The 2007 guide to

Private Banking and Wealth Management

Published in conjunction with:

ABN AMRO Private Banking
Banco Urquijo
Bank Delen
Bank Gutmann
Citi Global Wealth Management International
Eurobank EFG Private Banking
Marfin Popular Bank
Sal Oppenheim
SG Private Banking
Yapi Kredi Private Banking
Questions about your investments may occasionally arise, such as: “Can’t my portfolio perform any better?”, “Does my portfolio match my desired return and my risk profile?” and “Does my bank really understand my needs?” Questions like these warrant a second opinion. ABN AMRO invites you to have your portfolio reviewed thoroughly by our expert investment advisors, who will take your personal situation, your financial ambitions and your desired risk profile into consideration. Would you like a second opinion on your current investments or to learn more about how ABN AMRO Private Banking can advise you on future investments and help you develop a truly balanced portfolio? We’d be pleased to assist you at any of our offices. Visit www.abnamroprivatebanking.com to find an office in your area and arrange to meet one of our investment advisors.
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This guide is for the use of professionals only. It states the position of the market as at the time of going to press and is not a substitute for detailed local knowledge.

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Introduction

Private banking is set to experience meteoric growth in the next few years, but will the banks be able to keep up to meet demand? Helen Avery looks at the challenges and the trends facing the industry players in the near future.

Global high net worth wealth totals around $37 trillion, and is expected to reach $51.6 trillion by 2011, growing at an annual rate of 6.8% a year according to the 2007 Merrill Lynch/Capgemini World Wealth Report. The growing wealthy population means profitable times ahead for the world’s private banks if they manage to win a share of the assets.

According to PricewaterhouseCoopers’ (PwC) 2007 Wealth Management Survey, CEOs of private banks and wealth managers expect the industry’s assets under management (AUM) to grow by a staggering 23% per annum over the next three years, with their own businesses growing at an even faster rate of 30% a year.

Growth through acquisition seems to have fallen out of favour. Says Bruce Weatherill, global private banking and wealth management leader at PwC: “Many private banking players are not buying. What they are after are clients. They don’t want to pick up another bank’s brand and infrastructure or deal with different cultures. They are preferring to grow organically, unless they can buy a firm in a niche area that they need to expand into.”

More clients, and greater share of current clients’ wallets is key to meeting these ambitious expansion targets. Indeed, 96% of business managers surveyed by PwC view gaining share of clients’ wallets as being of importance during the next three years, with the majority seeing this as very important. At present less than 50% of wealth managers hold more than 40% of their client’s investable wealth. Over the next three years, this is estimated to change so that almost 80% of wealth managers will hold over 40% of a client’s wealth. There is clearly not room for everyone. In order to gain a greater share organically, there are going to be challenges. Adding clients and assets means that more staff will need to be added. And how are banks going to differentiate themselves so that they can attract clients away from their competitors? These challenges are forcing change on the current private banking model, and, as a result, industry participants believe that the sector should become more professional.

To hire or not to hire?
Talent and the search for it, is one of the biggest issues within the private banking industry right now. Firms are trying to expand and gain clients

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**What percentage of your existing clients’ investable wealth do you expect to hold now and in three years’ time?**

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Source: PricewaterhouseCoopers 2007 survey
at little marginal cost, yet it would be unwise to add more clients to a client relationship manager’s (CRM) book. If a bank takes on 100 more clients, it will need at least one or two more CRMs in order to ensure quality of service. There are just not enough to go around. “Simply to maintain the growth in wealthy clients putting money into Singapore over the next five years, will require 10,000 more client relationship managers, for example,” points out Weatherill.

What do you think will be your most pressing business issues in three years’ time?

Second only to the acquisition and retention of clients in top concerns for CEOs is the acquisition and retention of key staff. Indeed, only 26% of CEOs surveyed by PwC claim to be confident that they will be able to recruit enough CRMs to fulfill their growth ambitions over the next three years. In Europe, the search for talent is putting pressure on salaries. Nearly all banks will admit that poaching individuals from other banks is the most likely way of getting new staff. Says one market participant: “Compensation packages for private bankers are now through the roof. At one time investment bankers looked down on private bankers, but now many are making the move across. Long-term contracts are becoming the norm, as are profit-sharing schemes. Salaries are over the top no doubt given private bankers have a fairly nice working life, but that is the market.”

Weatherill thinks that private banks need to change this mentality of hiring more CRMs as a panacea. Given there is a lack of CRMs in the market, and an even greater lack of high-quality CRMs, one could argue private banks need to redress their model if they wish to take on more clients. “People are more than 50% of a private bank’s costs, yet very few look at talent management,” says Weatherill. “It is clear they are not taking this people agenda seriously. Less than 50% of private banks have an HR director on the board, for example. Now, that either says HR directors need to improve to be able to get on the board, or that banks are not dedicating enough thought to their HR departments.”

What private banks should be doing rather than fighting for talent and paying for it through the nose, is to work on improving the efficiency of its current CRMs so that they can take on more clients with little or no impact to their workload. “How do you increase revenues and maximize costs? By making it easier for CRMs to perform their services. That means better IT and better support, and we’re really seeing chief operating officers stepping up to help in this area,” says Weatherill. More than 80% of COOs that responded to PwC’s survey claimed to be reviewing operational processes, and more than 60% said they were reviewing or improving CRM systems. It is leading to what Weatherill refers to as “a professionalisation” of the industry. Wealth management systems have noticeably suffered from underinvestment. Only one-third of COOs, for example, think that systems in the wealth management industry are above the standards of peers in other financial services’ sectors. But the fight for greater wallet share coupled with the challenges of sufficient talent are forcing a change upon the private banking model.

Making a difference

Differentiation is a means of private banks to gain a greater share of clients’ wallets or to attract new clients, and greater attention is being given to that area. Brand is important, and survey respondents claimed brand value to be their biggest differentiator. Clients want to be with a bank that is solid and secure, with a reputable brand, but if everyone is trying to do it, how can a private bank show it has something more to offer? “Sometimes I look at sales packs from different banks, and the only differentiator is the picture on the front cover. The private banks that are going to be the most successful are those who can demonstrate they are providing value-added services. It’s the holy grail,” says Weatherill.

Asset management used to be a significant differentiator for private banks, but with open architecture now an industry standard, in-house expertise is somewhat redundant. That said, the shift of high net worth clients’ assets away from traditional asset classes to alternatives such as hedge funds, private equity and real estate allows firms with expertise in these areas to have an upperhand. “Some private banks sensibly got out of asset management as it was not a profitable business. High net worth clients are, however, attracted to those banks which have invested in, and proved successful at offering alternative investments,” says Ariel Salama, chairman of Private Banking Index Ltd. Salama says that some private banks that have proved themselves to be good at asset management are even opening up their doors now to institutional investors. The contin-
How does your organisation currently differentiate itself?

- Research and analysis
- Availability of non-proprietary products from an external provider
- Breadth of product range
- Investment performance
- International know-how
- Product innovation and development
- Best in-class products
- Knowledge of local markets
- Provision of comprehensive, integrated wealth management planning approach for clients
- Quality of professional advice
- Personal relationships
- Brand value

Sum of weighted ranked responses

Source: PriceWaterhouseCoopers 2007 survey

ued success of private banks in asset management will be largely dependent on how they manage their clients' portfolios if there is a market downturn.

Private banks clearly have to offer more than asset management in order to make the status of “trusted adviser”, whereby a bank has most of a client’s money.”Banks will claim they have this role, but do they really? It involves offering a whole range of services from birth to death and through death – healthcare, insurance, trust and fiduciary services, risk analysis, portfolio consolidation,” says Weatherill. Furthermore these services need to be tailored to each individual depending on their stage in life, career, or source of wealth. Up to now not many banks can claim to have successfully segmented their clients in this manner. Many have segmented clients by net worth, which may be helpful for the bank, but for clients, it is quite worthless. “It’s about being a one-stop shop for a client, not cutting costs, providing products and services that clients really need, and it is a very powerful proposition.”

It is here that the mid-tier players might be squeezed believes Weatherill. “The mid-tier players are having to join together to invest in processes and IT and people, either through joint ventures or merging. Growth is costly and they simply cannot provide all the services required by clients. In the short term this is okay, but longer-term clients might begin to question their dedication,” points out Weatherill.

