



SARASIN

## Shareholders' Information

Basel, 23 August 2005

### Strong profit growth in the first half of 2005

Group profit +37%, Assets under management +7%

Dear Shareholder

In our previous letter to shareholders dated February 2005 we stated that, after the successful migration of our IT platforms and the integration of Chiswell in London and Colombo in Lugano, we would focus on improving the Sarasin Group's operating earnings and profitability in the 2005 business year. At the half year, we can say that substantial progress towards this goal has already been made. Operating profit rose by almost 40% to CHF 59 million in the first half. Group profit after tax and extraordinary items increased to CHF 55 million (+37%).

This good operating performance had an accordingly positive impact on the productivity of the Sarasin Group. At 72%, the cost income ratio before amortisation of goodwill stands at a significantly improved level. In order to achieve the stated goal, a new management structure for the bank was introduced by the Board of Directors on 1 July 2005. Under the new structure, the banking activities will be organised into four instead of the previous seven business divisions.

Assets under management increased by a total of CHF 4 billion or 7%, largely due to the positive performance of financial markets. The net inflow of new money amounted to CHF 118 million, and thus fell short of our expectations. The current market environment is distinguished by increasingly fierce competition to attract the business of high net worth individuals and institutional investors.

We remain optimistic about the development of business for the remainder of the year. We intend to take advantage of the good market conditions and enhance both our client advisory services and the products we offer with targeted initiatives.

Peter E. Merian has expressed his desire to place the responsibility for the operational management of the Sarasin Group into other hands, after having led the company as CEO and Chairman of the Group Executive Board for more than 11 years. Peter Merian will be nominated for election to the Board of Directors once a suitable successor is found.

## **Stock markets advance despite slowing global economic activity**

As expected, the first two quarters of 2005 were shaped by the slowdown of the world economy, continuing the trend that had emerged during the latter half of 2004. Long-term bond yields steadily retreated in the second quarter as the general business environment deteriorated and the yield curve continued to flatten. Fears of a resurgence of inflation, fanned not least by the mark-up in oil prices, caused a brief upswing in bond yields during the first quarter but they later fell back on renewed uncertainty about future economic growth. The contrasting positive sentiment on European stock markets was driven by better than expected corporate results as well as M&A activity, high dividends and share buyback programs. Viewed as a whole, advancing financial markets and the rising confidence of the investment community presented an attractive setting in which we were able to successfully pursue our business.

## **Appetite for risk is slowly rising again**

The positive performance of financial markets led to a tangible improvement in market sentiment and provided favourable conditions for increasing our transaction-dependent business activities.

The interest income business was not stimulated as much, however, as financial markets would have to sustain their uptrend trend over a longer period of time before collateralised lending increases significantly. Interest income nevertheless rose by 13% to CHF 33 million compared to last year, largely driven by successful money market operations. Notwithstanding this pleasing growth in net interest income, the market environment for the interest income operations of an asset management bank remained difficult since yields – contrary to universal expectations that they would rise – have fallen to even lower levels. Although the US central bank has repeatedly increased its overnight lending rate, medium- to longer-term capital market yields have receded, resulting in an unusually flat yield curve at a low level. In view of our balance sheet structure, a substantial rise in interest rates would lead to another significant increase in net interest income.

Net income from commission and service fee activities, still the most important component of group income, increased by 5% to CHF 161 million. Besides the increase in client assets, this growth was driven by a significant increase in transaction volumes. The success of our recent product and client advisory initiatives is thus herein reflected.

Trading income showed a particularly strong increase of 59%. Good foreign exchange business, significantly higher volumes of derivative products and the judicious allocation of financial assets contributed to the pleasing increase in net trading income of CHF 13 million to CHF 35 million. Together with other ordinary income, total operating income rose by 13% to CHF 231 million.

## **Assets under management increase by 7%**

Assets under management increased by CHF 4 billion to CHF 58 billion during the first half. This pleasing development was largely driven by the positive performance of financial markets: performance-related growth across all client segments amounted to CHF 3.9 billion. The net inflow of new money was only slightly positive at CHF 118 million. Institutional assets increased by CHF 417 million but the investment fund assets experienced a net outflow of CHF 249 million due to the loss of a major private label client. Private client assets also experienced a slight net outflow of CHF 51 million. Despite good acquisition activity in on- and off-shore markets, the loss of a few major private client deposits also led to an overall unsatisfactory result in this segment.

