Julius Bär

# Annual Report **2010**
# Julius Baer Group Ltd.

Including integration and restructuring expenses as well as the amortisation of intangible assets in connection with the acquisition of the three private banks completed at the end of 2005 and the acquisition of ING Bank (Switzerland) Ltd made at the beginning of 2010, the net profit achieved in 2010 for the shareholders of Julius Baer Group Ltd. amounted to CHF 352 million. Excluding these positions, the shareholders' net profit for 2010 amounted to CHF 503 million. Further information on this basis can be found in the presentation and the press release on the 2010 financial results and the Business Review 2010.

**Key figures**

| | **2010** | 2009 | Change % |
|---|---|---|---|
| Return on equity (ROE) | **8.1%** | 10.1% | - |
| Return on equity (ROE)[1] | **15.8%** | 17.4% | - |
| Cost/income ratio[2] | **74.4%** | 68.5% | - |
| Cost/income ratio[3] | **65.4%** | 63.1% | - |

| | **31.12.2010** | 31.12.2009 | Change % |
|---|---|---|---|
| **Consolidated balance sheet** | | | |
| Total assets (CHF m) | **46 286.6** | 42 729.0 | 8.3 |
| Total equity (CHF m) | **4 484.0** | 4 191.8 | 7.0 |
| BIS tier 1 ratio | **23.8%** | 24.2% | - |
| **Client assets (CHF bn)** | | | |
| Assets under management | **169.7** | 153.6 | 10.5 |
| Assets under custody | **97.6** | 87.3 | 11.9 |
| Total client assets | **267.3** | 240.9 | 11.0 |
| **Personnel** | | | |
| Number of employees (FTE) | **3 578** | 3 078 | 16.2 |
| *of whom Switzerland* | ***2 763*** | *2 430* | *13.7* |
| *of whom abroad* | ***815*** | *648* | *25.8* |
| Moody's Rating Bank Julius Baer & Co. Ltd. | **Aa3** | Aa3 | |

[1]Net profit of the shareholders of Julius Baer Group Ltd. less integration and restructuring expenses as well as amortisation of intangible assets/average equity less goodwill

[2]Excluding valuation adjustments, provisions and losses

[3]Excluding valuation adjustments, provisions and losses and integration and restructuring expenses as well as amortisation of intangible assets

| | |
|---|---|
| **Ticker symbols** | |
| Bloomberg | BAER VX |
| Reuters | BAER.VX |
| **Swiss securities number** | 10 248 496 |
| **Listing** | Zurich, Switzerland |
| | SIX Swiss Exchange, part of the Swiss Market Index SMI and the Swiss Leader Index SLI |

**Key figures for shares**

| | **2010** | 2009 | Change % |
|---|---|---|---|
| **Information per share (CHF)** | | | |
| Equity (book value, as at 31.12.) | **21.8** | 20.5 | 6.4 |
| EPS | **1.71** | 1.88 | -9.2 |
| Share price (as at 31.12.) | **43.80** | 36.38 | - |
| **Market capitalisation (CHF m, as at 31.12.)** | **9 050** | 7 517 | - |
| **Capital structure (as at 31.12.)** | | | |
| Number of shares, par value CHF 0.02 | **206 630 756** | 206 630 756 | - |
| Weighted average number of shares outstanding | **205 969 204** | 206 601 420 | - |
| Share capital (CHF m) | **4.1** | 4.1 | - |

# Annual Report 2010
# Julius Baer Group Ltd.

**Dear Reader**

With the world economy on the path to a sustained yet multi-speed recovery, 2010 turned out to be another eventful year for financial markets and our industry. The sovereign debt crisis in the eurozone and related weakness of the euro revealed structural deficits. But thanks to Julius Baer's focused business model and strong capital base, we have been in an excellent position to swiftly address the challenges arising from a fundamentally shifting global business environment and at the same time to capitalise on the many opportunities it has revealed. Overall, our Group progressed well in 2010 and achieved a solid financial performance.

In addition to the operational improvements this year and the successful integration of ING Bank (Switzerland) Ltd (ING Bank), we further enlarged the Swiss and global footprint of our Group, thus securing Julius Baer increased access to the world's key growth markets. In parallel, the Investment Solutions Group, the investment competence and service centre of Julius Baer, further expanded its international scope and depth, firmly building on a unique, truly open and actively managed product platform. This successful bridging of geographic regions, cultures and investment universes under the Julius Baer brand was reflected in healthy net new money inflows particularly from growth markets, which steadily gained momentum during the year, as well as the record number of high-calibre industry awards we received in the Group's key markets. In summary, total client assets amounted to CHF 267 billion at the end of 2010, of which CHF 170 billion were assets under management.

The regulatory and legal environment remained challenging, primarily driven by international efforts to bolster the stability of the financial system, but also by national austerity measures. Amid a crisis-torn Europe, Switzerland's reliability and qualities as a stronghold of economic and political stability and currency strength became even more evident and made the country the envy not only of its direct neighbours. Moreover, Switzerland as a financial centre has proven highly adaptive to the many financial crisis-induced external threats and changes. Contrary to prophecies of doom, the Swiss private banking industry has been able to protect and re-emphasise the many qualities which made Switzerland so renowned for and has remained in good favour with clients from all over the world.

The Group's net profit for our shareholders amounted to CHF 352 million in 2010, after CHF 389 million in 2009, a decrease of 9% (including* integration expenses and the amortisation of intangible assets. For 2010 additionally including restructuring expenses). With a BIS tier 1 ratio of 23.8% at the end of 2010, our Group continues to be strongly capitalised to meet both the currently applicable and the expected future capital and solvency requirements. Based on this, the Board of Directors proposes to the Ordinary Annual General Meeting on 7 April 2011 a dividend of CHF 0.60 per share, an increase of CHF 0.20 or 50% compared to a year ago. The dividend payout amounts to CHF 124 million. The Board will also put forward a share buyback programme of up to 5% of the outstanding share capital and with a maximum value of CHF 500 million, to run until the Ordinary Annual General Meeting in 2012.

In the past twelve months, the Julius Baer Group has lived up to its aspiration to overcome the turbulent events of recent years unscathed and to emerge among the leaders of its industry. This achievement would not have been possible without our Group acting as one, with all employees contributing solidly to our shared goal of providing private banking at its purest. Their commitment is highly appreciated and deserves our profound gratitude. We also thank our Group's loyal clients and shareholders for their trust placed in us and look forward to their continued support.

Raymond J. Baer
*Chairman*

Boris F.J. Collardi
*Chief Executive Officer*

Zurich, February 2011

* Excluding these positions, the net profit for the shareholders of Julius Baer Group Ltd. for 2010 amounted to CHF 503 million, up 6% from 2009.

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# I. Corporate Governance

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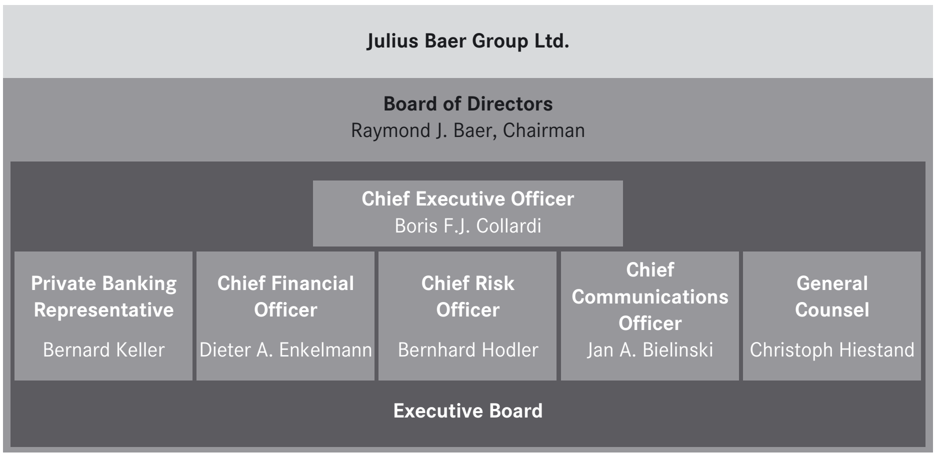
Corporate governance is a decisive factor in business management. Shareholders, clients and staff are usually considered the key stakeholder groups within the context of corporate governance. Moreover, Julius Baer's focus on achieving sustained success and consistency in the Company's business rests largely on the principle of retaining shareholders, clients and staff for as long as possible and actively nurturing the relationships over time. These stakeholders therefore have a right to know the individuals and internal bodies that determine the development of the Company, who makes the strategic decisions and who bears the responsibility for them. The Company therefore aims to thoroughly satisfy these legitimate information needs in this chapter of the Annual Report.