Is there room for everyone?

Consolidation in the fragmented private banking industry seemed inevitable, yet 2007 has seen very little important M&A activity in the sector. This is partly due to the lack of desire to deal with the unique cultural and integration issues in this people-based business, but also due to specific market conditions. Says Ray Soudah, founder of Millenium Associates an independent global M&A advisory firm to the financial industry: “In a bull market, private banking firms make good money. The global stock market is a perfect proxy of where revenues of private banks will likely be. The first half of the year was an extremely positive period for small, medium and large private banks alike without distinction. Whilst valuations are high, there has been a lack of interest in firms selling and being acquired as they feel comfortable with their status feeling no pressure to sell despite it having been the optimal time to sell within the last five years. On the other hand there is a huge pipeline of unfulfilled demand for acquiring private banking assets globally given the difficulties to rapidly acquire and integrate adequate human resources in support of ambitious growth objectives.”

With the recent market downturn, Soudah says some firms will regret not having been open to offers. “Private banking prices may have peaked this cycle. Some private banking owners have simply not been accepting their strategic fate. I expect they are now wondering whether they missed the boat by not selling their businesses earlier in the year or in 2006. Fortunately, all is not lost as the demand hangover will continue to prevail for some time to come, and as a result valuations are not expected to collapse but rather hold up well.”

Soudah adds that consolidation, while inevitable if markets continue to trend down sustainably, will not happen for some time yet. If market conditions do worsen, Weatherill thinks the large banks will have the upperhand. “It will be interesting to see how the current market conditions play out on the private banks. If revenues are affected, it is the large banks that will be able to ride out the storm. They’ll simply improve their systems to try to become more efficient. I’m not sure the smaller players will be able to keep up.”
Bank Delen – experience the difference

In January 2007, Bank Delen was voted the Best Private Bank in Belgium in Euromoney's private banking survey. Here, members of the bank’s management committee are interviewed.

Q: Bank Delen has a new slogan: “experience the difference”. Has the award offered you the possibility to experience differences?
Jacques Delen, CEO of Bank Delen: Bank Delen was proud to receive the award. After having been third in 2005, the 2007 award was a confirmation of the results we obtain with our strategy. So it was not a total surprise. Although, we did not expect the extent of the positive reactions we received from our clients. Many confirmed that they had always known we were the best and took the occasion of the award to express their gratitude.

These reactions were clearly heart-warming and encourage us to follow through with our approach, which offers real added-value to our clients by answering their (sometimes unexpressed) needs on wealth protection and wealth enhancement, providing financial expertise and a broad experience in family law and inheritance questions.

The “difference” we offer the client to experience resides in our complete and non-aggressive approach, which is typical of the real private banks, often in contrast to general players that provide, within their pallet of worldwide banking services, some elements of financial management to the broad public. Good quality private banks are personal advisers to their clients regarding their wealth management and act discreetly and effectively. We tend to excel in that role.

Q: How do you approach a private banking client?
Filips De Ferm: We have one motto: “keep it simple”. We listen to our clients and give them specialist advice through our wealth protection teams, who will tailor their advice and solutions to meet the client’s exact needs.

We have vast experience in dealing with family law issues and tax, pension and inheritance planning. The clients have built up their wealth and want to ensure that they themselves and future generations can benefit from their hard work. We help them establishing how this could be done.

Paul De Winter: We provide a genuinely personal service, on legal and fiscal issues and through our financial expertise. Our discretionary investment management is designed to continually meet the client’s investment objective.

Most clients choose Bank Delen for our global flexible approach, a dynamic but prudent and well-considered strategy with a variable asset allocation to emphasise wealth enhancement and, when needed, wealth protection. The results of this approach are largely appreciated by our clients and so we make managing wealth as effortless and efficient as we can from a client’s perspective.

Q: Have there been changes in your approach this year?
Thierry Maertens de Noordhout: The financial markets have become quite active lately. Many general banks have perhaps experienced some difficulties in assessing clearly their risk position. This is not the case with us. We want to offer the client 100% security on his risk-free assets and adapt our own investments accordingly. Our clients have the reassurance of our name, trusted for its integrity, discipline and expertise.

René Hawaux: In the client’s portfolios, the choice and composition of asset classes across the full range of global markets is also the most important investment decision. We are conservative and will only invest in asset classes that can be monitored on a permanent basis. We banish all blind spots, we monitor the markets and take advantage of the most appropriate opportunities.

Our flexible approach is a clear plus for the client, certainly in active financial markets such as we are experiencing now. It makes the choice of asset classes dynamic, while respecting the client’s risk profile (size of his wallet, stage of life and risk appetite).

Q: How do you see the future?
Jacques Delen: We strive each day to serve our clients in the best way possible. The growth figures of Bank Delen confirm our clients’ trust and the Bank’s efficient organisation.

And we remain an active player in the Belgian private banking market. This summer, we joined forces with a Brussels-based investment adviser, Capital and Finance (Capfi), which has expanded our client base by more than 20%. The culture of both companies is almost identical. We will merge with our new partners later this year.

Capfi manages award-winning investment products with a proven track record. With Capfi, these funds are at the forefront of private client investing, concentrating on the same values as us, such as a long-term outlook and a flexible approach.

Together we will ensure our clients continue to receive the quality, tailor-made service they deserve. As a specialist private bank, we trust that they will keep on appreciating our way of assisting them.
Bank Gutmann: Austrian private banking specialist for Eastern Europe

With more than a decade of experience in Eastern Europe, its strong team on site and the best private equity contacts, Bank Gutmann – the leading Austrian private bank – has successfully extended its services into Europe’s fastest-growing region.

Specializing in asset management and investment advice for foreign and domestic high-income individuals and institutional investors for over three decades, Vienna-based Bank Gutmann has become a leading private bank in German-speaking countries, operating in Central, Eastern and South-Eastern Europe as well as selected overseas markets. A strong international private banking team provides ‘entrepreneur-to-entrepreneur’ private banking and family services in close collaboration with worldwide best-of-breed advisers including lawyers, tax advisers and business consultants. Bank Gutmann manages total assets of nearly €10 billion for selected high and very high net worth individuals and numerous trusts and foundations.

 Tradition with a future

Based on its historical links with the Gutmann family, which owned leading industrial enterprises in the former Austro-Hungarian Empire, and was considered one of the major industrial dynasties of the region, Bank Gutmann has been active in Central and Eastern Europe since the early 1920s. After World War II, Gutmann was active in Austrian infrastructure financing and the placement of securities of government-affiliated public utilities. These transactions supported the newly emerging Austrian capital market and laid the groundwork for the key role now played by the bank in investment and securities advice for institutional investors in banking and insurance.

Since 1959, the Kahane family has been the majority shareholder of Bank Gutmann; 10 senior managers of the bank hold the remaining 20% of the share capital. This “partnership concept” – a special Bank Gutmann feature – ensures personal commitment and continuity in customer service based on discretion and trust as well as speedy and independent decisions. Bank Gutmann has been a privately owned independent company since its foundation in 1922.

 At home in Eastern Europe

Not only the historic roots but also Vienna’s geographical proximity to the Eastern European markets explain Bank Gutmann’s successful cooperation with high net worth investors and entrepreneurs in Eastern Europe for more than a decade. The bank focuses primarily on customers from Hungary – where Gutmann has its own investment advisory subsidiary – from the CIS countries, the Czech Republic, Slovakia, Romania and Bulgaria, where expansion is still under way. Bank Gutmann’s involvement and expertise in private equity have helped expand its activities in Eastern Europe. Gutmann invests not only in private equity funds itself but also helps customers to participate in attractive investments.

Explains Sepp Maier, member of the board of management and partner of Bank Gutmann: “Over the years, we have established close links with leading international private equity investors. This cooperation provides us with an avenue to extraordinary investments in Eastern Europe, to successful local entrepreneurs and investors. We are also happy to make such investments available to clients who would not be able to participate in such projects on their own.” In Eastern Europe, Gutmann is a sought-after partner for entrepreneurs who have sold shares of their companies to private equity investors and now wish to invest the proceeds in the best possible way. The Gutmann team is assisted by an international network of best-of-breed advisers, such as lawyers, tax advisers and business consultants.

