PILLAR 3 DISCLOSURES 2019

JULIUS BAER INTERNATIONAL LTD

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LONDON, APRIL 2020

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1. Introduction

1.1. Scope of Pillar 3 Disclosures

In the United Kingdom, the FCA has introduced Pillar 3 by replicating the CRD articles and annexes to create Chapter 11 – Disclosure (Pillar 3) of the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The aim of the Pillar 3 standards is to improve comparability and consistency of disclosures through the introduction of harmonised templates.

This report provides Pillar 3 disclosures for Julius Baer International Ltd ('JBI') as at 31 December 2019.
Under FCA rules, the framework for the management of regulatory capital consists of three pillars:

- Pillar 1 – specifies the minimum capital requirements, by providing rules for the measurement of credit, market and operational risks;
- Pillar 2 – requires firms, and the regulator, to assess whether the firm needs to hold additional capital against firm-specific risks not covered or not sufficiently covered by Pillar 1; and
- Pillar 3 – requires firms to disclose their policies for managing risk and their capital resources.

1.2. Basis of disclosures

In accordance with the requirements of Chapter 11 of BIPRU, the disclosures included in this document relate to Julius Baer International Limited (the 'Company').

The Company is a limited licence UK investment adviser and management company as it does not act as principal nor underwrite or place financial instruments on a firm commitment basis. As a UK financial services business authorised and regulated by the FCA, the Company is required to maintain adequate capital to cover the risks to the business in order to ensure clients' interests are protected. Also, by ensuring all regulated firms have adequate capital, the FCA hopes to meet its objective of stability and market confidence in the financial system.

The Company is a member of a Swiss financial services (banking) group, the holding company of which is Julius Baer Group Ltd. ('JBG'). The Company is 100% directly owned by JBG. The Company has no subsidiaries, and no consolidation is required.

The disclosures cover both the qualitative (e.g. processes and procedures) and quantitative (e.g. actual numbers) requirements.

1.3. Frequency of Pillar 3 Disclosures

This report is produced and published annually. The disclosures will be published on the website as soon as is practical following the finalisation of the JBI's Annual Financial Accounts / Internal Capital Adequacy Assessment Process ('ICAAP').

1.4. Materiality

A disclosure is deemed to be material if the omission or misstatement of that information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. Where we considered a disclosure to be material we have stated this.

1.5. Verification of Pillar 3 Disclosures

The Board of Directors of JBI ('BoD') and senior management are responsible for establishing and maintaining an internal control structure over the disclosure of financial information, including Pillar 3 disclosures. These Pillar 3 disclosures have been put together to explain the basis of preparation and disclosure of certain capital requirements and to provide information about the management of certain risks zand for no other purpose. They do not constitute any form of audited financial statement and have been produced solely for the purposes of Pillar 3.

2. Risk Governance

Risk management activities are embedded in the governance of JBG. The Board of Directors of JBG bears the ultimate accountability for issuing policies, establishing and monitoring an effective Risk Management Framework ('RMF') and managing overall risks faced by the JB Group. As such, the Board of Directors of JBG reviews and approves the RMF annually and hence ensures the document is updated to reflect external (e.g. regulation, market) or internal (e.g. organisation, products, processes) developments as well as the most current methodologies to address risks.

JBG has established a robust risk governance, involving several stakeholders across the organisation and various committees, functions and business units.

The Governance and Risk Committee ('GRC') consists of at least three members of the Board of Directors of JBG and is responsible for:

- developing and upholding principles of corporate governance for the Company and the Group;
- authorizing certain market, credit and financial activities taking into consideration the respective risk parameters; and
- the standards and methodologies for risk control which are employed to comply with the principle and risk profile adopted by the Board of Directors or other relevant Supervisory or Managing Bodies.