## **Moderate rise in costs in line with expectations**

Operating expenses rose by 7% to CHF 159 million compared to the first half of the previous year. For proper interpretation of this, at first glance, substantial rise in costs, changes in the scope of consolidation must be taken into consideration. Factoring out the distorting influence of the entities that were bought (Chiswell and Colombo) and sold (Bank Jenni), the actual increase in operating expenses was much lower at only 4%. Personnel expenses adjusted for the aforementioned transactions likewise rose 4%, which reflects the general increase in salaries on the one hand and the performance-related increase in accrued bonuses for 2005 on the other. The total number of em-

ployees since the beginning of the year declined slightly by 1% to 1'132 as a result of natural attrition. The increase in general administrative expenses, up 5% in adjusted terms, is largely attributable to higher parent company costs. Initial maintenance fees for the new IT platform led to an increase in costs and there was also an increase in consulting fees in connection with various operational and regulatory projects.

Valuation- and investment-dependent costs remained at an attractive low level or even declined somewhat, as was the case for goodwill amortisation following the scheduled discontinuation of annual amortisation charges. Operating profit improved considerably by almost 40% to CHF 59 million as a result. Extraordinary items were of little significance in the period under review and taxes remained low thanks to the utilisation of tax-loss carryforwards, resulting in Group net profit of CHF 55 million for the first half of 2005.

### **Change in management structure**

The Board of Directors and the Group Executive Board intend to further enhance the earnings power of the core business and the efficiency of core processes at the bank in 2005 and 2006. Existing processes and structures within the bank will be reviewed and optimised in order to achieve these goals. One of the measures we have adopted to enhance the operating performance of our company concerns the new management structure effective 1 July 2005 (see new organisational chart on page 4). Under this new structure the banking activities are now organised into four business divisions instead of the previous seven divisions. The heads of the individual business divisions have been given considerably more personal responsi-

bility under the new delegation of competencies. Personal entrepreneurial responsibility and accountability for operating performance have generally been strengthened in the new line management structure.

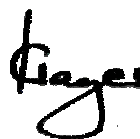
Peter E. Merian has expressed his desire to place the responsibility for the operational management of the Sarasin Group into other hands after having led the company as CEO and Chairman of the Group Executive Board for more than eleven years. Peter Merian will be nominated for election to the Board of Directors once a suitable successor has been found.

Peter Merian has successfully led the bank as CEO for more than eleven years. Thanks to his prudent and capable management, he adeptly guided the company through its transformation to a public limited company as well as succeeding in promoting our growth strategy and achieving the internationalisation of the entire Sarasin Group. At this point, the Board of Directors would like to express its deep appreciation for his tremendous contribution to our company's development to date and looks forward to their continued close cooperation.