Through its many years in the business, Bank Gutmann has not only developed a strong bond with the region but also a deep understanding...
Modern wealth management with tradition and vision in the heart of Vienna

of the needs of investors from these markets. With its close historical ties and strong economic integration and thanks to its geographical location and very favourable legal and fiscal conditions, Vienna is widely considered the best private banking platform for Eastern Europe.

Individual one-stop asset management

Bank Gutmann offers personal, efficient and discrete customer service. Solid, customized solutions, security and capital preservation are top priorities. Gutmann CEO Rudolf Stahl explains: "We take a very personal approach to customer service: Instead of selling products, we listen, take measure, and find solutions tailored to the specific requirements of each customer." Gordian F. Gudenus, deputy head of international private banking and partner of Bank Gutmann, also emphasizes this concept: "We offer attractive services to high net worth individuals, entrepreneurs, and their families. As the leading Austrian private bank with a strong international focus we offer our customers tailor-made cross-generational personal asset management."

For Bank Gutmann, private banking is more than simply optimal management of individual portfolios. The starting point for tailor-made investment management is a thorough analysis of each customer’s current needs and future plans. "Our customers can avail themselves of the services of a strong international private banking team thoroughly acquainted with the markets and operating in 16 languages," adds Gordian F. Gudenus.

Core competence of portfolio management

Gutmann is also closely networked in financial studies and research. Conducted by the reputable German financial publisher Fuchsbriehe in 2007, Bank Gutmann was the only Austrian bank to receive a top ranking on the "Eternal Best List" for investment managers in German-speaking countries (Austria, Germany, Liechtenstein, Luxembourg and Switzerland). The bank was ranked amongst the best three private banks in all German-speaking countries also in 2005 and 2006.

In 2001, Bank Gutmann and the University of Vienna founded the Gutmann Center for Portfolio Management. Academic Advisory Board members include not only numerous professors of notable international universities but also Nobel Prize laureate William Sharpe, inventor of the world-famous Sharpe ratio.

In portfolio management, Gutmann works closely with independent research partners, the Gutmann Center and the world's leading securities experts ("Gutmann Portfolio Management Triologue").

Since 2006, Bank Gutmann and the Gutmann Center have been hosting the "Gutmann Academy". The academy organizes seminars to allow interested bank customers and Vienna University students to learn about the theory and practice of asset management and private banking.

Independent experts give Gutmann top marks

Independent experts have rated Gutmann's private banking services. In its 2007 private banking survey, Euromoney again chose Gutmann as Austria's best private bank, as in the two previous years. Moreover, in a study conducted by the reputable German financial publisher Fuchsbriehe in 2007, Bank Gutmann was the only Austrian bank to receive a top ranking on the "Eternal Best List" for investment managers in German-speaking countries (Austria, Germany, Liechtenstein, Luxembourg and Switzerland). The bank was ranked amongst the best three private banks in all German-speaking countries also in 2005 and 2006.

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Sal Oppenheim – a judicious mix of tradition and modernity

Clients of German investment bank Sal Oppenheim are benefiting from its unique approach to financial management, which closely combines investment and private banking services, enabling it to exploit to the full its size and expertise. The experienced and highly qualified advisers at Europe’s largest independent private bank have built its team of senior managers who understand every aspect of their clients’ corporate and personal needs, maintaining a personal and trust-based relationship with them. “Expertise alone is of little value unless you have someone qualified to the highest level to manage the relationship,” says Reinhard Krafft, head of private banking at Sal Oppenheim.

This philosophy has already delivered strong results for the bank. Private banking and asset management produced €248 million of the bank’s €308 million profit last year. By the end of 2006 Sal Oppenheim had €138 billion assets under management. This is the most for a European bank that is not at least partly controlled by a publicly listed company and is not far off Deutsche Bank’s €168 billion.

**Integrated service**

Krafft believes that its approach, allied with a strong international network, enables the bank to provide the integrated service required by the *mittelstand* (small to medium-sized) companies and entrepreneurs, which are once again becoming the economic driving force in Germany and elsewhere in Europe. The bank understands the variable performance of these companies and knows the importance of creating a corporate and personal financial package that works in both good and difficult times.

“We are adopting the model of the traditional merchant bank, which historically has been the best way of meeting the needs of our customers,” Sal Oppenheim focuses on the integration of wealth management activities and the second pillar of the business model, the investment bank, as well as on co-operations with leading external product specialists to secure and extend its market position. We are providing the *mittelstand* companies with something that no other bank does,” says Krafft.

Sal Oppenheim, he says, “tries to integrate the two divisions, private finance and investment banking, and make our customers aware that the services complement each other. Once you start to talk to a client about his company’s financial needs, it is a natural progression to talk about wealth management needs.” At the heart of this strategy is the bank’s belief that in recent years, its competitors have failed to realize the importance of this approach or have not had the size to deliver it.

This philosophy has not been arrived at overnight. Founded in 1789, Sal Oppenheim has developed into a judicious mix of tradition and modernity – today one third of Germany’s 20,000 wealthiest families are its clients, attracted by the core philosophy of preserving wealth.

**Broadening perspectives**

The bank, with €2.0 billion of equity, has also broaden its perspective via acquisition. The company most recently set up a joint venture with Belgium’s Compagnie Nationale a Portefeuille to invest in mid-sized, publicly listed companies; took a 10% stake in the New York financial restructuring specialist Miller Buckfire; took control of Paris-based asset manager Financière Atlas and bought a share in Italian private bank, Prader Bank.

The bank, says Krafft, concentrates on risk management. Its portfolios have tended to be more conservative as most of its investors want to “preserve their wealth. There are a few that are more aggressive, but the majority are risk conscious. Our products are based on the concept of scientifically based dynamic asset allocation which focuses exclusively on the best products in the market.” Significantly, the bank stresses that it is even-handed between in-house products and external providers. “Our independence and competence is also reinforced by the exchange and national and international co-operation with more than 50 banks, asset managers and auditors,” says Krafft.

Equally important to Sal Oppenheim’s service to the *mittelstand* is its investment banking department, which has developed a strong reputation for its support of entrepreneurs. The family-owned bank describes itself as a powerful alternative to the bulge brackets: it executed about 50 M&A deals in Germany and Switzerland last year, and is second only to Deutsche Bank in terms of German banks.

The bank provides M&A advisory, currency, derivatives and hedge funds services. It has considerable experience in arranging the private equity transactions that are extremely popular with *mittelstand* companies.

The bank will help with restructuring balance sheets and sorting out a smooth transition of ownership between the generations. “We are also prepared to take our own participation in companies without trying to take control. We will then resell, usually back to the family,” says Krafft.

This strategy will remain the driving force in future. “With this business model we have ample room to grow in Europe. There are so many places in the continent where entrepreneurs want to set up. We will continue to stick to our niche of providing them maximum help,” he says.

**SAL. OPPENHEIM**

*Private bankers since 1789*

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Is it possible to be both – a private bank and an investment bank at the same time?

There are indeed many private banks and of course a lot of investment banks as well. What makes Sal. Oppenheim so special is the fact that it perfectly combines both of them – an exclusive private bank steeped in more than 200 years of tradition – and a highly innovative investment bank. These characteristics enable Europe's largest private bank to cover the entire financial spectrum under one roof – while yielding above-average results and guaranteeing maximum exclusivity. It is possible to be both.

www.sal-oppenheim.com
Structured Products: personalized investment for the ultra wealthy

Structured products are moving out of the institutional sphere and becoming the tool of choice to meet the special needs of the very wealthiest private banking clients

Structured products have long been reserved for institutional clients but are now being sought by the very wealthy. These forms of investment have taken off over the past five years and still promise a brilliant future.

As the rich get richer they require more sophisticated advice and as the regulatory environment is becoming very restrictive, the concept of structured products, somewhat tarnished in the past, is gaining more professional acceptance.

SG Private Banking, convinced structured products can meet the expectations of its top-of-the-line clients for tailor-made solutions, has since 1999 had a team dedicated exclusively to structured products. From the start, the decision was made to design personalized strategies, tailored exactly to the degree of sophistication required by each client. This brave gamble has proven right: for three years now, SG Private Banking has been world leader in this segment (Euromoney Private Banking Survey 2005, 2006, 2007).