3. JBI Management and Reporting Structure

The BoD provides leadership to JBI on behalf of JBG. The BoD is collectively responsible for the strategy and long-term success of JBI. Implementation of the strategy is set by the BoD and delegated to the Executive Committee ('ExCo') which is led by the Chief Executive Officer ('CEO'). In recognition of local obligations and the importance of local oversight of risk, the BoD have put in place a Company level risk management framework in addition to the Group Risk framework. This seeks to ensure there is a strong risk culture within JBI and that it is able to maintain an effective system of internal control, and to ensure that the ExCo maintains an effective risk management and oversight process across the JBI business.

JBI's management and reporting structure defines:

- the delegation of responsibility for managing the business of JBI from the BoD down through the organisation;
- the framework through which such management will be monitored and scrutinised; and
- the framework through which information (such as Management Information ('MI')) is reported up through the organisation to enable such monitoring and scrutiny to be effective.

3.1. The Board of Directors

As a matter of law, the BoD is the "mind of the company" and accordingly is the body empowered to make all decisions by or on behalf of JBI, unless and to the extent it has delegated those responsibilities to particular committees or individuals.

The BoD retains responsibility for all matters, which it has reserved to itself or not otherwise delegated. These are set out in the Terms of Reference for the BoD and its committees and include defining JBI's strategic business objectives, strategy and values.

3.2. Board Committees

The BoD considers that a high standard of corporate governance requires the establishment of separate committees to ensure that the oversight of executive management of JBI in critical areas is conducted by individuals who are independent of executive management. Accordingly the BoD has established two Board Committees to whom it has delegated specific responsibilities:

- the Risk and Audit Committee ('RAC'); and
- the Remuneration and Performance Committee ('RemCo').

The BoD receives reports on the activities of both the RAC and RemCo periodically.

3.2.1. Remuneration and Performance Committee (RemCo)

The RemCo is responsible for ensuring JBI's remuneration principles, as defined by the BoD, are implemented effectively. In particular the RemCo:

- reviews and approves JBI's Remuneration Policy and Framework for all JBI employees' remuneration and monitors the application of that Policy and Framework.
- reviews and approving the performance measures to be used as part of the Remuneration Policy and Framework;
- reviews and approves the remuneration of JBI's Code Staff.
- reviews and provides assurance to the BoD that JBI's executive management has taken appropriate steps to ensure that JBI's employment practices are aligned to support the delivery of the values and culture strategy defined by BoD.

3.2.2. Risk and Audit Committee (RAC)

The RAC is responsible for undertaking more in-depth and focused analysis of matters arising out of JBI's risk management and audit processes and procedures. In particular the RAC:

- advises the BoD on the appropriateness of JBI's risk appetite and whether it has been adequately and clearly defined;
- assures the robustness of JBI's risk management framework, including its risk culture, policies and reporting structure;
- provides enhanced oversight over and challenge to executive management in order to ensure that the risks to the achievement of JBI's objectives and strategy and to JBI's adherence to its values are identified, monitored and managed effectively;
- receives and considers reports on risk matters from executive management;
- reviews the annual accounts and reports of JBI and monitors the integrity of the firm's financial reporting system and internal controls; and
- receives and considers reports from the Internal Audit function;

However, executive management remains responsible for effective management of those risks on a day-to-day basis.

3.3. Executive Management

3.3.1. Chief Executive Officer

The BoD has delegated the responsibility for the day-to-day management of JBI to the Chief Executive Officer (CEO). The CEO's responsibilities are further defined in the CEO's statement of senior management responsibilities and job description. The CEO is responsible for reporting on a periodic basis to the BoD (and, where relevant, its sub-committees) on JBI's business and his performance of the CEO's responsibilities more generally. The CEO is authorised to delegate these responsibilities to other members of the executive management of JBI, as further described below, but this does not relieve the CEO of those responsibilities (especially those in the CEO's statement of senior management responsibilities).

3.3.2. Executive Committee (ExCo)

The BoD has mandated the CEO to establish the ExCo, made up of other senior members of the executive management of JBI. The purpose of the ExCo is to ensure that significant issues are discussed with relevant members of the executive management who will have the opportunity to challenge the CEO and other senior managers and, if necessary, escalate matters to the BoD (or relevant committee of the BoD) for further consideration.