The corporate governance information of Julius Baer Group Ltd. is presented in accordance with the Corporate Governance Directive of the SIX Swiss Exchange that entered into force on 1 July 2002 and was revised on 1 July 2009, with the guidelines and recommendations of the 'Swiss Code of Best Practice for Corporate Governance' of the Swiss business federation economiesuisse dated 25 March 2002 as well as with this best practice code's Appendix 1, 'Recommendation on compensation for board of directors and executive board', dated 6 September 2007, which takes into account the new articles 663b$^{bis}$ and 663c, paragraph 3, of the Swiss Code of Obligations that entered into force on 1 January 2007 and which address transparency with respect to the compensation of the members of the Board of Directors and the Executive Board.

The following information corresponds to the situation as at 31 December 2010 unless indicated otherwise.

# Group structure and shareholders

**Operational Group structure of Julius Baer Group Ltd. (as at 31 December 2010)**




The consolidated Group companies are disclosed in Note 25.

## Significant shareholders/participants

Based on notifications received by Julius Baer Group Ltd., each of the following shareholders/participants held more than 3% of the voting rights in Julius Baer Group Ltd. as at 31 December 2010: [1]

| Shareholder/participant[4] | Disclosure of purchase positions [2] | Disclosure of sale positions [3] |
|---|---|---|
| Davis Selected Advisers L.P.[5] | 8.46% | |
| MFS Investment Management[6] | 5.10% | |
| BlackRock, Inc.[7] | 5.01% | 0.05% |
| Thornburg Investment Management[8] | 3.81% | |
| Harris Associates L.P.[9] | 3.02% | |

[1] The percentage holding of voting rights as well as the other terms as used herein have to be defined and read in the context of the relevant and applicable stock exchange rules.
[2] Equity securities, conversion and share purchase rights (Art. 15 para. 1 a SESTO-FINMA), granted (written) share sale rights (Art. 15 para 1 b SESTO-FINMA) and financial instruments (Art. 15 para. 1 c and para. 2 SESTO-FINMA)
[3] Share sale rights (specifically put options) and granted (written) conversion and share purchase rights as well as financial instruments that provide for or permit cash settlement as well as other differential transactions (such as contracts for difference and financial futures)
[4] Please note that any change in the holding of voting rights between reportable thresholds does not trigger any notification duty.
[5] Davis Selected Advisers L.P., Tucson/USA, as investment advisor (reported on 6 October 2009)
[6] MFS Investment Management, Boston/USA, and its subsidiaries MFS Institutional Advisors Inc., MFS International Ltd., MFS International ('UK') Ltd., MFS Heritage Trust Co., MFS International Management KK and MFS Investment Management ('LUX') S.A. (reported on 6 October 2009)
[7] BlackRock, Inc., 40 East 52nd Street, New York, NY 10022, USA, and its subsidiaries BlackRock Advisors UK Ltd., London/UK, BlackRock Institutional Trust Company, N.A., San Francisco/USA, BlackRock Asset Management Canada Limited, Toronto/Canada, BlackRock Advisors, LLC, Wilmington/USA, BlackRock Investment Management, LLC, Plainsboro/USA, BlackRock Investment Management (Australia) Limited, Sydney/Australia, BlackRock Investment Management (Dublin) Ltd., Dublin/Ireland, BlockRock Luxembourg SA, Senningerberg/Luxembourg, BlackRock (Netherland) B.V., Amsterdam/Netherland, BlackRock Fund Manager Ltd., London/UK, BlackRock Pensions Ltd., London/UK, BlackRock International Ltd., Edinburgh/UK, BlackRock Investment Management (UK) Ltd., London/UK, BlackRock Asset Management Japan Limited, Tokyo/Japan, BlackRock Fund Advisors, San Francisco/USA., BlackRock Holdco 2, Inc., New York/USA, BlackRock Financial Management, Inc., New York/USA, BlackRock Advisors Holdings, Inc., New York/USA, BlackRock Capital Holdings, Inc., New York/USA, BlackRock International Holdings, Inc., New York/USA, BR Jersey International Holdings LP, St. Helier/Jersey, BlackRock Group Ltd., London/UK, BlackRock (Institutional) Canada Ltd., Toronto/Canada, BlackRock Holdings Canada Ltd., Toronto/Canada, BlackRock Holdco 4, LLC, New York/USA, BlackRock Holdco 6, New York/USA, BlackRock Delaware Holdings, Inc., New York/USA, BlackRock Australia Holdco Pty., Sydney/Australia, BlackRock Luxembourg Holdco S.a.r.l., Luxembourg, BlackRock Investment Management Ireland Holdings Ltd., Dublin/Ireland, Trident Merger, LLC, New York/USA, BlackRock Cayco Ltd. c/o Walkers SPV Limited, George Town/Cayman Islands, BlackRock Trident Holding Co Ltd., Dublin/Ireland und BlackRock Japan Holdings GK, Tokyo/Japan, BlackRock Capital Management, Inc., Wilmington/USA, BlackRock (Isle of Man) Limited, Isle of Man, BlackRock Asset Management Australia Limited, Sydney/Australia, all represented as a group by BlackRock, Inc. (reported on 5 November 2010)
[8] Thornburg Investment Management, Santa Fe/USA, as investment manager on behalf of clients (reported on 1 October 2009)
[9] Harris Associates L.P., Chicago/USA (reported on 18 November 2009)

### List of notifications received by Julius Baer Group Ltd. in 2010 according to Article 20 of the Swiss Federal Stock Exchange Act

- With notification dated 8 March 2010 Julius Baer Group Ltd. was informed that on 5 March 2010 Wellington Management Company LLP's (Boston/USA) holdings of purchase positions (shares) in Julius Baer Group Ltd. crossed below the reporting threshold of 3% and amounted to 2.91% as at that day.
- With notification dated 27 September 2010 Julius Baer Group Ltd. was informed that on 24 September 2010 AXA S.A.'s (Paris/France) holdings

of purchase positions (shares) in Julius Baer Group Ltd. crossed below the reporting threshold of 3% and amounted to 2.97% as at that day.

– With notification dated 5 November 2010 Julius Baer Group Ltd. was informed that on 1 November 2010 BlackRock, Inc.'s (see footnote 7 to the table further above) holdings of purchase positions (shares) in Julius Baer Group Ltd. crossed above the reporting threshold of 5% and amounted to 5.01% as at that day, while BlackRock, Inc.'s holdings in sale positions (CFD) amounted to 0.05% as at that day.

**Cross-shareholdings**

There are no cross-shareholdings between Julius Baer Group Ltd. and its subsidiaries or third-party companies.

# Capital structure

**Capital**

The share capital of the Company amounted to CHF 4 132 615.12 as at 31 December 2010. It is fully paid up and divided into 206 630 756 registered shares (shares) with a par value of CHF 0.02 each. The shares (security no. 10 248 496; ISIN CH 010 2484968) are listed on the SIX Swiss Exchange and are a component of the Swiss Market Index (SMI) and the Swiss Leader Index (SLI).

