Share options (3) | | (4) | *2014* |
| | CHF | CHF | CHF | CHF | CHF | CHF |
| **Board of Directors** | | | | | | |
| Jean Pierre Cuoni, Chairman | 660,000 | | | | 40,426 | 700,426 |
| Hugh N. Matthews, Vice-Chairman | 345,000 | | | | 20,124 | 365,124 |
| Niccolo H. Burki, member | 236,258 | | | | 16,423 | 252,681 |
| Emmanuel L. Bussetil, member (5) | | | | | | – |
| Erwin R. Caduff, member | 125,004 | | | | 9,040 | 134,044 |
| Robert Y. Chiu, member** | 93,753 | 741,805 | 741,805 | | 4,976 | 1,582,339 |
| Michael N. Higgin, member | 265,004 | | | | 17,176 | 282,180 |
| Spiro J. Latsis, member (5) | | | | | | – |
| Bernd-A. Freiherr von Maltzan, member | 150,000 | | | | 8,801 | 158,801 |
| Hans Niederer, member* | 50,000 | | | | 2,722 | 52,722 |
| Périclès Petalas, member (5) | | | | | | – |
| Daniel Zuberbühler, member** | 93,753 | | | | 4,976 | 98,729 |
| **Total Board of Directors** | **2,018,772** | **741,805** | **741,805** | **–** | **124,664** | **3,627,046** |
| | | | | | | |
| **Executive Committee** | | | | | | |
| **Total Executive Committee** | **6,980,896** | **1,673,256** | **2,584,884** | **95,658** | **1,083,934** | **12,418,628** |
| of which highest paid: | | | | | | |
| John Williamson, CEO | 1,603,612 | 560,000 | 840,000 | 29,511 | 250,651 | 3,283,774 |

* *Left in April 2014*
** *Joined in April 2014*

Notes
1) Including employees' contributions for social charges.
2) Subject to approval by the shareholders at the annual general meeting 2015.
3) The amount represents the value of RSUs granted in 2015 (related to past services). For specific valuation of the Employee Equity Incentive Plans, refer to note 54 of the consolidated financial statements.
4) Employer social charges of the Executive Committee of CHF 1,083,934 includes an amount of CHF 369,329 of pension contributions.
5) No compensation has been paid to this member of the Board of Directors.

No compensation has been granted to related parties of members of the Board of Directors and the Executive Committee.

Members of the Board of Directors and the Executive Committee benefit from the same preferential conditions for transactions executed in-house (EFG Bank AG) that are available to all employees of the EFG International Group.

(ii) Compensation year ended 2013

| | *Base compensation (1)* | *Variable compensation* | | *Other compensation* | Social charges | Total |
|---|---|---|---|---|---|---|
| | Cash | Cash bonus (2) | Share options (3) | | (4) | *2013* |
| | CHF | CHF | CHF | CHF | CHF | CHF |
| **Board of Directors** | | | | | | |
| Jean Pierre Cuoni, Chairman | 660,000 | | | | 40,702 | 700,702 |
| Hugh N. Matthews, Vice-Chairman | 335,004 | | | | 19,670 | 354,674 |
| Niccolo H. Burki, member* | 81,255 | | | | 5,916 | 87,171 |
| Emmanuel L. Bussetil, member (5) | | | | | | – |
| Erwin R. Caduff, member | 106,257 | | | | 7,737 | 113,994 |
| Michael N. Higgin, member | 150,000 | | | | 10,778 | 160,778 |
| Spiro J. Latsis, member (5) | | | | | | – |
| Bernd-A. Freiherr von Maltzan, member* | 87,504 | | | | 6,371 | 93,875 |
| Hans Niederer, member | 150,000 | | | | 8,234 | 158,234 |
| Périclès Petalas, member (5) | | | | | | – |
| **Total Board of Directors** | **1,570,020** | **–** | **–** | **–** | **99,408** | **1,669,428** |
| | | | | | | |
| **Executive Committee** | | | | | | |
| **Total Executive Committee** | **6,959,836** | **1,877,800** | **1,916,700** | **146,923** | **1,098,566** | **11,999,825** |
| of which highest paid: John Williamson, CEO | 1,603,612 | 440,000 | 660,000 | 99,927 | 206,636 | 3,010,175 |