ExCo is also responsible for oversight at the executive level of:

- the identification, monitoring and management of the risks to the achievement of JBI's objectives, successful execution of its strategy and adherence to its values; and

- JBI's actual performance in seeking to achieve its strategic business objectives and executing its strategy and in its adherence to its values.

3.3.3. Executive Risk and Conduct Committee (ERCC)

The ERCC is established as sub-committee of the ExCo to provide senior executive management oversight of:

- the systems, arrangements and controls concerned with the
- identification, monitoring and mitigation of the risks of JBI's business;
- and
- the outcomes of those identification and monitoring systems, arrangements and controls.

The ERCC therefore reviews, considers and where necessary escalates issues arising related to all types of risk, which may adversely affect clients, the financial markets or the firm.

As well as responsibility for oversight of risk relating to JBI generally, the ERCC also has specific responsibility for identifying, monitoring and overseeing the management of those risks arising out of matters of Conduct, as defined by the Conduct Framework.

The RAC and ExCo receive reports periodically on the ERCC's activity from the Chair of the ERCC.

3.3.4. Senior Executive Management

The CEO delegates to other senior members of the executive management of JBI the responsibilities set out in their statements of senior management responsibilities (where applicable) and job descriptions. The CEO will receive reports periodically from each manager to whom the CEO delegates any of the CEO's responsibilities or functions.

Such managers are authorised to delegate their responsibilities to other members of the executive management of JBI, although this does not relieve them of those responsibilities (especially those in their statement of senior management responsibilities). Such managers will receive reports periodically from each manager to whom they delegate any of their responsibilities or functions.

3.3.5. Executive Management Committees

The ExCo has established management sub-committees in relation to specific areas of JBI's business, to be chaired by members of the executive management, as follows:

- The Training and Competence Committee (TCC)
- Infrastructure, Operational and Support Committee (ISOC)
- The Product Approval Committee (PAC)
- Business Risk Committee (BRC)

Similarly to the purpose of the ExCo, the purpose of these committees is to ensure that for specific areas of JBI's business, significant issues in relation to particular areas of responsibility are discussed among relevant members of the executive management who will have the opportunity to challenge the respective Chairs and other senior managers – and if necessary escalate matters to the ExCo (or ERCC, where relevant) for further consideration.

The ExCo receives reports on their activities from the Chairs of the above-mentioned Committees.

4. Risk Framework

4.1. Risk Culture

An unambiguous risk culture and a clear "tone from the top" of BoD members and senior executive management serves as the qualitative foundation of the risk appetite framework.

As a principle, JBI fosters a culture in which all employees continually seek to identify and report potentially significant risks, and mitigations, to their appropriate managers for reporting to Risk Management. Risk Management collates and reports the identified risks and mitigations to the Compliance and Risk Management Director ('CRMD'), the ERCC and the RAC.

4.2. Risk Management

The purpose of risk management is to support JBI's strategic business objectives and strategy, and in doing so achieve compliance with all applicable laws and regulations. Risk Management is a structured approach to identifying, assessing and managing risk, which is the responsibility of every part of the business. JBI's risk framework equips the organisation to identify, prevent, detect and manage significant risks, foster a high degree of risk awareness at all levels and contribute to the mitigation of risks of all types. Independent oversight from the BoD (and its committees) and Compliance and Risk Management as part of 2LOD enables JBI to achieve a robust and compliant business.

4.3. Risk Methodology and Taxonomy

To ensure a JBG-wide standard and consistent categorisation of operational risks, a comprehensive Operational Risk Taxonomy and methodology has been established defining the universe of inherent material operational risks which arise as a consequence of the business activities carried on by JBI.

This methodology and taxonomy allows for further specification of risk scenarios and ensures consistency of risk identification, exposure rating and risk management objectives across the Group.