**Conditional and authorised capital in particular**

There is no authorised capital.

**Conditional capital**

The Company's share capital may be increased by the issue of up to 10 000 000 shares, to be fully paid up and each with a par value of CHF 0.02, in a maximum total amount of CHF 200 000 through the exercise of conversion or warrant rights in connection with bonds issued by the Company or its subsidiaries. Pre-emptive rights of shareholders are excluded. The acquisition of shares through the exercise of conversion or warrant rights and the subsequent transfer of shares are subject to the entry limitations as set forth in Article 4.3 ff. of the Articles of Incorporation.

When issuing convertible or warrant bonds, the Board of Directors may rescind priority subscription rights of shareholders for important reasons.

Important reasons can be the securing of optimal conditions in issuing the bonds and ensuring equal treatment of domestic and foreign shareholders. In the event that the Board of Directors precludes the priority subscription rights, the following applies:

a) Conversion rights may be exercised only during a maximum of seven years, and warrant rights only during a maximum of four years from the date of issue of the relevant bond.
b) The new shares shall be issued according to the applicable conversion or warrant conditions. The convertible and warrant bonds must be issued in conformity to market conditions (including the usual market conditions with regard to protection against dilution). The conversion or option price must be not less than the average of the last prices paid on the SIX Swiss Exchange during the five days preceding the determination of the final issue conditions for the relevant convertible or warrant bonds.

## Changes of capital

The description of the changes of capital in the last two years is disclosed in the consolidated statement of changes in equity.

## Shares and participation certificates

### Shares

| | 2010 | 2009 |
|---|---|---|
| Number of shares as at 31 December | | |
| Registered shares with par value of CHF 0.02 | **206 630 756** | 206 630 756 |
| (all entitled to dividends) | | |

There are no preferential rights or similar rights. Each share entitles to one vote.

### Participation certificates

There are no participation certificates.

### Bonus certificates

There are no bonus certificates.

## Limitations on transferability and nominee registrations (as at 31 December 2010)

The Company shall keep a share register, in which the owners and usufructuaries of the shares are entered with their name, address and nationality, respectively, place of incorporation in case of legal entities. In relation to the Company, any person entered in the share register shall be deemed to be the shareholder. Nimbus AG, Ziegelbrueckstrasse 82, 8866 Ziegelbruecke, Switzerland, administrates the Company's share register.

The shares are issued as uncertificated securities and registered as intermediated securities. They are included in the SIS clearing system for transferred shares. The Company may withdraw shares registered as intermediated securities from the custodian system. Each shareholder may at any time request from the Company a certification about the shares owned by him/her. The shareholders have no right to request the printing and delivery of certificates for their shares. The Company, however, may at any time print and deliver share certificates (individual certificates, certificates or global certificates) or convert uncertificated securities and share certificates into any other form and may cancel issued share certificates once they have been returned to the Company.

Transfers of intermediated shares, including the granting of security interests, are subject to the Swiss Intermediated Securities Act. The transfer of uncertificated shares is effected by a corresponding entry in the books of a bank or depositary institution following an assignment by the selling shareholder and notification of such assignment to the Company by the bank or depositary institution. The transferee must file a share registration form in order to be registered in the Company's share register as a shareholder with voting rights. Failing such registration, the transferee may not vote at or participate in any shareholders' meeting but may still receive dividends and other rights with financial value. The uncertificated shares may only be transferred with the assistance of the bank that administers the book entries of such shares for the account of the transferring shareholder. Further, shares may only be pledged to the bank that administers the book entries of such shares for the account of the pledging shareholder; in such case, the Company needs to be notified.

According to the Articles of Incorporation, a person having acquired shares will be recorded in the Company's share register as a shareholder with voting rights upon request. The Company may refuse to record a person in the share register as a shareholder with voting rights if such person does not expressly state that he/she has acquired the shares in his/her own name and for his/her own account.

Fiduciaries/nominees may be entered as a shareholder in the share register with voting rights for shares up to a maximum of 2% of the share capital. Shares held by a fiduciary/nominee that exceed this limit may be registered in the share register with voting rights if such fiduciary/nominee disclosed to the Company the name, address, nationality or registered office and shareholdings of any person or legal entity for whose account it is holding 0.5% or more of the share capital. Fiduciaries/nominees which are affiliated with other fiduciaries/nominees by means of ownership structure or voting rights or which have a common management or are otherwise affiliated are deemed one fiduciary/nominee as regards the application of such entry limitations.

The Board of Directors may cancel the entry in the share register of a shareholder or fiduciary/nominee with voting rights, upon a hearing of such shareholder or fiduciary/nominee, if the entry in the share register is based on false information. The affected shareholder or fiduciary/nominee has to be notified of the cancellation immediately.

**Convertible bonds and options**

There are no outstanding convertible or warrant bonds. Information on employee options is disclosed in the section 'Content and method of determining the compensation and equity-based incentives within the Group' below as well as in Note 27.

## Board of Directors

All members of the Board of Directors of Julius Baer Group Ltd. are non-executive members. The Board of Directors of the Group's principal operating company, Bank Julius Baer & Co. Ltd., is composed of the same members as the Board of Directors of Julius Baer Group Ltd.

**Members of the Board of Directors**

**Raymond J. Baer** (born 1959), Swiss citizen; Law Degree, University of St. Gallen, 1984; Master of Law LL.M, Columbia Law School, New York, USA, 1985. Salomon Bros. Inc., New York and London, 1985–1988. Entry into Bank Julius Baer & Co. Ltd., Zurich, as Head of the Swiss Capital Market Group, 1988; Deputy Branch Manager of Bank Julius Baer & Co. Ltd., New York, 1990–1993; member of the Management Committee of Bank Julius Baer & Co. Ltd., Zurich, 1993–1996; member of the Group Executive Board of Julius Baer Holding Ltd. and Head of the Private Banking business line as of 1996; Vice President of the Group Executive Board of Julius Baer Holding Ltd. from 2001 until 13 May 2003; Co-Head of the Private Banking business line from January 2003 until 13 May 2003. Chairman of the Board of Directors of Julius Baer Holding Ltd., 2003–2009; Chairman of the Board of Directors of Bank Julius Baer & Co. Ltd. since 2003; Chairman of the Board of Directors of Julius Baer Group Ltd. since 2009 (term of office until 2012).

**Leonhard H. Fischer** (born 1963), German citizen; Master in Finance, University of Georgia, USA, 1987. J. P. Morgan Chase GmbH, 1987–1995: Managing Director and member of the Executive Board, 1992–1995; Dresdner Bank AG, 1995–2002: member of the Executive Board of Dresdner Bank AG and Chief Executive Officer of Dresdner Kleinwort Wasserstein, 1999–2002; Allianz Holding AG, member of the Executive Board, Head Corporates and Markets, 2001–2002; Credit Suisse Group, 2003–2007: Chief Financial Officer of Winterthur Group, 2003–2006, member of the Executive Board of Credit Suisse Group, 2003–2007; Chief Executive Officer EMEA, 2006–2007; RHJ International SA, Co-Chief Executive Officer and member of the Board of Directors, 2007–2009; Chief Executive Officer and member of the Board of Directors since 2009. Member of the Board of Directors of Julius Baer Holding Ltd. in 2009; member of the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 2009 (2012).

**Claire Giraut** (born 1956), French citizen; Master in Biotech Engineering, Institut National Agronomique, Paris, 1978. Sanders Group, Paris, various positions, 1978–1985; Serete Group, Paris, various positions in finance and accounting, 1985–1996; Association of French Lawyers, Financial Controller, 1996–1997; Coflexip Stena Offshore, Paris, Chief Financial Officer and Group Head of Communications, member of the Executive Committee, 1997–2001; Technip Group, Paris, Chief Financial Officer of the offshore division and member of the Executive Board, 2002–2003; Ipsen Group, Paris, Chief Financial Officer and member of the Executive Committee since 2003. Member of the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 2010 (2012).