The current environment and its constraints

In a climate of strong global growth, the number of millionaires and the size of their fortunes have grown rapidly. There are now over 10 million people with a fortune worth at least $1 million, an increase of almost 10% in one year. If the US, Japan and Germany still represent the three principal concentrations of wealth, it is the emerging markets that are the main centres of growth. The growth recorded is closely linked to the increase in ultra high net worth individuals – those with fortunes over $30 million. There are 100,000 of them, and their wealth increased by more than 15% between 2005 and 2006.

As the result of these developments, private banks face new challenges. They must adapt to a more international, more global approach on the part of their clients whose interests are increasingly spread geographically, and anticipate the wholesale transfer of fortunes by targeting the expectations of the new generation.

Moreover, the private banking market is highly fragmented. It sharpens the appetites of big banks, smaller and mainly family organizations, independent managers, family offices and more. They have become involved in fierce competition to tempt an increasingly demanding and sophisticated clientele, who has the investment capability equivalent to some institutions.

Many private clients tend to approach investment banks directly for structured products, and modest-sized players often make use of products developed by the majors. However, the large international private banks emerge as the winners thanks to the quality of their offering combined with the personal and long-term client relationships that they have been able to develop. They are best positioned to identify and meet private client needs, particularly the multi-location ones, using in-house centres of excellence specialized by investment vehicle (funds, hedge funds, structured products...).

The regulatory environment is becoming increasingly restrictive due to initiatives such as MiFID, the Prospectus Directive and others. The market players have to anticipate these directives and convert them into business opportunities. As an example, MiFID will lead to increased professionalism in the sales and risk assessment process (classification of clients, clear information, detailed documentation, best execution and more).

Valuable tools

Structured products are investment solutions that combine several financial instruments by linking underlying assets with a derivative component.

Structured products are appreciated for their flexibility and represent an interesting alternative to traditional financial investments. By optimizing yield while limiting the risks incurred, they represent valuable tools in the optimal management of a portfolio. These investment vehicles are based on very specific scenarios and take advantage of fluctuations in the financial markets. They are a source of diversification and also facilitate access to asset classes that are difficult to get at.
Structured products also offer the advantage that they can be fully personalized, according to the expectations of investors and anticipated moves in the market. All asset classes come into consideration (equity, interest rates, funds, forex, commodities, real estate, hedge funds, private equity etc), and the overall features of the product can be adjusted (investment objective, underlying asset, currency, maturity, acceptable risk level, expected return, anticipated market moves etc). This explains why the penetration of structured products has increased and will continue to increase, exceeding 10% of client allocation.

**Trends in the structured products market**

Risk: The excellent performance posted on the financial markets over recent years has reduced the aversion to risk, and investors have tended to seek out, via structured products, sources that offer a higher yield than traditional investments.

The underlying assets: Theme-based products (water, alternative energy, climate, ethics etc) have become very popular with investors, and a number of private banks have been quick to include them in their offering.

With the market corrections in 2007, investors have shown strong interest in underlying assets not linked to the equity markets, such as structures linked to the credit market, private equity and hedge funds that have seen the light of day. Many spread-linked products have already been launched, and hidden assets (volatility, correlation, dispersion) still harbour significant potential.

**Recommended business model**

Within a context of growing success of structured products intended for ultra-high net worth clients, competition has intensified. In such a flourishing environment, what strategy sounds more appropriate?

Some giants in private banking concentrate most of their efforts on putting out ready-made solutions. They allocate considerable resources to marketing and large-scale distribution of so-called “campaign” products.

SG Private Banking believes commercializing standard solutions is not the best way to meet client needs. SG Private Banking has developed a unique global centre of expertise dedicated exclusively to offering structured products, with 35 dedicated staff, present around the world and driven by a single ambition: to serve the interests of each individual client.

Central experts and local structured products specialists based in Geneva, London, Paris, Hong Kong, Luxembourg, Monaco work together within the same global centre of expertise. Combining the view of the experts – in touch with the market – with those of the local specialists – client-centred – SG Private Banking provides relevant, top-notch solutions.

The centre of expertise, Structured Products Solutions develops solutions aimed at meeting objectives (expected return, cash-flow frequency, market vision etc) and constraints (risk level, investment horizon, special legal and financial aspects etc) that are specific to each client.

SG Private Banking has favoured an open architecture for its structured products offering. Private clients are guaranteed access to all products available on the market, while at the same time benefiting from a best price/best execution policy.

Investors can rely on the solid derivatives experience of Société Générale’s Investment Bank, as well as the best solutions developed by competitors. The structured products centre of expertise is in a position to design a tailor-made product and put it on the market within just a few hours. This degree of responsiveness, combined with total mastery of financial instruments as well as a constant drive for innovation, allows ultra wealthy clients to benefit from every market opportunity. By way of illustration, over 1,300 structured products are launched every year by SG Private Banking.

Ultra high net worth individuals require constant high-quality support throughout a product’s life. The SG Private Banking structured products centre of expertise has developed a specific secondary market department concentrating on just this. Whatever the issuer, for all products launched optimal liquidity and transparency are ensured. A number of tools have been developed together with SG Private Banking’s quantitative analysis department, to follow very closely the evolution of investments. Alerts, monitoring, dynamic management and arbitrage: very wealthy clients benefit from proactive advice proffered when needed.

**From a craft to sophistication**

The market is expecting sharp growth in demand for sophisticated financial investments, and structured products have a bright future ahead. Increasingly stringent regulations will also require increased professionalism. In such an environment, only the best players will stand out, and by their quality and seriousness convince the wealthiest clients.

To retain its global leadership in structured products and to grow its position in a highly competitive market, SG Private Banking will be pursuing a strategy built around a highly professional central team of market experts and an extensive geographic network which is the key to close relationships with clients.
Yapı Kredi Private Banking: taking excellence to a new level

Yapı Kredi Private Banking has reinforced its position in the market and continues to stand out from its competitors with the unique set of services it offers, which range from wealth management, strategic client management to Turkey’s first art advisory banking service.

A leading brand in the Turkish banking sector since its inception, Yapı Kredi is Turkey’s fourth-largest privately held bank with 638 branch offices, a 16,000-strong workforce and 13 million clients nationwide.

Already a force to be reckoned with, Yapı Kredi Private Banking received a significant boost from the Yapı Kredi–Koçbank merger in October 2006. The most momentous merger in Turkish banking history, this increased its affluent client base to 33,300 and the number of private clients to 10,200. Firmly established as the leader in terms of both the scope of its private and affluent clients' portfolio and the per capita asset volumes of these segments, Yapı Kredi Private Banking brings to the field 11 private banking centres, seven private banking branches, 126 corners and a highly qualified staff of 214 relationship managers at the service of its clients.

Keen to maintain its finely honed competitive edge, the department has been diversifying strategies and services to respond better to the demands of distinct client segments. A new service model has been implemented, bringing about the restructuring of Yapı Kredi Private Banking’s extensive network. A broader service range has characterized 2007, including investment products and advisory services addressing different client profiles. Yapı Kredi Private Banking manages clients’ accounts with the aim of maximizing returns. Its experienced relationship managers keep a close watch on domestic and global markets and offer clients alternative investment possibilities with expert guidance.

Central and Eastern Europe in 2006, Yapı Kredi Private Banking further refined its services in 2007 along the lines of a full-scale advisory model including non-financial services:

- Wealth management
- Tax advisory
- Financial advisory
- Strategic client management
- Insurance advisory
- Pension advisory
- Art advisory
- Health advisory

Offered through Yapı Kredi Portfolio Management, the wealth management service is exclusive to ultra high net worth (UHNW) clients. Wealth management focuses on creating individualized investment portfolios from the department’s wide product range to provide clients with tailor-made financial solutions. Private portfolio management carefully selects the investment tools most suitable to each client’s risk tolerance and investment preferences, and manages client funds to curtail risk and maximize returns. Clients also enjoy brokerage services under wealth management.

Intensive training keeps the staff on top of current developments, new products and global investment instruments, making them well equipped to respond to clients’ needs and demands.

One-stop service provider

Yapı Kredi Private Banking clients are assured of the privilege and comfort of a comprehensive set of services addressing all their financial needs. In close touch with market leading subsidiaries in insurance and pensions, Yapı Kredi staff are excellently positioned to respond to client queries and advise on planning for the future.