4.4. Risk Appetite

JBI business objectives and strategy drive the assessment of JBI's risk appetite and inform capital deployment planning. The BoD is responsible for defining the firm's risk appetite and ensuring that is aligned to the firm's risk capacity. Risk appetite defines the type and level of risk JBI is willing to assume in the course of its business activities, taking account of its business objectives and risk capacity. Risk capacity is the maximum level of risk JBI can assume given its current level of resources before breaching constraints determined by its capital and liquidity needs, as defined by regulatory requirements and the policies adopted by the BoD.

4.5. Risk and Control Self-Assessment

In order to make risks transparent, the JBI Risk Register is updated at least annually by Risk Management and incorporates input from relevant business units. These risks are then assessed annually as a part of JBI's Risk Self Assessment.

The purpose of JBI's Risk Assement is to identify all risks associated with the firm's activities in the UK including operational, business, strategic and reputational risks and the effectiveness of their respective mitigations and controls.

JBI has defined a series of criteria for monitoring the different risks that JBI has identified it is exposed to, as further described in the JBI Risk Register.

JBI is mainly exposed to the following operational risks; regulatory breach, poor execution of business plan, employee conduct and Group risks such as Cyber and IT.

4.6. Control Plans

JBI maintains control plans and a compliance monitoring programme. These two plans incorporate the JBG Global Minimum Standards and Controls and also the local internal controls identified by JBI management as necessary to effectively manage risks within JBI's risk appetite and regulatory obligations.

4.7. Risk Reporting

Key Risk Indicators which exceed the JBI's acceptable risk appetite limits, controls, or other processes which identify other issues of concern are escalated to the appropriate members of executive management and management committees for consideration and to determine appropriate actions in order to mitigate the developing risks. Risk reporting flows through monthly risk management meetings and along with developing risks are escalated to the ERCC, ExCo, the RAC and ultimately the BoD according to their seriousness.

5. Regulatory Capital Requirements

JBI is mainly exposed to Reputational Risk, Business Risk and Operational Risk due to its business model, operating model and balance sheet.

The initial identification of key risks for capital adequacy is based on the annual risk assessment which is reviewed and approved by the RAC on behalf of the BoD annually.

5.1. Purpose of Pillar 1 Risk Assessment

Under FCA rules, the minimum capital resource requirement for JBI is calculated under Pillar 1 using the higher of credit and market risk or the Fixed Overhead Requirement or base capital requirement.

5.2. Purpose of Pillar 2 Risk Assessment

JBI's capital planning process is an ongoing process intended to ensure that the financial resources held by JBI are at all times aligned to JBI's appetite to assume financial risk and are also sufficient to meet regulatory capital requirements.

The process aims to ensure that JBI holds the resources necessary to act as an adequate buffer to absorb the financial effects of the crystallisation of the risks to which JBI is exposed (in particular as required under Pillar 2 capital adequacy rules). In addition JBI could, in an extreme situation, wind down its business in an orderly manner. Where a shortfall or potential shortfall in financial resources is identified, the ExCo and the BoD will consider whether to adjust JBI's risk appetite (and the means of doing so) or to seek additional capital to remedy the shortfall.

The CFO is responsible for the management of the allocation and maintenance of capital, funding and liquidity. CRMD provides the input for capital planning through the outcomes of the annual risk assessment. Based upon the inputs from the annual risk assessment, the CFO prepares Part 1 of the ICAAP which addresses internal risks. The CFO works in conjunction with the CRMD to form Part 2 of the ICAAP which addresses external risks.

The ICAAP is then reviewed at least annually by ExCo and BoD to ensure a thorough assessment of the methodology and assumptions made within the plan has been undertaken. ICAAP is reviewed both annually and on an ad hoc basis as external and internal events drive change.