### **Outlook**

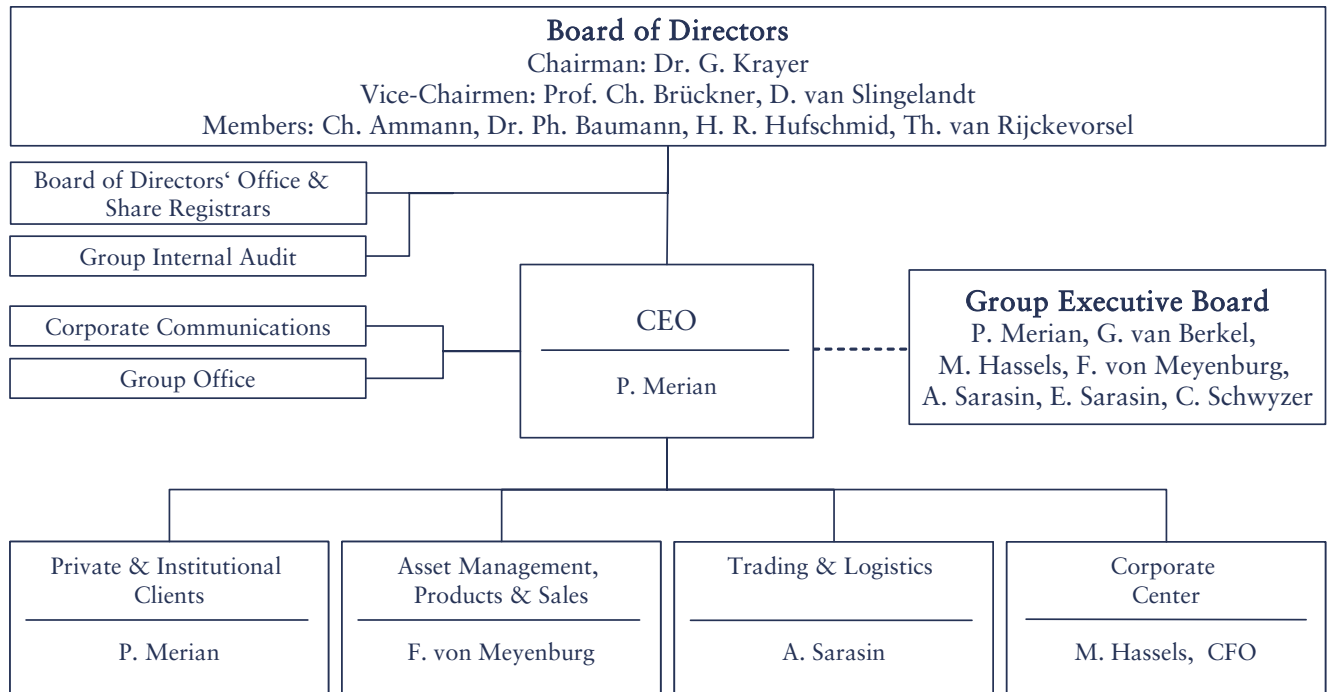
Initial indications suggest that economic growth will pick up again in the latter half of 2005. We remain optimistic about the development of business for the remainder of the year. We intend to take advantage of the favourable market conditions and enhance both our client advisory services and our range of products with a number of targeted initiatives.

Bank Sarasin & Co. Ltd



Dr. Georg F. Kraye  
Chairman of the  
Board of Directors

**Bank Sarasin & Co. Ltd's organisational chart as of 1 July 2005**



## Key figures of the Sarasin Group

	30.6.2005	30.6.2004	Change (%)
<b>Group income statement (1'000 CHF)</b>			
Operating income	231'250	205'068	12.8
Operating profit	72'182	55'688	29.6
Group profit incl. minority participations	55'135	40'365	36.6
Cash flow	68'033	48'968	38.9
<b>Ratios (%)</b>			
Cost income ratio	74.2	79.1	-6.2
Cost income ratio before deduction of goodwill	72.4	76.8	-5.7
Return on equity (ROE)	12.3	9.9	24.2
ROE before deduction of goodwill	13.2	11.0	20.0
<b>Key data per class B registered share (CHF)</b>			
Group profit	88.1	66.7	32.1
Cash flow	111.2	80.1	38.8
Stock market price on June 30	2'296	1'920	19.6
Market capitalization on June 30 (million CHF)	1'404	1'174	19.6
	30.6.2005	31.12.2004	Change (%)
<b>Assets under management (billion CHF)</b>			
Total	57.8	53.8	7.4
<i>of which private clients</i>	<i>35.0</i>	<i>31.9</i>	<i>9.7</i>
<i>of which institutional clients</i>	<i>15.2</i>	<i>14.7</i>	<i>3.4</i>
<i>of which investment fund assets</i>	<i>7.6</i>	<i>7.2</i>	<i>5.6</i>
<b>Workforce (adjusted for part-time working)</b>	<b>1'132.1</b>	<b>1'144.5</b>	<b>-1.1</b>