A tax advisory service is another integral element of the department’s commitment to full-scale assistance in all financial issues. Yapı Kredi works with Ernst & Young in the tax field, holding regular tax seminars in cities across Turkey every year, where clients can tap the expertise

Euromoney’s pick for best private banking service in Turkey as well as in Central and Eastern Europe in 2006, Yapı Kredi Private Banking further refined its services in 2007 along the lines of a full-scale advisory model including non-financial services:

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Just a small sample of the artwork in Yapı Kredi’s diverse collection, which ranges from classical to modern

Introducing art advisory

Always at the forefront of its field, in May 2007 Yapı Kredi Private Banking launched Turkey’s first ever art advisory banking service. Designed to offer full-scale guidance to culturally inclined clients who collect, or intend to begin collecting, artworks, the service enjoys the strong support of the bank’s subsidiary Yapı Kredi Culture, Art and Publishing.

Yapı Kredi Culture, Art and Publishing has been a mainstay of the cultural scene in Turkey with its private collections, publications, festivals, exhibitions and its sponsorship of stage and cinema productions since its founding in 1992.

The department draws up daily, weekly and monthly market reports featuring Yapı Kredi economists’ analyses to help clients stay informed and better equipped to assess their investments. Periodical fund reports are also available to clients as well as to branch offices. In addition, Yapı Kredi Private Banking holds economy watch seminars in various cities, covering a diverse range of subjects from developments in Turkish and global economy and the impact of political events, to recent trends in investment tools and new products in the market.

Taking full advantage of its close alignment with Yapı Kredi subsidiaries in insurance, pensions, investment, portfolio management, leasing, factoring, real estate investment trusts and art and culture, as well as the know-how of its co-owner UniCredit, a leading European finance group, Yapı Kredi Private Banking offers clients an integrated range of services.

A select client profile and acute competition drives private banking to put an ever-growing emphasis on high levels of customer satisfaction and loyalty. Client expectations go beyond efficiency and expertise in investment procedures and financial markets as clients increasingly look to their bankers to provide assistance with a variety of non-banking related issues.

Dedicated to enhancing culture and the arts at both national and global levels, offering art lovers contemporary, distinct and distinguished artistic events, promoting appreciation of art, and transmitting a cultural legacy to future generations, Yapı Kredi Culture, Art and Publishing has its own cultural centres, conference halls and a printing house.

Yapı Kredi Private Banking’s art advisory service is not limited to Turkey. Backed by the vast expertise of its shareholder UniCredit, the department extends its services globally in cooperation with the world-renowned Christie’s auction house.

As part of the art advisory service, Yapı Kredi Private Banking has pioneered Turkey’s first artwork loan to help finance clients’ purchases.

Experts from Yapı Kredi Culture, Art and Publishing take the lead in assessing clients’ existing art collections, and offer advice on which pieces should be kept and which need to go. Basic information on the maintenance of artworks is an essential part of the advisory, including technical guidance on preservation, lighting, cleaning or transportation of the pieces.
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The Bank supports the European Jumping Championship for Children Riders

Exhibitions, galleries and other venues are monitored to help clients track down art works of interest. Experts follow auctions on behalf of clients, and represent or escort the client in auctions when desired.

The service is also strongly involved in guiding clients who are newcomers to the collectors’ world towards putting together sophisticated collections, and helping them assemble a collection that will gain in value over time.

Yapı Kredi Private Banking periodically issues a special e-bulletin for collectors as well as for non-collecting clients who are interested in artistic events and learning about art.

For further information, please contact

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Banco Urquijo, Spain’s oldest new bank

With 150 years of heritage, Banco Urquijo’s reputation as a benchmark of banking excellence and security is undisputed. Now, in its new incarnation as a dedicated private banking operation, Banco Urquijo looks set to consolidate innovation and high-quality service in the wealth management industry.

Banco Urquijo’s new focus on private banking is a result of its acquisition by Group Banco Sabadell, the fourth-largest bank in Spain, which was completed in 2006. While Banco Urquijo’s commercial and retail banking operations have been absorbed into Banco Sabadell’s much larger business, Banco Urquijo has been given a mandate to grow, with the goal of becoming the leading private bank in Spain.

“Inevitably, new players such as the Swiss and US banks are trying to enter the market but Spain is unique,” comments San Salvador. In addition to the premium placed on loyalty, most prospective private bank customers require a service that integrates mortgage and other lending, something overseas banks find hard to understand and provide. “We have the 360 degrees vision that Spanish clients need,” adds San Salvador.

Strong tradition, clever innovation

Perhaps the most crucial element of Banco Urquijo’s aim to provide its clients with a full product offering is its open architecture, which focuses on the role of managers as specialist advisers, an extensive team specializing in a range of disciplines – financial planning, fiscal advice, wealth management, asset management, investment communication, alternative investments, research, third-party mutual funds, or lending. “It is critical that we find solutions to our clients’ needs regardless of where they come from,” points out San Salvador. This pragmatic approach to products not only makes Banco Urquijo extremely efficient, but also affords its clients opportunities that would otherwise be impossible to access.

For example, Banco Urquijo was a co-manager for the $500 million listing of Lehman Brothers Private Equity Partners on Euronext Amsterdam in mid-July, giving its clients the opportunity to gain exposure to a diversified portfolio of private equity fund investments and direct investments. Similarly, Banco Urquijo’s clients have enjoyed opportunities to gain exposure to the German real estate market.

Banco Urquijo leverages on the Group’s teams to complete its product and service offerings: such as private equity, counting on the support of BS Capital in third-party funds research; structured finance, through Banco Sabadell’s structured finance team; or equity trading through the Group’s leading Spanish broker-dealer, Ibersecurities.

However sophisticated Banco Urquijo’s product offering becomes, its clients can be assured of its long-term dedication to relationships and a strong commitment to tradition. “We have a special way of understanding private banking – an attention to detail and an eagerness to understand our clients – that is valued,” says San Salvador. “Combined with a dedication to innovation, we will become the leading private bank in Spain.”

Impressive loyalty

The decision to grow Banco Urquijo’s private banking business has come at an opportune time: after years of rapid GDP growth and a real estate boom there are over 165,000 individuals with liquid assets of more than €500,000 in Spain – a total market of €267 billion.

Despite this huge potential market, Banco Urquijo’s aim is not to expand its 9,000 strong client base but to grow its share of their business. “Urquijo’s new focus on private banking and financial backing is a unique opportunity to rebuild its traditional prowess and justify the loyalty of its customers, 90% of whom have stayed with the bank throughout the years,” points out San Salvador.

Urquijo’s decision to focus on its existing clients is not surprising. “The bank has an unrivalled client list and that is why it is such a valuable brand,” San Salvador explains. Given the importance placed on relationships in Spanish culture, such a bond is invaluable and makes it hard for international banks to penetrate the market.

“Because we have a powerful association with many of Spain’s family-owned flagship companies,” says Manuel San Salvador, CEO of Banco Urquijo.

Banco Urquijo’s high-end private banking network of 17 offices, independent product offerings and 290 professionals – 120 private bankers and 70 specialists – will remain separate from Banco Sabadell’s existing 1,200 office wealth management network, which targets the broader affluent market.

Its pioneering approach has been evident throughout its long history. In the 60’s, Banco Urquijo’s private bank acquired a reputation for financial innovation – it set up Spain’s first mutual fund – and was astute at adapting its model to suit the financial climate.

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Creating value by tailoring investment advisory to investor behaviour

“Investing is not a game where the guy with the 160 IQ beats the guy with the 130 IQ... Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing” – Warren Buffet

Investors are looking back on a sustained period of solid portfolio returns based on the strong growth that stock markets around the world have shown over the past few years. Yet it is perceived that the underlying risks and volatility of the markets is increasing, in spite of ongoing economic strength. This prompts the questions: to what extent are investor portfolios optimally balanced in terms of risk and return, and are they aligned with the latest market views on asset allocation?

Professional wealth managers provide their clients with tools to benefit from these insights. ABN AMRO Private Banking offers a team of 40 research analysts in eight locations around the world, who are dedicated to providing research to clients. Our investment experts regularly determine what they believe to be the optimal asset allocation, which is aligned with the most-recent market insights. This is reflected in model portfolios that are aimed to outperform market benchmarks.