**Peter Kuepfer** (born 1944), Swiss citizen; Certified Accountant's Degree, 1972. Member of the Executive Board of CS Holding, 1989–1996; Chairman of the Board of Directors of CS Life, 1989–1993; President of the Executive Board of Bank Leu, Zurich, 1993–1996; Independent Management Consultant since 1997. Member of the Board of Directors of Julius Baer Holding Ltd., 1999–2009; Vice Chairman, 2002–2006; Independent Lead Director, 2006–2009; member of the Board of Directors of Bank Julius Baer & Co. Ltd. since 1999; Vice Chairman, 2002–2006; member of the Board of Directors of Julius Baer Group Ltd. since 2009; Independent Lead Director (2011).

**Gareth Penny** (born 1962), dual South African and Irish citizen; Master of Arts in Philosophy, Politics and Economics, Oxford University (Rhodes Scholar), UK, 1985. Anglo American Corporation, Johannesburg, South Africa, Head of Anglo American & De Beers Small Business Initiative; Executive Director & Head of Sales & Marketing De Beers SA, 2001–2004; Managing Director Diamond Trading Company, 2004–2006; member of the Board of De Beers SA, Luxembourg, 2003-2010; Group Chief Executive Officer, 2006–2010. Member of the Board of Directors of Julius Baer Holding Ltd., 2007–2009; member of the Board of Directors of Bank Julius Baer & Co. Ltd. since 2007; member of the Board of Directors of Julius Baer Group Ltd. since 2009 (2013).

**Daniel J. Sauter** (born 1957), Swiss citizen; Swiss Certified Banking Expert, 1983. Gewerbebank, Zurich, Trainee, 1976–1978; Bank Leu, Zurich, Foreign Exchange Trader, 1978–1981; Bank fuer Kredit und Aussenhandel, Zurich, Foreign Exchange and Money Market Trader, 1981–1983; Glencore International, Zug, 1983–1998: Treasurer and Risk Manager, 1983–1988; Chief Financial Officer, 1989–1998; Xstrata AG, Zug, 1994–2001: Development of Xstrata AG into a globally diversified mining group; Chief Executive Officer, 1995–2001; Trinsic AG, Zug, Co-founder and Chairman of the Board of Directors since 2001; Alpine Select AG, Zug, Chairman of the Board of Directors since 2001. Member of the Board of Directors of Julius Baer Holding Ltd., 2007–2009; member of the Board of Directors of Bank Julius Baer & Co. Ltd. since 2007; member of the Board of Directors of Julius Baer Group Ltd. since 2009 (2013).

**Charles G. T. Stonehill** (born 1958), dual British and American citizen; Master of Arts in Modern History, Oxford University, UK, 1978. J. P. Morgan & Co., Corporate and Investment Banking, 1978–1984; Morgan Stanley & Co., Managing Director and Head of Equity Division Europe, 1984–1997; Credit Suisse First Boston, Head of Investment Banking for the Americas and member of the Operating Committee, 1997–2002; Lazard Frères, Global Head of Capital

Markets and member of the Executive Committee, 2002–2004; Non-executive Director of Gulfsands Petroleum, 2005–2006; Chairman of Panmure Gordon plc., 2006–2008; Independent Director of the London Metal Exchange Ltd. from 2005 until August 2009; Chief Finance Officer, Better Place, Palo Alto, USA, since March 2009. Member of the Board of Directors of Julius Baer Holding Ltd., 2006–2009; member of the Board of Directors of Bank Julius Baer & Co. Ltd. since 2006; member of the Board of Directors of Julius Baer Group Ltd. since 2009 (2011).

**Changes in the Board of Directors**
At the Ordinary Annual General Meeting of Julius Baer Group Ltd. on 8 April 2010, Rolf P. Jetzer, Gareth Penny and Daniel J. Sauter were re-elected for another term of three years. Regrettably, Rolf P. Jetzer unexpectedly passed away on 19 September 2010.

Claire Giraut was elected to the Board of Directors for a two-year term at the Ordinary Annual General Meeting 2010. Monika Ribar Baumann did not stand for re-election after having served on the Board of Directors for nine years.

Heinrich Baumann, an independent consultant, is intended to be proposed for election to the Board of Directors at the Ordinary Annual General Meeting on 7 April 2011.

**Other activities and functions**

In applying the Corporate Governance Directive and the corresponding commentary of the SIX Swiss Exchange, the Company fundamentally discloses mandates and interest ties with exchange-listed domestic and foreign companies as well as with domestic and foreign banks and finance companies outside of the Julius Baer Group. There are no further activities or interest ties within scope of this section of the corporate governance report than those listed below:

**Raymond J. Baer:**
- membership on the Board and the Chairman’s Committee of the Board of the Swiss Bankers Association;
- President of the Association of Swiss Commercial and Investment Banks;
- member of the Foundation Board of the Swiss Finance Institute;
- member of the Regulatory Board of SIX Exchange Regulation and member of the Participants and Surveillance Committee of the Regulatory Board of SIX Exchange Regulation.

**Leonhard H. Fischer:**
- Chairman of the Supervisory Board and member of the Chairman’s Committee of DBV-Winterthur Holding AG (DWH), Wiesbaden;
- member of the Supervisory Board of ACA Konzern AG, Cologne;
- member of the Management Board of Gesellschaft zur Foerderung der Frankfurter Wertpapierboerse e.V., Frankfurt.

**Claire Giraut:**
- member of the Board of Directors and of the Audit Committee of Heurtey-Petrochem S.A., Vincennes, France.

**Peter Kuepfer:**
- Chairman of the Board of Directors of GE Money Bank Ltd., Zurich;
- member of the Board of Directors of Holcim Ltd, Jona;
- member of the Supervisory Board of Metro AG, Duesseldorf.

**Daniel J. Sauter:**
- Chairman of the Board of Directors of Trinsic AG, Zug;
- Chairman of the Board of Directors of Alpine Select AG, Zug;
- member of the Board of Directors of Sika Ltd, Baar;
- member of the Board of Directors of Sulzer AG, Winterthur;

– member of the Board of Directors of Model Holding AG, Weinfelden.

**Elections and terms of office**

The members of the Board of Directors are elected on an individual basis by the Ordinary Annual General Meeting, normally for a term of three years. The period between two Ordinary Annual General Meetings is deemed to be one year. The term of office for each director shall be fixed with his/her election. The various terms of office shall be fixed in a way to assure that approximately one-third of all members are newly elected or re-elected each year. Members whose term of office has expired are immediately eligible for re-election. The Board of Directors shall constitute itself. The maximum (cumulative) term of office for the members of the Board of Directors is generally twelve years. Members who have reached their 67th year of age generally do not seek re-election at the end of their current term. However, in exceptional instances, the Board of Directors may propose the re-election of such a Board member to the Ordinary Annual General Meeting. The term of office of a member of the Board of Directors ends automatically at the Ordinary Annual General Meeting in the year in which he/she completes his/her 70th year of age.

The remaining term of office of each member is disclosed in the section 'Members of the Board of Directors' above.

**Internal organisational structure**

The Board of Directors consists of three or more members. It meets as often as business requires, but at least once per quarter. The presence of a majority of its members is necessary for resolutions to be passed, with the exception of the ascertainment resolution and the resolution concerning the amendment of the Articles of Incorporation as well as the capital increase report in the case of capital increases. Resolutions are passed by an absolute majority of votes of members present. The members of the Board of Directors may also be present by phone or electronic means. Resolutions of the Board of Directors may also be passed by way of written consent (letter, fax) or by way of an electronic data transfer provided that no member requests oral deliberation. In such cases, the text of written resolutions must be sent to all members and approved by all members of the Board of Directors to be valid.

