

EFG Hermes Strategy Note Update

January 2019

With the beginning of 2019, EFG Hermes Holding S.A.E. (“EFG Hermes” or the “Company”) is issuing an update to its shareholders on its strategic objectives in the coming period. Since our last strategy note, published June 2016, the Company has achieved remarkable progress on its targets from strengthening its current operations to expanding its boundaries beyond the Middle East North Africa (“MENA”), growing its Non-Bank Financial Institution (“NBFI”), expanding its assets under management and establishing Merchant Banking activities.

EFG Hermes continues to pursue its announced strategy of transforming the Company from a pure play investment bank into a financial services company that provides traditional investment banking services as well as financing solutions through its NBFI and merchant banking platforms. In that manner, we are targeting to serve a larger, more geographically diverse client base by offering them a wider range of products with the aim of making EFG Hermes one of the premier providers of financing solutions in frontier and emerging markets. This should ultimately shift our earnings base to less volatile businesses, reduce our dependency on the Egyptian market for the IB platform and improve what we return to our shareholders.

To continue with its pursuit of this vision, EFG Hermes has identified six strategic pillars that provide the main areas of focus for our future direction. Those strategic pillars are the following:

- ≡ **People:** the Company’s most important asset, EFG Hermes will continue to try to hire, retain and develop the best employees in Egypt and the rest of the frontier market region. The Company was able to attract human capital over the course of the past four years while maintaining a flexible cost base, with its employee expenses to revenues kept below our announced 50% target. Those employees will be responsible for driving its future growth and enhancing its prospects. They will also be the foundation for the next generation of leaders of EFG Hermes ensuring proper succession planning and business continuity beyond the current senior management team;
- ≡ **Positioning:** with our franchise stronger than ever, we will continue to target (in every market and every business that EFG Hermes operates in) to be either the market leader or within the top five players in terms of market share. Exceptions will be made depending on the ramping up of certain new markets / products or the strategic importance of certain markets to the overall operations of EFG Hermes. For the markets that we have been present in for a while, maintaining and consolidating our leadership position will remain a main area of focus for our employee base. At the same time, we will also focus on improving our positioning in the frontier markets that we have recently established a presence in;
- ≡ **Products:** EFG Hermes will strive to add more products to its products suite during the coming period. Over the span of the past four years, we have added the following products: (1) for the sell side business: structured products, fixed income products, debt capital markets activities, (2) for the buy side business: the Vortex renewable energy platform in Europe, the Education Fund in Egypt and frontier and MENA focused asset management products through our affiliate FIM, (3) for the NBFI business: leasing, microfinance, factoring and sales through installments and (4) merchant banking activities. The coming period will see us explore new venues for further expansion of our product base including wealth management, insurance and mortgages among others. This, we believe, will create additional synergies and further reduce the Company’s exposure to capital markets cyclicality. We will also continue to invest in suitable financial technology ventures that will help us stay close to potential disruption forces in our industry and ensure that the Company maintains its leadership position for years to come;

- ≡ **Presence:** we have expanded our geographical presence over the past four years with new, on the ground, licensed presence in Pakistan, the US, the UK, Kenya and Nigeria. While we are looking into potential further expansions into 1-2 additional markets, we feel that we have already established strategic operational hubs in North, East and West Africa as well as the GCC and Southeast Asia. Those hubs are helping us provide our brokerage services in almost 50 frontier and emerging markets today supported by our top ranked research coverage of over 250 stocks. It will also help us cross sell our IB expertise; an ambition we have already started to realize through some transactions in 2018. As a by-product of this expansion strategy and while we believe that Egypt will continue to provide a large portion of our annual consolidated revenue stream (especially with the expected growth of the NBFi business), we forecast that frontier and GCC operations will contribute a growing share of the stand-alone investment bank platform's revenues in the coming years;
- ≡ **Profitability:** in our pursuit to create greater value for our shareholders, the above four strategic directions were adopted with the primary aim of increasing the profitability of the Company. Here, our objective is three-fold: (1) improve earnings and dividends visibility to our shareholders through pushing the growth of our NBFi and Asset Management platforms, (2) increase year on year profits to the extent possible in light of the unpredictable movements of the capital markets we operate in and (3) improve our return on equity metric with a targeted blended rate (between a higher ROE in Egypt and frontier markets and lower ROE in the dollar pegged areas of the GCC) in the 15% range by 2021 up from c.10.8%* in 9M2018;
- ≡ **Public Responsibility:** as mandated by its board of directors, EFG Hermes believes that its public responsibility towards the communities that it operates in (most importantly Egypt) is as important an area of its strategic focus as are the other five strategic pillars. Accordingly, whenever conditions permit, EFG Hermes will allocate a portion of its annual profits to the EFG Hermes Foundation to carry out its excellent developmental work. This primarily includes the renovation of villages in the under-privileged areas of Egypt among many others. During the past twelve years, the EFG Hermes Foundation has completed full rehabilitation work on two villages and is expected to complete a project in the third village during the course of 2019. In each of these projects our foundation has carried out works including installation of utilities, renovations of houses, schools and medical services and the provision of sustainable economic opportunities whenever possible.

The pursuit of those six strategic pillars over the past four years has significantly expanded what we can offer our clients in terms of services. Accordingly, EFG Hermes currently segregates its client base as per the below definition with each category being targeted through a specific suite of financing solutions, many of which were only added during the past four years:

- ≡ **Retail clients:** Equities Brokerage, valU (sales through installments);
- ≡ **High Net Worth Clients:** Equities Brokerage, Fixed Income Products, Structured Products, Portfolio and Fund Management, Private Equity;
- ≡ **Institutional Clients:** Equities Brokerage, Fixed Income Products, Structured products, Fund Management, Private Equity;
- ≡ **Microenterprise Clients:** Tanmeyah;
- ≡ **Small & Medium Enterprise Clients:** Leasing, Tanmeyah;
- ≡ **Large Corporate Clients:** Leasing, Factoring, Merchant Banking, M&A, Equity Capital Markets, Debt Capital Markets.

The fundamental changes in our business model have necessitated reciprocal changes in our reporting methodology. We have therefore started segregating the profits the Company realizes from its NBFi

platform from those booked from our Investment Bank and Merchant Banking platforms. The purpose was to provide our shareholders with a more transparent understanding of the business especially as we are forecasting strong growth for the NBFi platform whereby it is expected to contribute 50% of our consolidated profit base within the next three to four years. The growth of the NBFi platform should help create considerable value for our shareholders since these businesses typically enjoy a clearer and more consistent earning visibility and trade at higher multiples than our sell and buy side businesses.

With much of our product line still in its infancy stage, we do not believe that our shareholders have seen the full impact of our strategy in the Company's reported net earnings and return on equity metrics as of date. However, in 2018 we started to realize the early shoots of what we are implementing on a number of fronts including a growing revenue stream from frontier markets as well as an expanding profit contribution from the NBFi platform. A consistent recovery in capital markets activity taking daily traded values back to normal levels in our key markets will be an added plus. In the absence of such an event though, we still believe that we have put in place a strong business model that will ensure the sustainability and the growth of our business in the years to come.

**ROE calculation is based on excluding portions of the shareholders' equity that are (1) allocated to assets that don't yield returns on an annual basis (e.g. seed capital in funds and goodwill) and (2) related to remaining non-core assets (e.g. Credit Libanais, Nile City, Sodici) where the intention is to dispose and return most of the proceeds to the shareholders.*