However, despite these sophisticated means, we see that some of our clients do not fully benefit from the investment services available to them. One important reason for this is the influence of clients’ own behaviour and psychology, which can affect their investment decisions and ultimately, their wealth. This is referred to as behavioural finance.

Investor behaviour is not always rational

The theory of behavioural finance attempts to explain how and why investors’ social cognitive and emotional biases – often called non-rational factors – are involved in investing. There are many psychological factors that affect behaviour. An example is the familiarity bias that reflects the influence of situations and things familiar to people. People prefer things they know and to which they are emotionally attached, which become references for them. This non-rational behaviour is part of human nature. It also applies to investments. A look at any random investment portfolio shows that it will often include securities the investor is familiar with. Many investors prefer the securities of the country they live in or of the company they work for. As a result and what investors do not always realise is that investment portfolios are often not properly diversified, which can lead to disproportionately high risk relative to the performance generated. Another example of a psychological factor that has an impact on investment attitudes is the disposition effect, which demonstrates that investors do not react the same way to the same level of absolute gain or loss. The acknowledgement that non-rational factors influence investment decisions – and therefore wealth – raises the question of how banks can best manage and support clients’ investment behaviours.

Figure 1: Investment advisory models

<table>
<thead>
<tr>
<th>Investment approach</th>
<th>Portfolio Advisory</th>
<th>Dynamic Advisory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structured</td>
<td>A structured portfolio approach, to ensure ongoing, optimal asset allocation and diversification in alignment with our fundamental research</td>
<td>An advisory service that combines a structured portfolio model with an active, momentum-driven investment approach and research support</td>
</tr>
<tr>
<td>Trend Advisory</td>
<td>Serves clients who wish to primarily follow trends and innovative product opportunities in the market</td>
<td>An advisory service offering for very active and knowledgeable investment clients, actively supported by both fundamental research and technical analysis</td>
</tr>
<tr>
<td>Opportunity driven</td>
<td>Medium</td>
<td>High</td>
</tr>
</tbody>
</table>

Client activity level
Taking investment psychology into consideration

Wealth managers who understand investment psychology can make a critical difference by helping investors make better-informed decisions. Interaction can minimise the pitfalls revealed by behavioural finance by avoiding the biases that can lead to sub-optimal decisions. Listening to our clients has always been the cornerstone of ABN AMRO’s services, matching client needs and aspirations with the latest research views on asset allocation and stock selection. In response to the new European MiFID (Markets in Financial Instruments Directive) legislation that comes into effect later this year, ABN AMRO Private Banking is in the process of taking its investment advisory service to the next level. Investor protection and the impact of investor psychology will specifically be taken into account by:

1. Positioning four separate investment advisory models in acknowledgement of the fact that clients’ investment advisory needs differ. Two key criteria are the relative frequency of investment activities and the extent to which a client wishes to follow a structured, diversified portfolio approach, as opposed to a predominantly product-, opportunity- and momentum-driven approach. Each of the four investment advisory models, as described in Figure 1, is supported by:
   - our dedicated fundamental research, asset allocation, and research recommendations; and,
2. Implementing sophisticated risk measurement and monitoring to keep a close eye on investment portfolio performance. If a measure falls outside a certain threshold, triggers will be set off and will result in discussions with the client.

Risk and return dialogue optimises portfolio performance

Sophisticated risk measurement and monitoring ensure that both the bank and the client can engage in a truly informative dialogue about risk and return within a client’s given portfolio. Our four distinct investment advisory models will be supported by different risk measures. We distinguish between absolute risk measures, such as shortfall, volatility and value-at-risk, that calculate the total risk on an instrument and portfolio basis, and relative risk measures that compare the tracking error of a client’s investment portfolio against a model portfolio.

We will apply both relative and absolute risk measures in the two ‘structured’ advisory models of Portfolio Advisory and Dynamic Advisory investment. In the opportunity-driven Trend Advisory and Active Trading models, only absolute risk measures will apply.

These risk measures will lead to insight into a client’s investment portfolio, which will form the basis of the risk and return dialogue. This dialogue has the goal of minimising the pitfalls revealed by behavioural finance and should lead to optimised performance of a clients’ portfolio. If a client’s current portfolio shows sub-optimal performance, the client will be advised to take certain actions to reduce risk or increase return in a portfolio as shown in Figure 2.

A trusted advisor

In Investment Advisory, as opposed to Discretionary Portfolio Management, the client is the ultimate decision-maker on his own portfolio. However, the fact that non-rational factors, among others, can materially influence investment portfolio performance places responsibility on the wealth manager to support the client in a well-informed decision-making process. ABN AMRO’s upcoming investment advisory service will provide the basis for a structured and intelligence-based advisory process that is tailored to investor behaviour. The focus on optimising the relative risk and return balance, supported by ongoing risk monitoring, should provide clients with confidence when investing their wealth.

Client segmentation

From a product-oriented to a solutions-oriented business model: The Eurobank EFG case

Private banks are competing worldwide across offshore and onshore centres to gain market share against their competitors by differentiating themselves via a sustainable comparative advantage. The environment is prosperous and most CEOs predict exceptional growth in assets under management (AUM) in most geographical locations, as new wealth is created in many new regions and across different client segments. Wealth concentration is higher in some regions (Eastern Europe, Middle East), while more widespread in other developed regions such as the US and Europe, where the demand for wealth management services is spread from the UHNW to mass affluent segments.

Major critical success factors within this landscape have evolved and are much more sophisticated than in the past as client needs have been evolving and are much more demanding and complex. Thus, a successful brand development, efficient talent management and the choice of the appropriate business model are of paramount importance in order to differentiate from competition and to create a valuable and long-term comparative advantage in the fierce competition for new clients and assets. These critical success factors are valid for local, regional or global banks operating either onshore or offshore, as client needs are equally demanding and have to be met by any private bank attempting to cater to the needs of UHNW and HNW segments.

Most private banks in developing their brand, managing human resources and re-engineering their business model are attempting to, or at least claim to be trying to, develop the trusted adviser concept. The true development of this concept is expected to contribute significantly to the effort of increasing the share of wallet of current clients, which is the prime driver of AUM growth. Increasing the share of wallet is less expensive both in terms of acquisition costs and of reduced CRO hiring needs, while at the same time enhancing client loyalty, thus boosting profitability. Share of wallet is also critical in having a clear picture and understanding of client needs in order to deliver tailor-made value-added services, such as integrated wealth management. Finally, high share of wallet clients are more inclined to introduce new clients, referrals being the most efficient and low-cost acquisition strategy.

Client segmentation

In order to successfully implement the new model, private banks are switching from a product-based model to a client-centric model in order to meet client needs and offer solutions which often are extremely sophisticated. This may seem a simple switch but it is not, as it requires the re-engineering of the business model and of its components in that direction. What is the single most important factor in succeeding to re-engineer the business model with all the above-mentioned benefits on AUM growth and long-term profitability? Sophisticated client segmentation!

Client segmentation is a core feature of the business model because if successfully designed and implemented it contributes in understanding client needs and adapting the whole organization to them and not vice versa. The organizational structure, as well as the business model, in all its aspects and components, have to be designed in accordance with client segmentation. Furthermore, annual budgets and performance targets, as well as expected ROA and profitability, have to be segment-based, thus respecting client needs and respective risk or behavioural profiles.

Client segmentation is a major challenge and may constitute a major comparative advantage for any private bank that will really focus on the issue and develop a smart client segmentation model which will constitute the cornerstone of its strategy and business model (from the organizational structure to the value proposition). It seems that while client segmentation analysis increases, its sophistication is still too low to be considered a major strategy component. This is corroborated by the fact that most private banks use wealth brackets as the sole segmentation criterion, something that is neither sufficient enough to enable the re-engineering of the business model, nor a reflection of real client needs. Other criteria used are geography and client profitability, which are neither the appropriate ones on which to base a business model overhaul nor to derive the necessary gap analysis for the implementation to take place. Finally, investment-risk profiling is used, which is of course of prime importance and anyhow imposed by regulators.