In the case of a tie vote at meetings, the Chairman shall have the casting vote. For resolutions passed by the Board of Directors with regard to agenda items that have been subject to prior resolution by a Committee of the Board of Directors (pre-resolving Committee) and if the members of such pre-resolving Committee (taking into consideration the casting vote of the Chairman) would represent a majority of votes in the Board of Directors, the casting vote shall not be with the Chairman of the Board but with the chairperson of the Audit Committee, unless the chairperson of the Audit Committee is also a member of such pre-resolving Committee, in which case the casting vote shall be with the member of the Board of Directors who is not a member of such pre-resolving Committee and who has served the longest total term of office on the Board of Directors. The members of the Executive Board of Julius Baer Group Ltd. generally participate as guests in the meetings of the complete Board of Directors. These meetings generally take up at least half a day.

The supplementary role as an Independent Lead Director is generally assigned to a senior Board member whose leadership capabilities, personal authority and experience with Julius Baer allow him or her to assume a mutually supported function as facilitator within the Board of Directors. As such and if necessary, the Independent Lead Director assures open communication and dialogue between the Board members in case of fundamental differences of opinion, and acts – if needed – as mediator between Board members. The Independent Lead Director's role is currently filled by Peter Kuepfer.

In order to gauge the effectiveness of its activities, the Board of Directors as a whole as well as the respective committees carry out an annual self-assessment. The aim is to review and assess what has been achieved relative to the objectives formulated at the beginning of the year. The results of the committees are brought to the attention of the complete Board of Directors.

The Board of Directors normally meets for one strategy seminar a year. The purpose of this seminar is to analyse the positioning of the Julius Baer Group as well as to review and if necessary redefine its strategic direction in light of the prevailing macroeconomic and company-specific circumstances.

In 2010, the complete Board of Directors of Julius Baer Group Ltd. held five meetings and a four-day strategy seminar.

### Attendance of the members of the Board of Directors at the Board meetings in 2010

| | February | April | June | Strategy Seminar September | September | December |
|---|---|---|---|---|---|---|
| Raymond J. Baer | x | x | x | x | x | x |
| Peter Kuepfer | x | x | x | E | E | x |
| Leonhard H. Fischer | x | x | x | x | E | x |
| Rolf P. Jetzer[1] | x | x | x | x | x | – |
| Gareth Penny | E | x | x | x | x | x |
| Monika Ribar Baumann[2] | x | – | – | – | – | – |
| Daniel J. Sauter | x | x | x | x | x | x |
| Claire Giraut[3] | – | x | x | x | x | x |
| Charles G. T. Stonehill | E | x | x | x | x | x |

[1]Passed away on 19 September 2010
[2]Left the Board of Directors at the Ordinary Annual General Meeting 2010
[3]Elected at the Ordinary Annual General Meeting on 8 April 2010
E = excused

From among its members, the Board of Directors elects a Chairman as well as the chairpersons and the members of the committees of the Board of Directors. The chairpersons of the committees are responsible for seeking advice from external specialists as well as from members of the Executive Board as needed.

According to the Articles of Incorporation of Julius Baer Group Ltd., the Board of Directors has the following non-transferable and irrevocable duties:

a) to supervise the Company and issue the necessary instructions;
b) to determine the organisation of the Company;
c) to arrange the accounting, financial control and financial planning inasmuch as they are necessary for the management of the Company;
d) to appoint and remove the persons entrusted with the Company's management;
e) to control those persons entrusted with the management of the Company, also in relation to compliance with laws, statutes, regulations and instructions;
f) to draw up the Annual Report and to prepare the Ordinary Annual General Meeting and implementation of its resolutions;
g) to inform the judge in the event of insolvency.

The Board of Directors may assign the preparation and carrying out of its resolutions or the supervision of business transactions to committees or individual members. It must make sure its members are suitably informed.

Within the Board of Directors, responsibilities are divided up in accordance with the definition of the areas of responsibility in the section 'Definition of areas of responsibility' below.

**The responsibilities and composition of the currently existing committees of the Board of Directors**

The members of the Board of Directors discuss specific topics in the Board's committees. Each of these committees is chaired by an independent director, except for the Chairman's and Risk Committee, which is presided over by the Chairman of the Board. Each committee chairperson provides the complete Board of Directors with regular updates on the current activities of the respective committee and on important committee issues. In addition, the minutes of the committee meetings are made available to the complete Board of Directors.

*Chairman's and Risk Committee*

The Chairman's and Risk Committee consists of the Chairman of the Board of Directors and at least two other members who are specifically skilled and experienced in areas of finance, corporate governance and risk control. It is presided over by the Chairman of the Board of Directors. The Chairman's and Risk Committee is responsible for developing and upholding principles of corporate governance for the Julius Baer Group and for authorising market, credit and financial risks (as set out in the appendix of the Organisational and Management Regulations), including, in particular, loans granted to members of the Board of Directors and of the Senior Management and/or affiliated entities and closely related individuals ('Organkredite') as defined by the relevant Swiss accounting standards. The Chairman's and Risk Committee monitors compliance with rules governing large concentrations of risk ('Klumpenrisiken') and is responsible for the standards and methodologies for risk control with regard to risks other than operational risk (including legal and regulatory risk), which are employed to comply with the principles and risk profile adopted by the Board of Directors or other relevant supervisory or managing bodies.

The Chairman's and Risk Committee determines, coordinates and reviews the risk limits in the context of the overall risk policy. It reviews the policies with regard to risks other than operational risk (including legal and regulatory risk) and determines the guidelines for financial reporting. The Chairman's and Risk Committee bases its risk-related work on the Risk Landscape, as approved by the Chairman's and Risk Committee at a joint meeting with the Audit Committee of the Board of Directors, once a year. The Chairman's and Risk Committee furthermore approves the issuance of guarantees, letters of comfort and similar items relative to Julius Baer Group Ltd. and the principal operating subsidiaries. It approves the entry into, the dissolution and the modification of joint ventures of strategic importance by the principal operating subsidiaries, and approves the issue and amendment of organisational and management regulations of the principal operating subsidiaries, including the allocation of responsibilities. The Chairman's and Risk Committee furthermore approves the formation, the change in capital or ownership structure, the change of legal form, and the liquidation or closure of principal operating subsidiaries. The Chairman's and Risk Committee decides on requests from members of the Executive Board and full-time members of the Board of Directors to serve on outside boards of directors or advisory boards, boards of trustees or foundation boards and gives its consent to such members to serve in public office or in the government or to take over a higher rank in the military.

The Chairman's and Risk Committee generally convenes monthly. In 2010, the Committee met eleven times for approximately three hours each. The members of the Executive Board of the Company generally participate as guests in the meetings of the Chairman's and Risk Committee.

**Members:** Raymond J. Baer (chairperson), Leonhard H. Fischer, Peter Kuepfer and Daniel J. Sauter

*Audit Committee*
The Audit Committee is responsible for the integrity of controls for financial reporting and the review of certain financial statements, including the consolidated statement of the Group, the annual financial statement and interim statements before they are presented to the complete Board of Directors for approval. It also reviews the internal and external communication regarding the financial data and accounting statements and related information. The Audit Committee monitors compliance by the Company with its respective legal and regulatory obligations and ensures the receipt of regular information as to compliance by its subsidiaries with such obligations as well as with regard to the existence of an adequate and effective internal control as regards financial reporting. The Audit Committee is responsible for the standards and methodologies for risk control with regard to operational risk (including legal and regulatory risk) which are employed to comply with the principles and risk profile of the Group adopted by the Board of Directors or other relevant supervisory or management bodies.

The Committee directs and monitors the activities of Group Internal Audit and ultimately determines the compensation paid to the Head of Group Internal Audit. The chairperson of the Committee meets with the Head of Group Internal Audit on a regular basis throughout the year, usually every two months.