* *Joined in April 2013*

Notes
1) Including employees' contributions for social charges.
2) The amounts represent the recorded expense for the 2013 cash bonuses.
3) The amount represents the value of RSUs granted in 2014 (related to past services). For specific valuation of the Employee Equity Incentive Plans, refer to note 54 of the consolidated financial statements.
4) Employer social charges of the Executive Committee of CHF 1,098,566 includes an amount of CHF 431,543 of pension contributions.
5) No compensation has been paid to this member of the Board of Directors.

Under an agreement with the former Chief Executive Officer (until 24 June 2011) the amount paid was CHF 1.5 million in 2013 as long as he does not compete in any respect with EFG International AG activities and interests.

No compensation has been granted to related parties of members of the Board of Directors and the Executive Committee.

Members of the Board of Directors and the Executive Committee benefit from the same preferential conditions for transactions executed in-house (EFG Bank AG) that are available to all employees of the EFG International Group.

(iii) Loans and credits

At 31 December 2014 the following loans and credits were granted by subsidiaries to members of the Board of Directors and the Executive Committee and are outstanding at the end of the year.

| | 2014 CHF | 2013 CHF |
|---|---|---|
| **Board of Directors** | | |
| Emmanuel L. Bussetil, member | 3,879 | 11,008 |
| Robert Y. Chiu*, member | 1,469,340 | 2,388,156 |
| **Total Board of Directors** | **1,473,219** | 2,399,164 |
| | | |
| **Executive Committee** | | |
| John Williamson, CEO (highest amount granted to an individual member of the Executive Committee)** | 1,443,872 | 1,443,060 |
| Other members of the Executive Committee | 680,791 | 639,738 |
| **Total Executive Committee*** ** | **2,124,663** | 2,082,798 |

* *Joined in April 2014*
** *Fully collateralised loans*
*** *Amounts drawn within the pre-existing credit limits*

No loans or credits were granted to related parties of members of the Board of Directors and the Executive Committtee by EFG International and its subsidiaries.

(iv) Shareholdings

At 31 December 2014 the following shareholdings were held by the Board of Directors and the Executive Committee and closely linked parties.

| | Shares 2014 | Shares 2013 | Vested Share Options | Granted Share Options |
|---|---|---|---|---|
| **Board of Directors** | | | | |
| Jean Pierre Cuoni, Chairman | 5,018,779 | 7,218,779 | | |
| Hugh N. Matthews, Vice-Chairman | 8,055 | 8,055 | | |
| Emmanuel L. Bussetil, member | | | | |
| Erwin R. Caduff, member | 11,500 | 11,500 | | |
| Michael N. Higgin, member | | | | |
| Spiro J. Latsis, member*** | 82,545,117 | 82,545,117 | | |
| Niccolo H. Burki, member | | | | |
| Bernd-A. Freiherr von Maltzan, member | | | | |
| Hans Niederer, member* | | 53,700 | | |
| Périclès Petalas, member | | | | |
| Robert Y. Chiu, member** | 1,636,661 | | 134,067 | 133,632 |
| Daniel Zuberbühler, member** | | | | |
| | | | | |
| **Executive Committee** | | | | |
| **Total Executive Committee** | **829,807** | **726,579** | **205,949** | **354,527** |
| John Williamson | 221,368 | 118,140 | 48,729 | |
| Piergiorgio Pradelli | | | 5,841 | |
| Mark Bagnall | | | 38,294 | |
| Keith Gapp | 18,651 | 18,651 | 25,007 | |
| Henric Immink | | | 34,088 | |
| Adrian Kyriazi**** | | | | |
| James T.H. Lee | 556,869 | 556,869 | 17,753 | |
| Frederick Link | 32,919 | 32,919 | 36,237 | |

* *Left in April 2014*
** *Joined in April 2014*
*** *Total number of shares owned by the Latsis Family Interests*
**** *Joined in July 2014*

The members of the Executive Committee have been granted 354,527 share options and restricted stock units which are currently subject to vesting criteria. These would vest in the period 2015 to 2018.