Thus, current practices in segmentation policy are traditional and old fashioned and are the minimum a private bank has to implement to prove the suitability of its offering. They are more or less superficially implemented in the sense that they affect and even partially so the offering of products and services without affecting the structure of the business model and the relationship-building practices and thus the customer experience. Some institutions have gone into more depth, employing secondary segmentation strategies, by putting a special focus on “professionals” and “business owners” but this is still limiting the segmentation to the marketing mix and even more so as it applies mainly to the non-investment products such as banking products for professionals (credit cards, leasing) and wealth services for business owners (succession planning).

These are not integrated wealth management services segments which may be applied across total assets and cover fully client needs. This is because they do not necessarily differentiate themselves in investment services, which by definition are the core services offered, meaning the approach is rather a retail one than an integrated wealth management one. This segmentation is inadequate in creating a real differentiation among wealth managers and does not help institutions in designing their strategy, targeting specific segments and positioning themselves vis-à-vis their peers.
Client segmentation should be strategic in the sense of differentiating not only the offering but also the business model and indeed the value chain. This is critical to create sustainable comparative advantage and successful differentiation. Apart from the brand and the human resources factor, which are essential, the value chain has to be able to create and constantly renew the unique value proposition per segment. What is the adequate business model, what is the appropriate client servicing model per segment, which are the most efficient delivery channels, what are the necessary IT platforms and the related processes supporting the value chain? What are the competences needed both in terms of client-facing personnel and expert personnel (MIS-budgeting, marketing, investment specialists, wealth specialists)? These are the main strategic issues to deal with and are related to client segmentation. Private Banks that take these issues into consideration in their strategic planning, independently of which geographies they decide to cover and of the targeting and positioning they choose, will succeed in taking advantage of the growth opportunities.

The Eurobank EFG case

Eurobank EFG Private Banking has followed these lines: switching from a product-based to a solutions-oriented model re-engineering the whole business model.

The organizational structure has been changed. Firstly two new departments have been created, an Investment Services Department (Advisory Desk) and a Wealth Management Services Department (Wealth Desk) in charge of building the value propositions, in cooperation with specialists (in-house and external) and of communicating them to the network. Secondly, a new layer of Area Managers has been introduced in order to run more efficiently the network, to spread best practices and to introduce the “four eyes” principle on key accounts guaranteeing the appropriateness of the service quality, thus acting as partners of a private bank. Consequently, clients are institutionalized with expected beneficial effects on share of wallet and loyalty. Along with the new desks, all processes covering the development and the delivery of services and product ideas have been modified accordingly to enhance promptness and communication efficiency.

Client segmentation has been implemented at two levels, a primary (wealth brackets and sophistication) and a secondary one (investment behaviour) forming a two-dimensional segmentation matrix, a cornerstone to the whole business re-engineering. Value propositions have been built tailored to each segment, while its extension to banking, credit products as well as wealth services will complement the design of the segmentation cluster. MIS tools as well as the budgeting process have been aligned to the designed client segmentation to make sure client needs are met. Profitability per segment is taken under consideration in determining financial targets and CROs have been provided with the necessary tools and training to implement the new approach. Furthermore, a new reward-to-performance scheme is to be implemented in accordance with the new model.

Following these quick wins towards the appropriate direction, current considerations and next steps are aiming at turning the identified segments into strategic ones, as defined previously, by implementing in-depth value chain re-engineering. Thus, the client base will be further rationalized to run a more focused client segment targeting, and emphasis will be put on re-engineering the client-servicing model (client access to CROs, support officers, Advisory and Wealth Desks, product and asset class specialists), on streamlining processes and on upgrading the technological platform integrating all necessary information and tools into one system thus enhancing efficiency.

Managing the repositioning of the entire business strategy and overhauling the business model, as analyzed above, needs effective communication, the continuous management of expectations and sufficient time to be implemented successfully and is therefore a challenging experience.

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Wealth management with an investment banking touch

Individuals who have built fortunes through their own efforts need private bankers who share their entrepreneurial flair. By Deepak Sharma, CEO, Citi Global Wealth Management International

Holistic wealth management with an investment banking touch – that’s what today’s high net worth clients expect from their private bankers. Rightly so.

High net worth clients, especially those classified as mega-wealthy, with $100 million in assets or more, are usually entrepreneurs who have built successful, multi-million-dollar businesses, yet are seeking more opportunities to grow their business as well as their personal wealth.

Their assets are in the form of equity in their own companies, commercial and residential real estate, and in various forms of investments ranging from equities and bonds to hedge funds and private equity. Many of these assets are globally diversified, which has ramifications in terms of tax and wealth transfer.

At the same time, such clients may have trusts and private investment companies established to preserve their wealth and distribute it to future generations of their families.

Such is the tapestry of wealth among today’s ultra high net worth, demanding a whole new approach in how private banks deal with them.

As clients seek advice on investment opportunities in asset classes ranging through equities, fixed-income, foreign exchange, real estate and hedge funds, they also seek ideas on how to enhance capital and mitigate risks in their own companies, whether publicly traded or private held.

Creative solutions

In great demand among clients are creative solutions and professional advice to grow and manage their companies better, especially against the backdrop of rosy economic prospects in the emerging markets thanks to the rise of the so-called BRIC economies of Brazil, Russia, India and China, among other global economies.

3-D engagement

These clients wish to be engaged in three dimensions – help in managing their business wealth, help in managing their personal investments and help in managing their family’s wealth for present and future generations.

Holistic, or 3-D, private banking requires a multi-disciplinary approach often involving various elements of investment banking expertise alongside private banking disciplines, chiefly portfolio and investment management, trust and estate planning, family and philanthropy advisory.

For Citi Private Bank, a 3-D approach is more easily achieved because such capabilities are institutionally available through Citi’s corporate and investment banking teams, and with supplementary capabilities from Citi Investment Research and Citi Alternative Investments.

Mergers and acquisitions advisory, fund-raising in the capital markets and various forms of specialized corporate financing are increasingly the stuff of private bankers, as they are with their investment banking brethren.

Given the context and complexity of clients’ wealth, discussions with them not only feature a private banker and the various wealth specialists in trust and estate planning, investments, portfolio management, research and real estate, but also an investment banker.

As a result, the conversations are richer, in terms of the coverage of wealth issues and opportunities and in the generation of ideas and solutions.

Meeting the needs of the entrepreneurial client

Co-investment with one’s private bank is another area in great demand among high net worth clientele, especially the more entrepreneurial.
From our experience with 26,000 private clients, including a quarter of the Forbes list of billionaires, we have seen that high net worth individuals and families have become more entrepreneurial with their wealth.

After all, it was their entrepreneurial qualities that led them to earn and accumulate substantial wealth in the first place.

Clients with such entrepreneurial flair, satisfied with wealth preservation strategies from their private banks, also seek some sidebar excitement in the form of investment opportunities with entrepreneurial daring in them. As a result, some private banks, including the institution I belong to, provide co-investment opportunities to their ultra high net worth clients.

So how does co-investment work? Co-investment is when a financial institution invests its own capital in an investment alongside its client. Such investment opportunities could be in the form of a private equity deal or a structured investment opportunity in sectors such as real estate. For the bank, it is like betting on your own advice or, metaphorically, “putting our money where our mouth is.”

**Due diligence**

Clients like it because the bank does the necessary due diligence, thoroughly profiling the opportunity in terms of risk, potential returns and other legal and regulatory issues. Furthermore, the hurdles are high for a co-investment opportunity to pass muster with the bank. As a client is involved, the bank would be additionally cautious when extending such opportunities as it risks not only the invested amounts, but also potentially the entire client relationship.

At Citi, we have specialists in various asset classes to identify and develop co-investment opportunities around the globe and offer them to appropriate private bank clients. These investments are given an additional level of scrutiny, and those selected offer clients the attributes they seek in terms of risk, potential return and investment horizon, and which can be structured to meet local legal and regulatory requirements.

Usually in co-investment opportunities, the minimum investment required from the client is in tranches of around $2.5 million, sometimes more, so it appeals only to the ultra high net worth. The bank, of course, co-invests significantly more.

A few co-investment opportunities from our bank in recent times have included:

- A fund focused on investments in real estate in China. The $400 million fund was in the form of an exclusive partnership between Citi Private Bank and CapitaLand, a leading real estate developer in Asia. CapitaLand held 37.5% of the fund, Citi held 5% and the rest was exclusively offered to Citi’s private banking clients. This was fully taken up within a week.