The Committee ensures contact with the external auditors at the level of the Board of Directors and monitors their performance and independence as well as their cooperation with the internal auditors. The Committee is also responsible for assessing the performance of the external auditor on an annual basis. It reviews their reports about the rendering of the accounts and the management letter and provides a recommendation to the complete Board of Directors regarding election of the external auditor at the Ordinary Annual General Meeting.

The members of the Audit Committee are independent. The Audit Committee has its own charter and performs an in-depth annual self-assessment with regard to its own performance. The Audit Committee convenes at least four times a year for about two to three hours on average. The members of the Executive Board of Julius Baer Group Ltd. generally participate as guests in the meetings of the Audit Committee. The Head of Group Internal Audit and representatives of the external auditor participate in every meeting. During the year under review, the Audit Committee held six meetings.

**Members:** Charles G. T. Stonehill (chairperson), Claire Giraut and Daniel J. Sauter

*Compensation Committee*
The Compensation Committee is responsible for approving any compensation policies relating to the Julius Baer Group as a whole as well as any compensation policies within the Julius Baer Group which are linked to the shares of the Company. Furthermore, it ultimately determines the total compensation (including termination payments) of the Chairman and, if applicable, of the Vice Chairman of the Board of Directors, and prepares and provides to the Board of Directors all compensation proposals relating to all other members of the Board of Directors. The Compensation Committee in addition ultimately determines the compensation of the members of the Executive Board of the Company. The Compensation Committee ultimately approves the appointment and dismissal of the members of the foundation boards of the pension funds (employer representatives only) of the Company and its principal operating subsidiaries. The Compensation Committee consists of at least three members, who are appointed by the Board of Directors. The chairperson of the Compen-

sation Committee as well as the majority of its members are independent outside directors. With respect to decisions of a specialised nature, the Compensation Committee may seek advice from additional members of the Board of Directors. The Compensation Committee convenes as often as required for two hours on average. During the year under review, the Compensation Committee held four meetings.

A special focus of the Committee's work in 2010 was on FINMA circular 10/1 'Minimum standards for remuneration schemes of financial institutions' and its adoption in the compensation landscape of the Julius Baer Group with the support of an external specialised consultancy firm.

**Members:** Peter Kuepfer (chairperson), Leonhard H. Fischer and Gareth Penny

*Nomination Committee (ad hoc)*
In general, the role of the Nomination Committee is to assist the Board of Directors in the effective discharge of its responsibilities, ensuring that the Board of Directors comprises individuals who are best able to discharge the responsibilities of directors, in accordance with applicable laws and regulations as well as principles of sound corporate governance. The Nomination Committee is responsible for the long-term succession planning at the level of the Board of Directors. It assesses candidates as possible new members of the Board of Directors of the Company and prepares respective nominations for approval by the complete Board of Directors as well as for final consideration by the Ordinary Annual General Meeting.

The Nomination Committee is also responsible for the long-term succession planning at the level of the Chief Executive Officer (CEO) of the Company and in this function assesses potential candidates and prepares respective nominations for approval by the Board of Directors. In particular, the Nomination Committee has the following powers, duties and responsibilities:

a) establishment of profiles describing necessary and desirable competencies and skills of members of the Board of Directors and of the CEO;
b) search for and identification of suitably qualified candidates for appointment to the Board of Directors;
c) conduct of exploratory talks and application talks with possible candidates;
d) submission of proposals to the Board of Directors with regard to the election of members of the Board of Directors and nomination of the CEO;
e) establishment of a Board of Directors and CEO succession plan;
f) supervision of the staggered re-election process with regard to members of the Board of Directors.

The Nomination Committee convenes as needed and consists of a minimum of three members of the Board of Directors, who are appointed by the Board of Directors. The chairperson of the Compensation Committee of the Board of Directors shall also act as chairperson of the Nomination Committee. The Nomination Committee met twice in 2010 and was supported in its work by an external specialised consultancy firm.

**Members:** Peter Kuepfer (chairperson), Raymond J. Baer and Daniel J. Sauter

## Definition of areas of responsibility

### Fundamentals
The governing bodies are responsible for the strategic direction of the Julius Baer Group and the Company as well as for determining and implementing the principles of organisation, management and monitoring. They are accountable for providing the means necessary to achieve the targeted objectives and bear ultimate responsibility for the overall results. They supervise the maintenance of the Julius Baer Group as a whole and coordinate and oversee all activities carried out by, and in the name of the Company. The Board of Directors has a clear strategy-setting responsibility and supervises and moni-

tors the business, whereas the Executive Board, led by the Chief Executive Officer (CEO), has executive management responsibility. Julius Baer operates under a strict dual board structure, as mandated by Swiss banking law. The functions of Chairman of the Board and CEO are assigned to two different people, thus ensuring a separation of powers. This structure establishes checks and balances and preserves the institutional independence of the Board of Directors from the day-to-day management of the Company, for which responsibility is delegated to the Executive Board under the leadership of the CEO.

The individual responsibilities and powers of the governing bodies arise from the Organisational and Management Regulations.

The decisions of the governing bodies are implemented by the Group companies in compliance with the respective applicable legal and supervisory regulations.

*Board of Directors*
The Board of Directors is responsible for the ultimate direction, supervision and control of the Company, which it fulfils within the scope of the duties stipulated in Article 716a of the Swiss Code of Obligations and through calling on its various committees. The complete Board of Directors is especially responsible for preparing all topics which fall within the competence of the Ordinary Annual General Meeting and receives support and advice from the Audit Committee in particular in matters of financial reporting and other capital management questions. Based on the proposal of the Audit Committee, the complete Board of Directors decides on the external auditors to be recommended for appointment at the Ordinary Annual General Meeting. Entry into, dissolution and modification of joint ventures of strategic importance by the Company also falls within the competence of the complete Board of Directors. Upon proposal by the Executive Board and respective approval by the Chairman's and Risk Committee, the complete Board of Directors approves the definition of further principal operating subsidiaries in addition to Bank Julius Baer & Co. Ltd. Moreover, the complete Board of Directors appoints the Chief Executive Officer and the other members of the Executive Board and, based on the proposal of the Audit Committee, decides on the appointment and dismissal of the Head of Group Internal Audit. Furthermore, the complete Board of Directors decides on the appointment and dismissal of the Chairman of the Board of Directors, of members of the Board of Directors and of advisory board members of the principal operating subsidiaries. The complete Board of Directors is responsible for determining the overall risk policy of the organisation as well as for the design of accounting, financial controlling and strategic financial planning. It also decides on capital market transactions involving shares of Julius Baer Group Ltd., on such resulting in the issue of bonds of the Company as well as on the issue of bonds by subsidiaries based on a graduated competence schedule regarding the capital and time commitment involved.

*Executive Board*
The Executive Board is responsible for the implementation of the Company's and the Group's overall strategy, within the respective parameters established by the Board of Directors, and is accountable for all operational and organisational matters as well as for the operating results. Except where delegated by the Board of Directors to another supervisory or managing body, the Executive Board is ultimately responsible for all of the day-to-day activities of the Company, including such activities which have been assigned or delegated by the Executive Board.

The Executive Board is responsible for ensuring the consistent development of the Julius Baer Group in accordance with established business policies, for establishing the organisation of the Executive Board itself, and for representing the Executive Board in its relationship with the Board of Directors and third parties.

The Executive Board has the right to issue binding policies to and require reporting or consultation from Group companies before a decision is taken.

It proposes the formation, the change in capital or ownership structure, the change of legal form, and the liquidation or closure of principal operating companies and subsidiaries to the Chairman's and Risk Committee for final approval. It approves entry into, dissolution and modification of joint ventures of strategic importance by subsidiaries other than principal operating subsidiaries. The Executive Board grants permission to employees (other than the members of the Executive Board and the full-time members of the Board of Directors) to serve on outside boards of directors or advisory boards, boards of trustees or foundation boards and gives its consent to serve in public office, government or a higher rank in the military.

