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EFG International
Interim Management Report 2017

DESCRIPTION OF BUSINESS

EFG International is a global private banking group offering private banking and asset management services and is headquartered in Zurich. Its registered shares (EFGN) are listed on the SIX Swiss Exchange. In 2016, EFG International completed the acquisition of BSI, a Lugano-based bank with a long-standing tradition of Swiss private banking and a broad international network. EFG International's largest shareholders are EFG Bank European Financial Group (44.2% stake) and BTG Pactual (30.0% stake).

As a leading Swiss private banking Group, EFG International has a presence in major financial centres and growth markets. It has strong roots in Switzerland, with Zurich, Geneva and Lugano serving as key hubs for the governance and operation of the bank. EFG International operates in around 40 locations worldwide, with a network spanning Europe, Asia Pacific, the Americas and the Middle East.

EFG International is a financial partner that offers security and solidity. An entrepreneurial spirit has shaped the bank since it was established in 1995, enabling it to develop hands-on solutions and to build long-lasting client relationships.

FINANCIAL SUMMARY

First-half 2017 results reflect strong progress in BSI integration process; solid underlying profitability and revenue-generating AuM of CHF 138.4 billion at the end of the first half 2017.

Legal integration of all BSI entities worldwide completed as planned; on track to achieve the pre-tax cost synergies of CHF 50 million targeted for 2017, and good visibility to achieve approximately three quarters of the additional CHF 130 million pre-tax cost synergies targeted for 2018 already in Q1; Swiss IT migration expected for completion by end-2017 as the last step in the integration process.

Underlying net profit[1] of CHF 74.5 million versus CHF 38.1 million in the first half 2016; IFRS net profit of CHF 19.2 million versus CHF 22.3 million a year earlier.

Overall net asset outflows of CHF (5.5) billion in the first half 2017; AuM attrition[2] of CHF (6.0) billion, due to de-risking of the business in line with accelerated pace of BSI integration; in the second quarter, AuM attrition was approx. 30% lower than in the first quarter; excluding AuM attrition, underlying net new assets turned positive to CHF 1.8 billion in the second quarter, after CHF (1.3) billion in the first quarter.

Continued strong capital and liquidity position, with a Swiss GAAP Common Equity Ratio (CET1) of 17.7%, Total Capital Ratio of 22.8% and Liquidity Coverage Ratio of 211%.

Further strengthening of EFG's corporate governance in view of the enlarged business: Vittorio Ferrario, in his current role as Group Chief Compliance Officer, appointed member of the Executive Committee effective 1 August 2017; Thomas A. Mueller appointed member of the Executive Committee and Chief Risk Officer effective 1 January 2018; current Chief Risk Officer Reto Kunz to take over a new position focusing on the development of EFG International's credit capabilities and supporting the CEO in strategic projects.

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[1] Excluding non-recurring items, integration costs, BSI related intangible amortisation and life insurance.
[2] Defined as exit of non-target market clients and structures (decision of EFG), AuM of departing CROs, voluntary disclosure programmes and related to Milan and Como branch.

Solid underlying profitability in the first half of 2017

The Group posted underlying operating income of CHF 621.5 million for the first half of 2017, compared to CHF 626.6 million for the second half of 2016 on a combined basis (EFG including six months of BSI), and CHF 684.0 million (combined) for the first half of 2016. Underlying net commissions and net interest income amounted to CHF 314.4 million and CHF 161.7 million, respectively, reflecting the lower average Assets under Management base compared to the second half of 2016 (combined). Underlying net other income increased to CHF 145.4 million, primarily due to a derivatives valuation gain of CHF 20.3 million. EFG's underlying revenue margin was 88 basis points (85 basis points excluding the valuation gain, in line with EFG's target), compared to 85 basis points in the second half and 84 basis points in the first half of 2016.