## 22. POST BALANCE SHEET EVENTS

On 15 January 2015, the Swiss National Bank announced the abandonment of the cap on the Swiss franc against the euro. The abandonment of this cap had no impact on the 2014 financial statements.

Report of the statutory auditor
to the General Meeting of
EFG International AG
Zurich

**Report of the statutory auditor on the financial statements**

As statutory auditor, we have audited the financial statements of EFG International AG, which comprise the income statement, balance sheet and notes (pages 194 to 203), for the year ended 31 December 2014.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2014 comply with Swiss law and the company's articles of incorporation.

**Report on other legal requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial state-ments according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd

Alex Astolfi
Audit expert
Auditor in charge

Christophe Kratzer
Audit expert

Geneva, 24 February 2015

# CONTACTS AND ADDRESSES

## EUROPE

### SWITZERLAND

#### ZURICH

**EFG International AG**
Bleicherweg 8 / P.O. Box 2255
8022 Zurich
Tel +41 44 226 18 50
**www.efginternational.com**

**EFG Bank AG**
Bleicherweg 8 / P.O. Box 2255
8022 Zurich
Tel +41 44 226 17 17
**www.efgbank.com**

**EFG Wealth Solutions Holding AG**
Bleicherweg 8 / P.O. Box 2255
8022 Zurich
Tel +41 44 226 17 17

**EFG Asset Management (Switzerland) SA**
Bleicherweg 8 / P.O. Box 2255
8022 Zurich
Tel +41 44 226 18 50

#### GENEVA

**EFG Bank SA**
24 Quai du Seujet / P.O. Box 2391
1211 Geneva 2
Tel +41 22 918 71 71

**EFG Asset Management (Switzerland) SA**
24 quai du Seujet / P.O. Box 2391
1211 Geneva 2
Tel +41 22 918 71 71

### CHANNEL ISLANDS

#### GUERNSEY

**EFG Private Bank (Channel Islands) Ltd**
P.O. Box 603, EFG House
St. Julian's Ave., St Peter Port
Guernsey GY1 4NN
Channel Islands
Tel +44 1481 730 859

#### JERSEY

**EFG Wealth Solutions (Jersey) Ltd**
P.O. Box 641 / 1 Seaton Place
St. Helier, Jersey JE4 8YJ
Channel Islands
Tel +44 1534 605 600
**www.efgwealthsolutions.com**

**EFG Fund Administration Ltd**
P.O. Box 641 / 1 Seaton Place
St. Helier, Jersey JE4 8YJ
Channel Islands
Tel +44 1534 605 600

**EFG Private Bank (Channel Islands) Ltd**
Jersey Branch
P.O. Box 641 / 1 Seaton Place
St. Helier, Jersey JE4 8YJ
Channel Islands
Tel +44 1534 605 700

**EFG Trust Company Ltd**
P.O. Box 641 / 1 Seaton Place
St. Helier, Jersey JE4 8YJ
Channel Islands
Tel +44 1534 605 600

### LIECHTENSTEIN

#### VADUZ

**EFG Bank von Ernst AG**
Egertastrasse 10
9490 Vaduz
Tel +423 265 53 53
**www.efgbankvonernst.com**

### LUXEMBOURG

**EFG Bank (Luxembourg) SA**
Villa Marconi, 14, Allée Marconi
Boîte postale 385
2013 Luxembourg
Tel +352 26 454 1
**www.efgbank.lu**