In addition, the Executive Board may form committees for specific tasks and regulate their activities. Their composition and areas of responsibility must be approved in advance by the Board of Directors.

The Executive Board is responsible for general corporate administration, in particular the registration of shareholders in and the maintenance of the share register. The Executive Board coordinates press contacts, press conferences and press releases and is responsible for investor relations and corporate identity (including corporate design and trademarks) of the Company. It also monitors and evaluates financial and other risks as well as compliance with rules governing equity capital, risk distribution and liquidity maintenance. Additionally, the Executive Board coordinates the contacts with the regulatory authorities. The Executive Board is empowered to issue binding instructions, which may be of general application or related to specific business matters, and may require the submission of reports, or consultation with the Executive Board prior to making decisions.

The Executive Board is presided over by the Chief Executive Officer (the President of the Executive Board). The Chief Executive Officer is responsible, in particular, for ensuring the consistent management development of the Company in accordance with established business policies and strategies, representing the Executive Board in its relationship with the Board of Directors and third parties and establishing the organisation of the Executive Board itself within the framework as provided by the Articles of Incorporation as well as the Organizational and Management Regulations of Julius Baer Group Ltd. and the Julius Baer Group.

**Information and control instruments vis-à-vis the Executive Board**

In order to control the business activity of the Julius Baer Group, the Board of Directors has formed the committees listed in the section 'Internal organisational structure' above. Each committee chairperson provides the complete Board of Directors with regular updates on the current activities of the respective committee and on important committee issues. In addition, the minutes of the committee meetings are made available to the complete Board of Directors.

The different committees are regularly kept informed by means of relevant reports from within the Group. Moreover, these reports are discussed in depth during regular meetings with the relevant bodies.

At the meetings of the Board of Directors, the Chief Executive Officer (CEO) and the other Executive Board members regularly update the Board on important issues. At such meetings, the Board members may request from Board or Executive Board members any information about any matters concerning the Julius Baer Group that they require to fulfil their duties.

The Executive Board or its individual members submit the following major reports to the Board of Directors and its committees:

- Written report by the CEO (quarterly to complete Board of Directors)
- Written or oral reporting by the CEO (monthly to Chairman's and Risk Committee)

- Written report by the General Counsel (quarterly to complete Board of Directors)
- Oral reporting by the members of the Executive Board (quarterly to complete Board of Directors, usually monthly to Chairman's and Risk Committee)
- Financial reporting by the Chief Financial Officer (CFO) (in writing monthly to complete Board of Directors, and orally on a quarterly basis to complete Board of Directors; monthly to Chairman's and Risk Committee)
- Rolling Forecast by the CFO (quarterly to complete Board of Directors)
- Pension Fund Review by the CFO (annually to complete Board of Directors)
- Budget and Scenario Planning by the CEO/CFO (annually to complete Board of Directors)
- List of 'Organkredite' by the Chief Risk Officer (quarterly to Chairman's and Risk Committee)
- Regulatory reporting 'Klumpenrisiken' by the Chief Risk Officer (quarterly to Chairman's and Risk Committee)
- Risk reporting by the Chief Risk Officer (quarterly to Chairman's and Risk Committee, annually to complete Board of Directors)
- Risk Landscape by the Chief Risk Officer (annually to Chairman's and Risk Committee and Audit Committee)
- Operational risk reporting by the Chief Risk Officer (quarterly to Audit Committee)

In addition, the Board of Directors has an independent Group Internal Audit unit at its disposal. The obligations and rights of Group Internal Audit are set forth in a separate code of responsibilities. Group Internal Audit has an unlimited right to information and access to documents with respect to all companies and elements of the Group. Furthermore, in consultation with the Chairman of the Board of Directors, the Executive Board may ask Group Internal Audit to carry out special investigations outside of the planned auditing activities. The Head of Group Internal Audit is appointed by the Board of Directors. The Head of Group Internal Audit submits a report to the complete Board of Directors on a yearly basis and to the Audit Committee on a quarterly basis respectively.

## Senior Management

### Members of the Executive Board

**Boris F.J. Collardi** (born 1974), dual Swiss and Italian citizen; Executive Programme IMD Lausanne, 1999. Career Starter Programme Credit Suisse, Geneva, 1993–1994; Front Office Support functions incl. Head of Front Office Support Asia-Pacific Credit Suisse Private Banking, Geneva, Zurich, Singapore, 1995–1999; Executive Assistant to the CEO Credit Suisse Private Banking, Zurich, 2000; Project Director 'Global Private Banking Center' Credit Suisse Private Banking, Singapore, 2000–2002; Head of Business Development, member of the Executive Committee Credit Suisse Private Banking Europe, Zurich, 2002–2003; Chief Financial Officer and Head of Corporate Center; member of the Executive Board Credit Suisse Private Banking, Zurich, 2003–2004; Chief Operating Officer; member of the Private Banking Europe Management Committee Credit Suisse Private Banking EMEA, Zurich, 2004–2005. Member of the Executive Board of Bank Julius Baer & Co. Ltd. since 2006; Chief Operating Officer, 2006–2009, and in addition CEO Investment Solutions Group, 2008–2009 (part of the Bank's former Investment Products division); Chief Executive Officer of Bank Julius Baer & Co. Ltd. since May 2009; member of the Executive Board and Chief Executive Officer of Julius Baer Group Ltd. since 1 October 2009.

**Jan A. Bielinski** (born 1954), Swiss citizen; Ph.D. in Law, University of Zurich, 1983; Advanced Management Program, Wharton School, University of Pennsylvania, Philadelphia, USA, 1989. Entry into Bank Julius Baer & Co. Ltd., 1983; Head of Corporate and Marketing Communications, 1987–1995; transfer to Julius Baer Holding Ltd., 1996; Chief Communications Officer and Head of Investor Relations since 1996 (Head of Investor Relations until 2008); member of the Extended Group Executive Board of Julius Baer Holding Ltd. from 2002 until December 2005; member of the Corporate Centre Management from December 2005 until November 2007; Chief Communications Officer of Julius Baer Holding Ltd. from 1996 until 30 September 2009; member of the Executive Board and Chief Communications Officer of Julius Baer Group Ltd. since 1 October 2009; member of the Extended Executive Board and Chief Communications Officer of Bank Julius Baer & Co. Ltd. as of 1 January 2010.

**Dieter A. Enkelmann** (born 1959), Swiss citizen; Law Degree, University of Zurich, 1985. Credit Suisse Group, various functions in Investment Banking in Switzerland and abroad, 1985–1997; Swiss Re, Head Corporate Financial Management and Investor Relations, 1997–2000; Swiss Re, Chief Financial Officer of the business unit Financial Services, 2001–2003; Barry Callebaut, Chief Financial Officer, 2003–2006. Entry into the Julius Baer Group on 11 December 2006 as member of the Group Executive Board and Group Chief Financial Officer; member of the Executive Board and Group CFO since 15 November 2007; administrative and organisational manager of the Executive Board of Julius Baer Holding Ltd. from 1 September 2008 until 30 September 2009; member of the Board of Directors of GAM Holding Ltd. since October 2009; member of the Executive Board and Chief Financial Officer of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 1 October 2009.