Underlying operating expenses amounted to CHF 522.7 million in the first half of 2017, down 2% from CHF 530.7 million (combined) in the second half and down 7% from CHF 564.2 million (combined) in the first half of 2016. This improvement reflects the advanced BSI integration process, the decrease in FTEs and the continued cost reduction efforts. Underlying personnel expenses were CHF 350.2 million in the first half of 2017, almost flat compared to the second half and down 8% compared to the first half of 2016, on a combined basis. Underlying other operating expenses were CHF 172.5 million in the first half of 2017, a reduction of 5% (combined) versus the second half and of 7% (combined) versus the first half of 2016. EFG's underlying cost/income ratio decreased to 84.0% from 84.2% (combined) in the second half of 2016.

Underlying recurring net profit was CHF 74.5 million for the first half of 2017, versus CHF 38.1 million for EFG standalone in the first half and CHF 44.2 million for EFG including two months of BSI in the second half of 2016. This excludes the following non-recurring items in the first half of 2017:

- CHF (32.7) million of costs relating to the integration of BSI
- CHF (14.3) million negative contribution from life insurance
- CHF (3.9) million BSI intangible amortisation charge[3]
- CHF (4.8) million of exceptional legal costs
- CHF 0.4 million other positive contributions

As a result, EFG reported IFRS net profit of CHF 19.2 million in the first half of 2017, versus CHF 22.3 million a year earlier and CHF 203.0 million in the second half of 2016.

Deceleration of AuM attrition; positive trend in underlying net new assets

Overall, EFG recorded net asset outflows of CHF (5.5) billion for the first half of 2017.

This included slightly higher than expected AuM attrition of CHF (6.0) billion, which was mainly attributable to the de-risking of the business in line with the accelerated pace of the integration process, as well as outflows related to the BSI offices in Milan and Como after the notification by Banca d'Italia announced on 5 May 2017. However, during the second quarter of 2017, AuM attrition slowed down by approximately 30% to CHF (2.5) billion, compared to CHF (3.5) billion in the first quarter, reflecting the gradual completion of the legal integration of BSI by mid-2017. For the remainder of 2017, additional AuM attrition is estimated to

[3] CHF 3.9 million amortisation of CHF 110.0 million BSI acquisition-related intangible assets.

amount to approximately CHF (2-3) billion, which is expected to be compensated by organic growth and the announced acquisition of UBI Banca International (Luxembourg) S.A. due to close before year-end. No further AuM attrition is expected from 2018 onwards.

Excluding AuM attrition, EFG saw marginally positive underlying net new assets of CHF 0.5 billion for the first half of 2017, with an improvement to CHF 1.8 billion in underlying net asset inflows in the second quarter (representing 5% annualised growth), after underlying net outflows of CHF (1.3) billion in the first quarter.

Revenue-generating Assets under Management were CHF 138.4 billion at the end of the first half of 2017, versus CHF 144.5 billion at end-2016. This decrease reflects negative currency effects of CHF (3.1) billion, positive market effects of CHF 4.0 billion, a negative effect from acquisitions and disposals of CHF (1.5) billion, AuM attrition of CHF (6.0) billion, and slightly positive underlying net new assets of CHF 0.5 billion in the first half of 2017.

Legal integration of all BSI entities completed

EFG has completed the legal integration of all BSI entities worldwide by mid-2017 as planned and at an accelerated pace. The integration took place on a market-by-market basis and was carried out within eight months. The process started with the integration in Singapore in November 2016, after the BSI acquisition had been closed, and was completed with the integration in Monaco on 30 June 2017.

The combined business is now operating solely under the EFG name. The renewed EFG brand was launched in April 2017, following the legal integration of BSI's Swiss business, and has since been rolled out in all markets.

The IT migration of all international booking centres has also been completed. The last step in the integration process will be the Swiss IT migration, for which preparations are well on track, and the migration to EFG's in-house platform is expected to be completed by the end of 2017.

On track to achieve targeted synergies

As previously announced, EFG is targeting total annual pre-tax cost synergies of approximately CHF 240 million to be fully realised in 2019. The Group is well on track to achieve the synergy target of CHF 50 million for 2017. Furthermore, EFG has good visibility to achieve approximately three quarters of the additional CHF 130 million synergies targeted for 2018 already during the first quarter, following the completion of the Swiss IT migration expected at the end of 2017.