6. Summary of Regulatory Capital Resources

Total Capital Resources (in GBP£'000s)	Capital
Capital Resources	
Permanent Share Capital	135,200
Capital Contribution	7,137
Capital Reserve	5,516
Share Benefit Reserve	(7,137)
Retained Earnings and Other Reserves (Audited)	(74,108)
Retained Earnings Forecast (Unaudited)	(6,959)
Total Forecast Capital Resources	**59,649**
Exclude Current Year Profits	-
Total Capital Resources	**59,649**

Table 1: Summary of regulatory capital resources

The Capital Contribution and Share Benefit Reserve relate to long term share payment plans provided by Julius Baer Group direct to JBI employees.

The Capital Reserve relates to direct capital contributions made from Julius Baer Holding Ltd during 2002 and 2003. The direct capital contributions were made on the condition that they were credited directly to the reserves of JBI and were to be regarded as a permanent addition to the capital base of the company.

7. Credit Risk Requirement (CRR)

JBI has calculated its CRR using the Standardised Credit Risk calculation by adopting the risk weighted exposure rules given under BIPRU3 in the FCA handbook.

All assets of JBI have been considered when calculating the CRR and are assumed to be risk-weighted at 100% with the exception of cash held at bank which is risk-weighted at 20%. JBI is able to justify this risk weighting as all cash is held either at Julius Baer AG in Zurich (Moody's rating Aa2) or at HSBC plc in the UK (Moody's Aa3, Fitch AA-, S&P's AA-) or Barclays Bank plc (Moody's Baa3, Fitch A, S&P's A-) in the UK and is held in instant access accounts (i.e. no cash is held on time deposits). As such, the External Credit Assessment Institutions (ECAIs) recognised under the Capital Requirements Regulations 2006 (SI 2006/3221) referred to in BIPRU 3.3.9 specifies a risk weighting of 20% for exposures to Institutions (such as banks) holding these credit ratings. The BoD has raised the possibility of investing in government-issued gilt-edged securities as a high-liquidity alternative in order to maximise return on this cash asset and to avoid the credit risk faced by the company of one or more of these commercial institutions defaulting.

Following the aggregation of all assets in the firm at this level, the CRR of the firm is calculated at 8% of the total of these risk weighted exposure amounts, as specified in BIPRU3.1.5 in the FCA handbook.

The most recent calculation of JBI's CRR showing the risk weighted assets in the balance sheet at this time is given below:

Balance Sheet assets as at 31/12/2019 (GBP £'000s)	Balance Sheet	Risk Weighting	Risk Weighted Position	CRR
Cash at Bank	85,805	20%	17,161	1,373
Property, Plant & Equipment	2,080	100%	2,080	166
Tax Receivable (VAT and Deferred Tax Asset)	4,487	0%	-	-
IFRS 16 Leasehold Right of Use Assets	6,078	100%	6,078	486
Other Debtors	5,512	100%	5,512	441
Total	**103,962**			**2,467**

Table 2: Credit Risk Requirement

8. Position Risk Requirement ('PRR')

As per BIPRU 7 in the FCA handbook, JBI is required to calculate its PRR to mitigate for risks incurred by holding trading or non-trading book assets in foreign currencies. In the case of JBI, there are no trading book positions held on the UK balance sheet, so the only items considered are non-trading book items, as specified in BIPRU 7.5.3R.

The main foreign currency assets of JBI are the receivable balances due from booking centres. From July 2016 onwards, the booking centres of the Group have moved from a quarterly to a monthly settlement pattern, so this exposure has significantly reduced.

The other main source of foreign currency exposure is cash balances held in foreign currency bank accounts. This risk is mitigated by converting these balances into GBP on a regular basis to minimise the risk faced due to currency revaluation.

The most recent calculation of JBI's PRR is given below:

Balance Sheet position as at 31/12/2019 (converted to GBP £'000s)	CHF'000s	EUR'000s	USD'000s	Total
Cash Balances	1,113	796	435	
Third party receivables	1	-	14	
Third part payables	-	(6)	-	
Net Exposure	**1,114**	**790**	**449**	**2,353**
Total PRR @ 8%				**188**

Table 3: Position Risk Requirement

9. Remuneration Disclosures

As a BIPRU Limited License firm under the FCA's Remuneration Code (the "Code"), the firm is allowed to observe the General Guidance on Proportionality (the "Guidance") of the FCA. The Guidance permits BIPRU firms to disapply a number of the requirements of the Code and proportionately apply the Code's rules and principles in establishing the Company's policy in line with its size, internal organisation and the nature, the scope and the complexity of its activities.