- A $1.6 billion venture capital fund focused on private equity opportunities in the emerging markets of India, China, and Eastern and Central Europe. Citi’s investment was about 30%.

- A $400 million fund focused on integrated residential, serviced residence & retail developments in the new Bahrain Bay waterside financial district in Bahrain.

Building a strong co-investment proposition is more probable in institutions that are global, and that have a strong balance sheet and deal-sourcing capabilities.

Co-investment opportunities are certainly not “off-the-shelf” products, which is why they belong in the domain of private banking. These are unique investment opportunities, where the risks are equally borne by the bank and the client, and so are the returns, which, though not guaranteed, have the potential to be attractive.

They appeal not only to high net worth clients with an insatiable appetite for entrepreneurial investments, but can also be suitable for those who are seeking wealth preservation strategies and wish a complement of entrepreneurial flair to enhance returns.
Marfin Popular Bank: new inroads in wealth management

Nicholas Hadjiyiannis, Manager Family Office, Wealth Management, Marfin Popular Bank, explains how the new banking entity, born of a three-way merger, is focusing on this dynamic area to offer private clients a premium service

The new regional South Eastern European banking entity of Marfin Popular Bank (MPB) – a successful three-way banking merger between Laiki of Cyprus, Marfin and Egnatia of Greece MPB completed in July 2007 – has begun to focus intently in the area of wealth management. Recognizing the new dynamics of this sector and its importance for a regional financial group, it has formulated a new flexible business development strategy, aiming to expand its private wealth management client reach and the traditional range and sophistication of products and services offered.

The success of its merger has further prompted MPB’s natural desire to become a strong player in the private wealth management sector. As a result, emphasis was put on building this effort on three pillars – human capital, product range and technological innovation. In this context, MPB has upgraded and strengthened the human resources aspect both internally and externally, through vigorous training and international recruitment of high-calibre private bankers across the industry. It constantly ensures that all people involved in wealth management services possess the right interpersonal and professional skills needed for these activities.

Furthermore, it initiated the drive of tapping into and putting in place, for its private banking clients, a wider range of investment opportunities. These are normally difficult, complicated and time-consuming tasks but MPB has been enjoying a strong comparative advantage – the existing investment expertise, structure and institutional resources of the MPB Group. The Group has mainstream Greek, top-tier research and securities operations, significant investment banking activity and also incorporates the Investment Bank of Greece (IBG), which further enhances its resources and investment know-how.

Through its wealth management services, MPB now offers all traditional asset class listed or structured instruments, such as: stocks, bonds, derivatives, mutual funds, alternative investments and structured products. The differentiation from competitors stems from the following strengths:

• The structured services process
• The human relationship service
• The quantitative range of offered products
• The qualitative range of offered products
• The depth of the product range
• The individual structuring/tailoring of products and services
• Servicing clients’ general banking needs over a wide geographic area
• Servicing clients’ investment banking needs

MPB has installed a well-planned process for offering its wealth management services, through which the private banking clients obtain proper portfolio structuring, investment advice, monitoring and reporting. Technology and professional standards adoption and constant reviews and monitoring ensure no slippage in this top-priority issue. The same principles have been applied in the human relationship aspect that is the cornerstone of every successful business relationship. The private bankers ensure that the private banking clients needs are met with a top-quality integral service. The ability to streamline and enhance group cross-selling has created distribution and sales efficiencies, benefiting the private client through better pricing and a stronger relationship.

MPB wealth management has expanded its product range, quantitatively and qualitatively by tapping into its in-house product creation expertise and its extensive network of international associates or related companies in the major financial centres. It offers own or third-party products, employing an open architecture policy, which places client needs at the centre of the product search and distribution effort. This open architecture policy is designed to identify and offer to clients the best product solutions available in the market, matching precisely their investment needs. MPB has the in-house expertise to create tailor-made solutions to individual investment needs, through strategic analysis, macro and micro research, sectoral and thematic analysis, back-testing and hedging (physical and nominal underlying positions and exposures). This process creates a pre-sales service, which systematizes and standardizes the early identification and analysis of client investment needs. This crucial pre-sales service precedes and guides the product offering, placing the client needs at the centre of the product offering formation.

“The ability to streamline and enhance group cross-selling has created distribution and sales efficiencies, benefiting the private client through better pricing and a stronger relationship”
Overall, the product range includes a vast array of mutual funds, structured products, brokerage services that cover major stock markets, indices, currencies, commodities, fixed income, derivatives etc. Alternative investment products are also offered in the form of single-manager hedge funds and internally or externally managed fund of hedge funds (FoFs), covering a wide range of strategies and geographical focus. The internally managed FoFs have been developed as part of the increased focus that MPB places on further developing its asset management expertise and capabilities, in general, and in this field in particular.

Within this context, it has set up a subsidiary in London – MFG Capital Partners and a strategic partnership in New York – ARIS Capital Management, which specialize in managing multi-strategy and multi-manager portfolios of hedge funds. Through this group's hedge funds investment platform, the qualified private clients obtain access to a new sophisticated investment tool. This is achieved by direct investments in the MFG Diversified Strategy Fund and ARIS Multi-Strategy Fund.

Furthermore, MPB now caters for the niche needs of its ultra high net worth individuals (UHNWI) clients, such as private entrepreneurs, family owned business, financial families, through the creation of a multi-disciplinary task-force, serving as a comprehensive advisory, products and services engineering centre for them. This task-force operates under the newly created structure of the family office and offers integrated solutions to the UHNWI through the coordination of various internal and external specialists. It deals in matters relating to estate planning, tax efficiency, corporate vehicle structures, trust and foundations, private charitable and benevolent institutions structuring and investment management, real estate investments, yacht financing and other exotic investments. It also offers global advisory services leveraging on the Group's various competencies (institutional asset management, corporate finance, equity derivatives, equity trading, FX trading, derivatives, fixed income, private equity, real estate financing, etc), as well as establishing external partnerships.

MPB has further revolutionized its wealth management by providing the private wealth management clients with the opportunity to subscribe directly into private equity funds. The differentiation came from providing access in such products through an own investment platform for co-investment with strategic partners and its private clients. This concept materialized through the new specialized private equity fund launched in July 2007, under a related company – Marfin Investment Group (MIG), an Athens stock exchange-listed company. That investment opportunity allowed private wealth management clients to tap into the resources and expertise of a specialized private equity fund, focusing on the high-growth South East Europe region. The success and enthusiasm with which the investment community received this launch was shown by the fact that this transaction was the biggest year-to-date share capital increase by any listed company in Europe, at €5.19 billion.

Wealth management focuses on the high-growth South East Europe region. The success and enthusiasm with which the investment community received this launch was shown by the fact that this transaction was the biggest year-to-date share capital increase by any listed company in Europe, at €5.19 billion. Wealth management focuses on this type of investment because they can be very attractive and useful for its private clients due to the special investment characteristics of the underlying assets. It can form a powerful client portfolio holding, in the form of a single holding special asset class, that offers diversification, stability and low beta returns.

MPB will be using its strong position in International Business Banking (IBB), established through its Cyprus operations, to create a one-stop shop structure for its international clients, by pooling together IBB services with wealth management services for this clientele. An important client base has been built up as large, international commercial and corporate investment activity is carried out through Cyprus, especially with the Central and Eastern European (CEE) region, taking advantage of the country's efficient tax structures/system and the associated international, British standards, professional services (lawyers, accountants etc). Valuable banking experience, expertise, business and human relationships have been developed over the years through dealing with companies and individuals from the CEE region. It was therefore quite natural for MPB to move closer to its international clients (a high-growth area) and currently has banking operations in Ukraine, Serbia, Romania and representative offices in Russia.

MPB is revolutionizing its wealth management services in all aspects, placing the needs of the private clients at the centre of the product range through a structured and human business relationship. It has even moved a step ahead and where feasible it offers the opportunity to its clients to become co-investors and partners in the investment process, participating in exciting investments. MPB believes that this strategy and anthropocentric approach will create long-term private client relationships, which coupled with the constant stream of new investment ideas and a wide range of products will give its private wealth management a cutting edge.

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