Continued strong capital and liquidity position

EFG continued to strengthen its capital position in the first half of 2017, mainly through the placement of USD 400 million of Tier 2 notes in the first quarter. The Swiss GAAP Common Equity Ratio (CET1) stood at 17.7% at the end of the first half of 2017 versus 18.2% at end-2016, and the Total Capital Ratio was 22.8%, up from 20.0% at end-2016. The capital ratios include an impact of 1.2 percentage points from the agreement between EFG and BTG Pactual regarding the final BSI purchase price, as announced on 17 July 2017. This remains subject to final fair value adjustments in relation to the assets and liabilities of BSI until the end of October 2017. EFG is considering an early adoption of IFRS 9 for year-end 2017 purposes, with no impact on EFG's regulatory capital position under Swiss GAAP.

EFG has a strong and liquid balance sheet, with a Liquidity Coverage Ratio of 211% and a Loan/Deposit Ratio of 50% at the end of the first half of 2017.

On 22 May 2017, Moody's affirmed EFG International's A3 long-term issuer ratings and changed the outlook to stable from negative, underlining the strength of EFG's balance sheet.

CRO development

The number of Client Relationship Officers (CROs) declined from 697 at end-2016 to 671 at the end of the first half of 2017, reflecting the integration process as well as ongoing performance management efforts. During the first six months of 2017, 44 new CROs were hired in selected key markets. Average Assets under Management per CRO (excluding CROs newly hired during the first half of 2017) stood at CHF 214 million, compared with CHF 212 million in 2016 and well above the level of CHF 180 million in 2015.

Update on life insurance

With regard to the previously announced claims, which EFG has filed in a US court against AXA, Transamerica and Lincoln to challenge the implementation of premium increases relating to policies in its held-to-maturity life insurance portfolio, a motion to dismiss EFG's claim in the case of Transamerica has been rejected, in line with EFG's expectations. All legal proceedings are ongoing.

Strengthening of EFG's corporate governance

In view of the enlarged business, EFG International is further strengthening its Executive Committee structure. Subject to FINMA approval, Vittorio Ferrario, in his current role as Group Chief Compliance Officer, has been appointed a new member of the Executive Committee effective 1 August 2017, reporting to the CEO. Vittorio Ferrario joined EFG in May 2014. He previously held senior compliance and management positions at Unigestion and Goldman Sachs in Switzerland, and at PwC in Europe and Asia. This appointment underlines EFG's continued commitment to its strong compliance and regulatory framework.

Furthermore, and subject to FINMA approval, Thomas A. Mueller has been appointed a new member of the Executive Committee and Chief Risk Officer with responsibilities for Risk, Legal and Regulatory Affairs effective 1 January 2018, reporting to the CEO. Thomas A. Mueller is currently CEO of BSI SA and was previously an Executive Committee member of various listed and private financial institutions, with significant experience in both risk management and finance. He will succeed the current Chief Risk Officer Reto Kunz, who developed a new risk framework in the current integration phase. Reto Kunz will take over a new position focusing on the development of EFG International's credit capabilities and supporting the CEO in strategic projects.

In terms of general risks and uncertainties facing the business:

- EFG International's performance, in common with the private banking industry as whole, continues to be affected by challenging conditions. Economic, market and business conditions will continue to have a significant bearing on the rate of progress.

- EFG International will concentrate in the second half of 2017 on completing the BSI integration with the Swiss IT migration as well as on realizing the targeted cost synergies. For the Swiss IT-migration preparations are well on track and the migration to EFG's in-house platform is expected to be completed by end of 2017.

– EFG International will also continue to selectively hire high-quality CROs and teams in key markets, in line with its growth strategy for the enhanced platform and cost efficiency targets.