## Group Balance Sheet as at June 30, 2005

Assets (1'000 CHF)	30.6.2005	31.12.2004	Change	
			CHF	%
Cash and other liquid assets	120'665	158'621	-37'956	-23.9
Money market investments	107'641	126'747	-19'106	-15.1
Due from banks	5'114'321	4'589'174	525'148	11.4
Due from customers	1'407'310	1'253'775	153'535	12.2
Mortgages	213'842	219'319	-5'477	-2.5
Securities and precious metals trading portfolios	245'545	217'172	28'373	13.1
Financial investments incl. non-consolidated participations	531'087	499'022	32'065	6.4
Fixed assets	130'381	133'763	-3'382	-2.5
Intangible assets	89'202	89'469	-267	-0.3
Accrued income and prepaid expenses	76'127	58'641	17'486	29.8
Other assets	176'859	152'372	24'487	16.1
<b>Total assets</b>	<b>8'212'980</b>	<b>7'498'075</b>	<b>714'905</b>	<b>9.5</b>
Liabilities and shareholders' equity (1'000 CHF)	30.6.2005	31.12.2004	Change	
			CHF	%
Due to banks	823'498	1'103'184	-279'686	-25.4
Due to customers in savings and investment accounts	422'122	451'958	-29'836	-6.6
Other amounts due to customers	5'166'633	4'199'741	966'893	23.0
Bonds and mortgage-backed bonds	426'116	432'585	-6'469	-1.5
Accrued expenses and deferred income	110'746	105'596	5'149	4.9
Other liabilities	320'402	293'634	26'768	9.1
Value adjustments and provisions	29'414	31'010	-1'597	-5.1
Reserves for general banking risks	36'000	36'000		
Share capital	61'155	61'155		
Treasury shares	-14'101	-11'545	2'556	22.1
Capital reserve	590'417	588'556	1'861	0.3
Retained earnings	164'217	84'536	79'681	94.3
Minority participations in shareholders' equity	21'226	19'660	1'566	8.0
Group profit including minority participations	55'135	102'005	-46'870	-45.9
<b>Total liabilities and shareholders' equity</b>	<b>8'212'980</b>	<b>7'498'075</b>	<b>714'904</b>	<b>9.5</b>

## Group Income Statement for the first half of 2005

1'000 CHF	30.06.2005	30.06.2004	Change CHF	%
Interest income	91'093	72'983	18'110	24.8
Interest expenses	-58'308	-43'946	14'362	32.7
<b>Net interest income</b>	<b>32'785</b>	<b>29'037</b>	<b>3'748</b>	<b>12.9</b>
Net income from commission and service fee activities	160'643	152'357	8'286	5.4
Net income from trading operations	34'804	21'917	12'887	58.8
Other ordinary income	3'018	1'757	1'261	71.8
<b>Total operating income</b>	<b>231'250</b>	<b>205'068</b>	<b>26'182</b>	<b>12.8</b>
Personnel expenses	113'745	108'179	5'566	5.1
General administrative expenses	45'322	41'201	4'121	10.0
<b>Total operating expenses</b>	<b>159'067</b>	<b>149'380</b>	<b>9'687</b>	<b>6.5</b>
<b>Operating Profit</b>	<b>72'182</b>	<b>55'688</b>	<b>16'494</b>	<b>29.6</b>
Depreciation and write-offs on fixed assets	-6'104	-6'068	36	0.6
Amortisation of other intangible assets	-2'349	-2'114	235	11.1
Amortisation of goodwill	-4'017	-4'624	-607	-13.1
Value adjustments, provisions and losses	-312	-97	215	221.5
<b>Profit before extraordinary items and taxes</b>	<b>59'400</b>	<b>42'785</b>	<b>16'615</b>	<b>38.8</b>
Extraordinary income/expenses	1'813	2'766	-953	-34.4
Taxes	-6'079	-5'186	893	17.2
<b>Group profit</b>	<b>55'135</b>	<b>40'365</b>	<b>14'770</b>	<b>36.6</b>
<i>of which minority participations</i>	<i>1'237</i>	<i>-441</i>	<i>1'678</i>	<i>380.5</i>

Our interim financial statements have not been audited by the external auditors, but they have been drawn up on the same basis as our year-end-financial statements and comply with the rules stipulated by Swiss banking law.