EFG INTERNATIONAL
INTERIM MANAGEMENT REPORT 2016

DESCRIPTION OF BUSINESS

EFG International AG and its subsidiaries (hereinafter collectively referred to as "the Group") are a leading global private banking group, offering private banking and asset management services. The Group operates in approximately 30 locations worldwide, with circa 2,000 employees. The Group's parent company is EFG International AG, which is a limited liability company and is incorporated and domiciled in Switzerland and listed on the SIX Swiss Exchange. EFG International AG is a member of EFG Bank European Financial Group (EFG Group).

FINANCIAL SUMMARY

First-half 2016 results reflect difficult market conditions and strong headwinds faced by the financial services industry; EFG achieved stable core private banking income compared to the prior-year period; revenue margin slightly improved versus the second half of 2015.

Net new assets flat over the period, with positive momentum across most regions towards the end of the first half 2016; revenue-generating Assets under Management decreased by 3% versus end-2015, mainly due to negative currency effects in the context of the Brexit decision, as well as adverse markets.

Implementation of cost reduction programme announced in November 2015 ahead of schedule – savings will significantly exceed the CHF 30 million target, with an expected underlying cost base (excluding non-recurring items) of CHF 274 million for the second half of 2016, down 12% compared to the prior-year period, including the full-year effect of H2 2015 hirings; further focus on cost and efficiency.

Preparations for the integration of BSI into EFG ahead of plan, with a view to combining both banks' strengths to build a leading Swiss private bank with global reach, significant synergy potential and necessary scale to capture long-term opportunities in wealth management.

Underlying net profit, excluding life insurance, of CHF 38.1 million, compared with CHF 44.1 million a year earlier; IFRS net profit of CHF 22.3 million, versus CHF 48.0 million in first half 2015, with performance in particular impacted by exceptional costs and provisions related to BSI acquisition and implementation of EFG's cost reduction programme.

IMPORTANT EVENTS DURING THE FIRST SIX MONTHS AND, WHERE APPROPRIATE, THEIR IMPACT ON FINANCIAL STATEMENTS

Performance impacted by challenging markets and exceptional costs

The first half of 2016 was characterized by accentuated market uncertainty, notably in emerging markets including Asia at the beginning of the year, but also in the context of the June Brexit vote in the UK. The challenging markets created strong headwinds across the financial services industry. As indicated in the update of the business performance for the first quarter on 29 April 2016, EFG International's business was constrained by the market environment and low levels of client activity. Client activity remained subdued during the first half of 2016, with a slight rise towards the end of the period from the lows in the first quarter.

EFG International's operating income in the first half of 2016 was CHF 341.7 million, down 3% compared to the first half of 2015. This was primarily due to a decline in net banking fee and commission income of 8%, reflecting a decline in transactional revenues, risk adversity and low levels of client activity, as well as foreign-exchange impacts. Net interest income and net other income improved slightly compared to the first half of 2015.

Revenues from the life insurance portfolios negatively impacted the performance by CHF (0.8) million, compared with a positive revenue contribution of CHF 6.9 million in the first half of 2015. The underlying private banking business achieved stable results: Core operating income remained flat at CHF 318.0 million compared to CHF 315.5 million the previous year. The revenue margin was 84 bps, slightly better than the margin in the second half of 2015, which was at 83 bps.

Operating expenses were CHF 298.6 million in the first six months of 2016, compared to CHF 296.0 million in the prior-year period, and clearly below the CHF 308.3 million in the second half of 2015. Underlying operating expenses (excluding non-recurring costs) were CHF 292.5 million, versus CHF 291.0 million in the first half of 2015.

Underlying recurring net profit, excluding life insurance, was CHF 38.1 million in the first half of 2016, compared to CHF 44.1 million in the first half of 2015. This excludes the following nonrecurring items, most of which have been previously indicated:

– CHF 6.1 million in costs and provisions relating to the acquisition and integration of BSI.

– CHF 3.8 million in costs relating to the cost reduction programme, in line with the announcement made on 23 November 2015.

– CHF 4.5 million in legal and professional charges and litigation provisions relating to previously disclosed and other matters.