DESCRIPTION OF THE PRINCIPAL RISKS AND UNCERTAINTIES FACING THE BUSINESS

Specific risk considerations

The EFG International Board of Directors determines the overall risk appetite for EFG International and has delegated such responsibilities to various risk committees who have as their main objective the minimising of risks as follows:

a) Credit risk: Credit risk arises principally from the Group's lending activities to its clients. However as EFG International's primary credit exposures relate to loans collateralised by security portfolios and by mortgages, credit risk exposure is comparatively low. EFG International is also exposed to credit risk related to financial institutions. Management of such exposure is based on a system of counterparty limits coordinated at the EFG International Group level, subject to country limits.

b) Market Risk: EFG International is exposed to fluctuations in interest rates, exchange rates, share prices and commodity prices. Market risk derives from trading in treasury and investment market products for which prices are fixed daily, as well as from more traditional banking business, such as loans. In the case of foreign exchange, EFG Bank maintains proprietary positions in linear foreign exchange measured against overnight and Value at Risk (VaR) limits. Adherence to all limits is monitored independently by the Global Risk Management Division, under the direct supervision of the Chief Risk Officer.

c) Funding and Liquidity Risk: EFG International manages liquidity risk in such a way as to ensure that ample liquidity is available to meet commitments to clients, both in demand for loans and repayment of deposits, and to satisfy the company's own cash flow needs within all of its business entities. The global upheaval in the financial markets that started over four years ago continues to be marked by instability and volatility impacting upon market and investor confidence primarily characterised by a reduction in liquidity. However, our client deposit base, our capital and reserves position and our conservative gapping position when funding client loans ensure that EFG International runs only limited liquidity and funding risks.

d) Legal and Regulatory Risk: EFG International is subject to stringent regulation of all its businesses including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in Switzerland and the other markets where it operates. Future changes in regulation, fiscal or other policies in Switzerland and globally are unpredictable and beyond the control of EFG International and could have a future impact on its businesses.

e) Operational & Reputation Risk: EFG International acknowledges that carrying out business in the banking and financial services industry entails risks, including operational and reputation risks. In this respect, the EFG International Group aims at mitigating significant operational and reputation risks it may inherently run to a level it considers appropriate and commensurate with its size, structure, and nature of complexity of its service/product offerings, thus adequately protecting its assets and its shareholders' interest while optimising its risk/reward ratio. While the primary responsibility for managing operational/reputation risks lies with the EFG International business entities, the development, implementation and oversight of an integrated 'Operational Risk

Management Framework' as well as a 'Reputation Risk Policy Framework' form part of the EFG International Group objectives to manage, oversee and mitigate these risks.

SUMMARY

Looking ahead, there is much to be positive about for shareholders, employees and clients alike. EFG International is putting in place the foundations of a leading Swiss private bank with global reach and significant scale. It has appointed a strong leadership team to deliver on the growth opportunities and synergy potential of the planned combined business. Most importantly of all, it has an outstanding group of employees across both businesses.

About EFG International

EFG International is a global private banking group offering private banking and asset management services and is headquartered in Zurich. EFG International's group of private banking businesses operates in around 40 locations worldwide. Its registered shares (EFGN) are listed on the SIX Swiss Exchange.

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Important Disclaimer

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This release contains specific forward-looking statements that include terms like "believe", "assume", "expect", "target" or similar expressions. Such forward-looking statements represent EFG's judgments and expectations and are subject to known and unknown risks, uncertainties and other factors that may result in a substantial divergence between the actual results, the financial situation, and/or the development or performance of the company and those explicitly or implicitly presumed in these statements. These factors include, but are not limited to: (1) the ability to successfully integrate BSI and realise expected synergies, (2) general market, macroeconomic, governmental and regulatory trends, (3) movements in securities markets, exchange rates and interest rates, (4) competitive pressures, and (5) other risks and uncertainties inherent in the business of EFG and its subsidiaries, including BSI group. EFG is not under any obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law or regulation.

Nothing contained herein is, or shall be relied on as, a promise or representation concerning the future performance of EFG and its subsidiaries. The integration of BSI may not realise the full benefits of the contemplated transaction, including the expected synergies, cost savings or growth opportunities within the anticipated time frame or at all.