## MONACO

**EFG Bank (Monaco)**
Villa Les Aigles
15 avenue d'Ostende, BP 37
98001 Monaco
Tel +377 93 15 11 11

## SPAIN

### MADRID

**A&G Group**
Asesores y Gestores Financieros SA
Joaquin Costa 26
28002 Madrid
Tel +34 91 590 21 21
**www.ayg.es**

**A&G Banca Privada SA**
Joaquin Costa 26
28002 Madrid
Tel +34 91 590 21 21

## GREECE

### ATHENS

**EFG Bank (Luxembourg) SA**
Athens Representative Office
342 Kifisias Ave.
& Ethnikis Antistaseos Str.
154 51 N. Psychiko
Athens
Tel. +30 210 678 46 00

## UNITED KINGDOM

### LONDON

**EFG Private Bank Ltd**
Leconfield House
Curzon Street
London W1J 5JB
Tel +44 207 491 9111
**www.efgl.com**

**EFG Asset Management (UK) Ltd**
Leconfield House
Curzon Street
London W1J 5JB
Tel +44 207 491 9111

**EFG Independent Financial Advisers Ltd**
Leconfield House
Curzon Street
London W1J 5JB
Tel +44 207 491 9111
**www.efg-ifa.com**

### BIRMINGHAM

**EFG Harris Allday**
33 Great Charles Street
Birmingham B3 3JN
Tel +44 121 233 1222
**www.efgha.com**

**EFG Independent Financial Advisers Ltd**
33 Great Charles Street
Birmingham B3 EJN
Tel +44 121 200 22 55

### BRIDGENORTH

**EFG Harris Allday**
25a St. Leonard's Close
Bridgnorth, Shropshire WV16 4EJ
Tel +44 1746 761 444

### OMBERSLEY

**EFG Harris Allday**
Church Mews
Ombersley, Worcestershire WR9 0EW
Tel +44 1905 619 499

### WOLVERHAMPTON

**EFG Independent Financial Advisers Ltd**
Waterloo Court
31 Waterloo Road
Wolverhampton WV1 4DJ
Tel +44 1902 710 402

## ASIA

### CHINA

#### HONG KONG

**EFG Bank AG**
Hong Kong Branch
18th Floor,
International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong
Tel +852 2298 3000

**EFG Asset Management (Hong Kong) Ltd**
18th Floor,
International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong
Tel +852 2298 3000

#### SHANGHAI

**EFG Bank AG**
Shanghai Representative Office
Unit 10, 65th Floor
Shanghai World Financial Center
100 Century Avenue, Pudong New Area
Shanghai 200120
Tel +86 21 6168 0518

### INDONESIA

#### JAKARTA

**EFG Bank AG**
Jakarta Representative Office
Wisma 46 Kota BNI
31st Floor, Suite 31.06
Jalan Jend. Sudirman Kav 1
Jakarta 10220
Tel +6221 579 00123

### SINGAPORE

**EFG Bank AG**
Singapore Branch
25 North Bridge Road
#07-00 EFG Bank Building
Singapore 179104
Tel +65 6595 4888

**EFG Wealth Solutions (Singapore) Ltd**
25 North Bridge Road
#07-00 EFG Bank Building
Singapore 179104
Tel: +65 6595 4998

**EFG Asset Management (Singapore) Pte. Ltd**
25 North Bridge Road
#03-00 EFG Bank Building
Singapore 179104
Tel +65 6595 4888

### TAIWAN

#### TAIPEI

**EFG Securities Investment Consulting Co. Ltd**
14/F Suite A-1, Hung Tai Center
No. 170 Tun Hwa North Road
Taipei 10548
Tel +886 2 8175 0066

## AMERICAS

### USA

#### MIAMI

**EFG Capital International Corp**
701 Brickell Avenue, Ninth Floor
Miami, FL 33131
Tel +1 305 482 8000
**www.efgcapital.com**