– CHF 0.6 million in costs relating to the CRO hiring programme in 2015.

– CHF 0.8 million negative contribution from life insurance.

As a result, IFRS net profit was CHF 22.3 million, compared to CHF 48.0 million for the first half of 2015. The cost-income ratio on a reported basis was 86.9%, up from 83.3% a year before, but down compared to 89.1% at the end of 2015. Underlying cost-income ratio was 84.9% in the first half of 2016, versus 83.5% in the first half of 2015.

On a Basel III (fully applied) basis, EFG International's BIS-EU Capital Ratio stood at 22.8% at the end of the first half of 2016, compared to 16.8% at year-end 2015. The Common Equity Ratio (CET1) was 18.5%, versus 12.8% at the end of last year. The increase of both capital ratios was mainly driven by the ordinary share capital increase completed in May 2016 to support the BSI transaction. A further driver was the reduction of risk-weighted assets by approx. 10% since end-2015 to CHF 5.6 billion, highlighting EFG's focus on capital ratios and effective RWA optimization. EFG

International maintains a strong and liquid balance sheet, with a liquidity coverage ratio of 247% and a loan/deposit ratio of 49%.

Net asset inflows with disappointing start and good momentum towards the end of the first-half 2016

Net new assets generation was flat in the first half of 2016, with net assets of CHF (0.1) billion over the period, compared to net assets of CHF (0.3) billion in the first half of 2015. Net new asset generation was disappointing in the first quarter of 2016, while a positive momentum emerged across most regions towards the end of the second quarter 2016.

Revenue-generating Assets under Management were CHF 80.6 billion as at the end of the first half of 2016, down from CHF 83.3 billion at end-2015. This decline reflects negative currency effects of CHF (2.0) billion, primarily driven by foreign-exchange movements following the Brexit decision, negative market effects of CHF (0.6) billion, and net new assets of CHF (0.1) billion.

Cost reduction programme exceeds targets

EFG International made very good progress in implementing its cost reduction programme announced in November 2015, which aimed to improve efficiency through CHF 30 million in cost savings and 200 headcount reductions by the end of 2016. With CHF 19 million in savings and 170 FTE reductions already achieved in the first-half, expected to reach CHF 57 million and 254 FTEs for the full year 2016, these targets will be significantly exceeded.

EFG had an underlying cost base in the first half of 2016 of CHF 292.5 million, which is a reduction of 6% compared to the underlying adjusted cost base in the second half of 2015, including the full-year effect of H2 2015 hirings. For the second half of 2016, EFG targets a further reduction of its underlying cost base to CHF 274 million, which would imply a reduction of 12% compared to the underlying adjusted cost base in the second half of 2015.

The number of employees (full-time equivalents, FTEs) was 2,056 at end-June 2016, versus 2,103 a year before and 2,183 (including new committed CROs and initiatives) at the peak in September 2015. The target number of FTEs as per end-2016 is now 1,990, expected to be down 7% compared to end-2015 and down 9% versus the peak.

Regional business development

In Continental Europe, net new asset generation remained robust in the first half of 2016, with an annualised growth of approx. 4%. The region recorded an increase in operating income by 7% and in pre-provision profit by 16% compared to the prior-year period.

In Switzerland, net new asset growth was 2%, which was lower than in the second half of 2015, but well above the level in the first half of 2015. Pre-provision profit decreased, reflecting higher revenues offset by an increase in operating expenses mainly due to higher personnel costs. These included the full-year effect of the teams hired in the second half of 2015, which are developing well and confirm the respective business case.

The UK delivered continued net new asset growth of 5%. Pre-provision profit decreased, primarily reflecting a positive impact from bonds sales recorded in the first half of the previous year, as well as investments into compliance and risk functions. EFG expects the Brexit decision to have a limited impact on its business, with the exception of translation effects of a depreciation of the GBP.

Asia recorded net asset outflows in the first half of 2016 due to client deleveraging and the run-off of an investment product that could not be immediately replaced, but saw a particularly strong rebound towards the end of the first half of 2016. Asia increased its profitability substantially in the first of half of 2016, with pre-provision profit up by 40% year-on-year, reflecting higher revenues and lower costs.