The Code requires the Company to consider its processes and procedures for those senior staff that operate within companies who are covered by the Code and whose professional activities have a material impact on the Company's risk profile (Code Staff).

The Company is satisfied that the policies in place are appropriate to its size, internal organisation and the nature, the scope and the complexity of its activities.

9.1. Code Staff Criteria

The Company has identified those Approved Persons who fall within the criteria of Code Staff. This includes staff who are senior managers and risk takers, including those in a control function, who have significant responsibility for management and supervision.

Information concerning the decision-making process used for determining the remuneration policy (including information about the role of the BoD, the involvement of the Group Compensation Committee and the external consultant whose services have been used for the determination of the remuneration policy).

The BoD does not retain external consultants although external consultants are used from time to time to advise on specific issues. The BoD also receives advice from Human Resources and Senior Managers, who may provide relevant information and advice.

9.2. Information on the link between pay and performance

The primary compensation principles of the Company are to:

- Attract and retain industry professionals who are dedicated to contributing value to Julius Baer Group.
- Foster risk awareness while ensuring full alignment to regulatory compliance.
- Incentivise management by rewarding past performance and by providing incentives for the creation of future shareholder value.
- Ensure that total compensation is in line with current regulatory standards and market practice.

The Company realises these principles in a number of ways including:

- Targeting base salary towards the median of the market, to reward the level of education, the degree of seniority and the level of expertise and skills required to fulfil the role.

- Reviewing variable compensation in line with the individual, the team and the Group and meeting qualitaive and quantitative performance measures which are aligned to the long term health of the Company and the Group. These measures reward compliance and robust risk management.
- Utilising deferred variable compensation via both deferred equity-based plans and deferred cash-based plans to ensure a meaningful percentage of a relevant employee's expected total compensation is tied to the achievement of long term goals and the overall success of the Group, as well as, to operate as a retention mechanism. The percentage of variable compensation which is deferred increases linearly, such that higher variable compensation amounts are subject to higher levels of deferral.
- Actively monitoring and identifying breaches of Group policies and regulations, ensuring that warnings are issued and that breaches are properly recorded and that records of infringements are visible in the employee's personal assessment overview.

9.3. Aggregate quantitative information on remuneration for Code Staff

For the year ending 31 December 2019 there were 10 Code Staff (as defined above).

Aggregate remuneration expenditure in respect of Code Staff was £3.9m.

Remuneration expenditure was divided between fixed and variable remuneration as follows:
- Fixed remuneration £2,119,000
- Variable remuneration £1,733,450

(Fixed remuneration consists of base salaries only, whilst the variable remuneration consists of annual bonus awards subject to deferral in cash and equity, and performance share unit awards.)

10. Employee Involvement

The Company is committed to ensuring that employees share in its success. They are kept informed of matters of concern to them in a variety of ways including newsletters, the intranet and management briefings. These communications help achieve a common awareness among employees of the financial and economic factors affecting the Company. Employees are also provided with opportunities to share their views and provide feedback on matters that are important to them through, for example, employee surveys and fora.

11. Employment of Disabled Persons

Applications for employment by disabled persons are fully and fairly considered having regard to the aptitudes and abilities of each applicant. Efforts are made to enable any employees who become disabled during employment to continue their careers with the Company. Training, career development and promotion of disabled persons are, as far as possible, identical to that of other employees who are not disabled.

12. Exempted Disclosure

There are no disclosures relating to BIPRU 11.5.5 to 11.5.17 as they are either not relevant to the Company as a limited licence investment firm, or the amounts are immaterial.