**EFG Capital Advisors, LLC**
701 Brickell Avenue, Ninth Floor
Miami, FL 33131
Tel +1 305 482 8000

**EFG Asset Management (Americas) Corp**
701 Brickell Avenue, Suite 900
Miami, FL 33131
Tel +1 305 482 8000

**EFG Capital Advisors, Inc**
701 Brickell Avenue, 16th Floor
Miami, FL 33131
Tel +1 305 381 8340
**www.efgcapitaladvisors.com**

**EFG Capital International Corp**
Key Biscayne Branch
200 Crandon Boulevard, Suite 109
Key Biscayne, FL 33149
Tel +1 305 482 8000

**EFG Capital Advisors, LLC**
Key Biscayne Branch
200 Crandon Boulevard, Suite 109
Key Biscayne, FL 33149
Tel +1 305 482 8000

#### LOS ANGELES

**EFG Capital Advisors, LLC**
Los Angeles Branch
10940 Wilshire Blvd., 24th Floor
Los Angeles, CA 90024
Tel +1 310 208 1590

## BAHAMAS

### NASSAU

**EFG Bank & Trust (Bahamas) Ltd**
Centre of Commerce, 2nd Floor
1, Bay Street
P.O. Box SS-6289
Nassau
Tel +1 242 502 5400

**EFG Bank & Trust (Bahamas) Ltd**
Lyford Cay Office
P.O. Box SS-6289
Nassau
Tel +1 242 502 5400

## BERMUDA

### HAMILTON

**EFG Wealth Management (Bermuda) Ltd**
Thistle House
4 Burnaby Street, 2nd Floor
P.O. Box HM 3014
Hamilton HM MX
Tel. +1 441 296 3126

## CAYMAN ISLANDS

### GRAND CAYMAN

**EFG Bank AG**
Cayman Branch
Suite 3208
45B Market Street
Camana Bay
P.O. Box 10360
Grand Cayman KY1-1003
Tel +1 345 943 3350

**EFG Wealth Management (Cayman) Ltd**
Suite 3208
45B Market Street
Camana Bay
P.O. Box 10360
Grand Cayman KY1-1003
Tel +1 345 943 3350

## COLOMBIA

### BOGOTÁ

**EFG Bank AG**
Representative Office
Carrera 7 No. 71-21 Torre B Oficina 506
Bogotá D.C.
Tel +571 317 4332

## ECUADOR

### QUITO

**EFG Bank AG**
Representative Office
Av. Amazonas No. 3429 y Nuñez de Vela
Edifico El Dorado, Oficina 701, Floor 7
Quito
Tel +59322 241195

## PERU

### LIMA

**EFG Capital Asesores Financieros S.A.C.**
Amador Merino Reyna 295, Of. 501
San Isidro
Lima 27
Tel +511 212 5060

## URUGUAY

### MONTEVIDEO

**EFG Oficina de Representación Uruguay S.A.**
Av. Dr. Luis A. de Herrera 1248
WTC Torre II – Piso 20
CP 11300 Montevideo
Tel +598 2 628 6010

### PUNTA DEL ESTE

**EFG Oficina de Representación Uruguay S.A.**
Rambla Gral. Artigas esq. Calle 15
Edificio Calypso – Of. 003
CP 20100 Punta del Este
Tel +598 42 44 8882

## FORWARD LOOKING STATEMENTS

This Annual Report has been prepared by EFG International AG solely for use by you for general information only and does not contain and is not to be taken as containing any securities advice, recommendation, offer or invitation to subscribe for or purchase or redemption of any securities regarding EFG International AG.

This Annual 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.

## CONTACTS

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

INVESTOR RELATIONS
Tel + 41 44 212 73 77
**investorrelations@efginternational.com**

MEDIA RELATIONS
Tel + 41 44 226 12 17
**mediarelations@efginternational.com**

DESIGN/REALISATION
**Linkgroup, Zürich**
**www.linkgroup.ch**

PHOTOS Johnny Fenn / Erwin Windmüller & Sabine Dreher / Right To Play
PRINT Printlink AG, Zurich
This Annual Report is also printed in German and French