In the Americas region, net asset outflows reflected continued difficult market conditions in Latin America in the first half of 2016, while pre-provision profit increased by 14% year-on-year.

CRO development reflecting focus on efficiency gains and performance

The number of Client Relationship Officers (CROs) stood at 424 at end-June 2016, compared to 462 at end-2015, reflecting a continued strong focus on performance management. EFG International was more selective in hiring, adding 15 experienced CROs during the first half of 2016, compared to 66 new hires in the second half of 2015. The CRO pipeline remains strong, reflecting EFG's commitment to private banking and enhanced attractiveness as an employer of choice, also in view of its expanded platform in combination with BSI.

Excluding the CROs hired in the first half of 2016, Assets under Management per CRO stood at CHF 197 million at end-June 2016, up 10% since 2012 and the highest level reached since the business review in 2011, underlining management's strong focus on CRO productivity and performance.

After completion of the cost reduction programme, Assets under Management per CRO are expected to exceed CHF 200 million.

Update on premium increases in relation to life insurance policies

To date, EFG International has been informed of premium increases relating to 45 of 48 of its holdings of policies issued by Transamerica that are part of EFG International's held-to-maturity life insurance portfolio with a total number of 213 policies. EFG continues to consider the increases to be unjustified and will challenge their implementation in US courts, while continuing to monitor relevant pending actions. EFG has concluded that the carrying value is fully recoverable.

Preparations for the integration of BSI into EFG ahead of plan

As regards EFG International's planned acquisition of BSI, the financing process has been completed. EFG's shareholders approved an ordinary share capital increase that was completed on 11 May 2016, as well as the creation of authorized capital that will enable EFG to fully satisfy the share component of the purchase price for BSI. The disgorgement of CHF 95 million of profits to the FINMA and the fine of CHF 10 million to the MAS will reduce the purchase price but will not impact the negotiated indemnities. A market issue of AT1 instrument is no longer required.

Preparations for the integration of BSI into EFG International, driven by joint EFG and BSI teams, are ahead of plan. On 5 July 2016, EFG International announced the future management structure for the combined EFG and BSI business, effective as of the date of the closing of the transaction.

As announced on 14 July 2016, EFG International aims to integrate BSI's business in Singapore into EFG Bank's Singapore branch by the end of November 2016 at the latest, on the basis of an accelerated asset deal, which is subject to approval by the Monetary Authority of Singapore and court approval in Singapore.

The closing of the transaction is expected in the fourth quarter of 2016, as announced before. Following the approval of the transaction by the Swiss Financial Market Supervisory Authority (FINMA) in May 2016, the process for obtaining the other necessary regulatory approvals also remains on track. After closing, the legal integration of BSI into EFG will take place market by market and remains planned for completion by mid-2017, while the migration of BSI's business to EFG's IT platform is expected to complete by end-2017.

DESCRIPTION OF THE PRINCIPAL RISKS AND UNCERTAINTIES FACING THE BUSINESS

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 is undertaking the planned acquisition of BSI. As described above, preparations for the integration of BSI into EFG are ahead of plan and the closing of the transaction is expected in the fourth quarter of 2016.

– EFG International also seeks to continue to attract high quality CROs. As mentioned, the pipeline remains strong, reflecting EFG's commitment to private banking and enhanced attractiveness as an employer of choice, also in view of its expanded platform in combination with BSI.

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 minimizing 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 collateralized 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 EFGI 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 characterized 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: EFGI acknowledges that carrying out business in the banking and financial services industry entails risks, including operational and reputation risks. In this respect, the EFGI 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 optimizing its risk/reward ratio. While the primary responsibility for managing operational/reputation risks lies with the EFGI 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 EFGI 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.

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Nothing contained herein is, or shall be relied on as, a promise or representation as to the future performance of EFG and/or BSI SA and its subsidiaries ("**BSI**"). The completion of the contemplated transaction remains subject to certain conditions and, if it is completed, EFG and BSI as a combined group may not realize the full benefits of the contemplated transaction, including the expected synergies, cost savings or growth opportunities within the anticipated time frame or at all.

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