**Christoph Hiestand** (born 1969), Swiss citizen; Law Degree, University of St. Gallen (HSG), 1994; admission to the bar in Switzerland, 1997; Master of Law LL.M., Cornell University, Ithaca, USA, 2000. Attorney-at-law with Beiten Burkhardt Mittl & Wegener, Frankfurt am Main and Duesseldorf (Germany), 1997–1998; attorney-at-law with BBLP Meyer Lustenberger, Zurich, 1999–2001. Entry into the Julius Baer Group as Legal Counsel of Bank Julius Baer & Co. Ltd., 2001–2003; General Counsel, Corporate Centre, Bank Julius Baer & Co. Ltd., 2004–2005; Deputy Group General Counsel of Julius Baer Holding Ltd., 2006–2009; member of the Executive Board and General Counsel of Julius Baer Group Ltd. since 1 October 2009.

**Bernhard Hodler** (born 1960), Swiss citizen; Bachelor of Business Administration, School of Economics and Business (HWV) Berne, 1987; Staff IT School SIB, Zurich, 1988–1989; Financial Risk Manager, GARP, 1997; Advanced Executive Program, Swiss Banking School, 1999–2000; Advanced Management Program, Wharton School, University of Pennsylvania, Philadelphia, USA, 2004. Credit Suisse, Head of Global Market & Credit Risk and Global Controlling Trading & Sales, 1994–1996; Credit Suisse First Boston, Head of European Risk Management, 1997–1998. Entry into Bank Julius Baer & Co. Ltd. as Head of Global Risk Management, 1998; Chief Risk Officer of Bank Julius Baer & Co. Ltd. since 2001; President of the Management Committee of Bank Julius Baer & Co. Ltd. from 2001 until 2 December 2005; member of the Extended Group Executive Board and Chief Risk Officer of the Julius Baer Group from 2001 until 2 December 2005; Chief Risk Officer and Head of the Corporate Centre from 3 December 2005 until 14 November 2007; member of the Executive Board of Julius Baer Holding Ltd. from 15 November 2007 until 30 September 2009; member of the Executive Board of Bank Julius Baer & Co. Ltd. since 2005; Chief Risk Officer, 2005–2009; Head Risk, Legal & Compliance since 2009; member of the Executive Board and Chief Risk Officer of Julius Baer Group Ltd. since 1 October 2009.

**Bernard Keller** (born 1953), Swiss citizen; Degree in Economics (lic. oec. HSG), University of St. Gallen, 1979. Product Manager, Nestlé, Canada, Taiwan and Zurich, 1979-1984; Branch Manager, UBS, Cassarate, 1985-1986; responsible for regional subsidiaries, UBS, Locarno, 1987-1988; Head of Private Banking, UBS, Locarno, 1989-1990; Head of Private Banking Advisory Unit, UBS, Lugano, 1991-1992; Deputy General Manager and Head of Private Banking, BDL Banco di Lugano, Lugano (a private bank of UBS at the time), 1992-1996; Chief Executive Officer, BDL Banco di Lugano, 1997-2005. Chief Executive Officer, Banca Julius Baer (Lugano) SA (after acquisition of the private banks of UBS by Julius Baer), 2005-2006; CEO Ticino and Italy, Bank Julius Baer & Co. Ltd., Lugano, and member of the Executive Board of Bank Julius Baer & Co. Ltd, Zurich, 2007-2009; Head Switzerland and member of the Executive Board, Bank Julius Baer & Co. Ltd., Zurich, member of the Executive Board and Private Banking Representative of Julius Baer Group Ltd. since 1 January 2010.

**Changes in the Senior Management**
On 1 January 2010, Bernard Keller joined the Executive Board of Julius Baer Group Ltd. as Private Banking Representative.

**Other activities and functions**

In applying the Corporate Governance Directive and the corresponding commentary of the SIX Swiss Exchange, the Company discloses mandates and other formal relationships of such senior managers with exchange-listed domestic and foreign companies as well as with domestic and foreign banks and finance companies outside of the Julius Baer Group:

**Dieter A. Enkelmann**:
- member of the Board of Directors of GAM Holding Ltd., including member of the Audit Committee, member of the Nomination Committee as well as chairperson of the Compensation Committee;
- member of the Board of Directors of Cosmo Pharmaceuticals S.p.A., Lainate, Milan, including Head of the Audit Committee and member of the Nomination Committee.

**Management contracts**

There are no management contracts between Julius Baer Group Ltd. and companies (or individuals) outside of the Group.

# Content and method of determining the compensation and equity-based incentives within the Group (as at 31 December 2010)

**Compensation Governance**

**Compensation Committee**
The Committee is composed of three independent members of the Board of Directors and is presided over by the Independent Lead Director, Peter Kuepfer (see also the section 'Internal organisational structure' of this corporate governance report).

**Compensation Committee authority and responsibilities**
The Committee oversees the compensation of the Executive Board members and all other employee compensation within the Group. This includes reviewing and approving Julius Baer's principles on total compensation and benefits and approving any other compensation policies relating to the Julius

Baer Group as a whole as well as any compensation policies within the Julius Baer Group which are linked to the shares of the Group. The Committee also annually reviews that the principles are adhered to as intended and that the policies are compliant with national and international regulations and standards.

The Committee determines the compensation of the members of the Executive Board and the Chairman (and if applicable of the Vice Chairman) of the Board of Directors and prepares and provides to the Board of Directors all compensation proposals relating to all other members of the Board of Directors.

The Chairman of the Board, the CEO and other members of the Executive Board do not take part in those sessions of the Compensation Committee meetings which serve to discuss and decide on their remuneration.

**External advice**

During the year, Stern Stewart & Co. provided independent external advice with regard to the design of the future compensation schemes and participation programmes of the Julius Baer Group. Towers Watson and McLagan supported the Committee by providing market data.

**Compensation Committee competencies**

Approval of all principles on total compensation and benefits

Approval of all Group compensation policies and policies linked to shares of Julius Baer Group Ltd.

Compensation authority

| Ultimate determination | Proposal to the Board of Directors |
| --- | --- |
| Chairman / Vice Chairman[1] | Members of the Board of Directors other than Chairman / Vice Chairman[1] |
| Executive Board | |

[1] If applicable

**Total compensation policy**

The Julius Baer Group follows a ‘pay for performance’ approach which is embedded in a market-aligned total compensation framework consisting, in general, of three components: (i) base salary, (ii) variable compensation and (iii) supplementary employee benefits.

(i) The base salary is defined to reward the level of education, the degree of seniority and the level of expertise and skills required to fulfil a certain function in a relevant business sector and region. The composition of the base salary enables the Group to apply a flexible variable compensation policy whereby the annually decided variable compensation can be adjusted up or down depending on the performance of the individual and the Group.

The Group's salary framework is based on a function model comprising ten function levels with increasing degree of job complexity. A salary band is assigned to each function level defining the target base salary range for jobs assigned to the respective function level. Individual salaries are then determined within these salary bands taking market benchmarks (e.g. Towers Watson data) into account.

The Group does not apply general salary increases (unless required by local legislation). Salary adjustments are made on an individual basis if an employee is promoted to a new function level and/or based on the result of the annual personal assessment. For such individual adjustments, an overall salary increase allowance is defined annually for each country the Group operates in by the Executive Board and approved by the Compensation Committee.

(ii) The Compensation Committee approves the total amount of variable compensation ('pool') available for distribution each year. The pool is determined based on the development of the net operating profit (before bonus and taxes) of the Group in the relevant year, the economic profit (before bonus) and the operating performance relative to a peer group of Swiss private banking institutions such as Bank Sarasin and Bank Vontobel and the private banking divisions of UBS and Credit Suisse.

Variable compensation payments may be made in immediate cash and/or long-term awards in the form of deferred equity. The proportion of deferred equity increases together with the total compensation, degree of seniority and the employee's risk profile. Deferred variable remuneration has already been applied to the members of the Senior Management and selected key staff for 2010. All employees defined as risk-takers by their role in the organisation and high-earners will be subject to deferral from 2011 onwards.

In principle, all employees who are not under notice are eligible for variable compensation. The individual amount depends on the formal year-end assessment of performance against a range of quantitative and qualitative predefined personal (and team) objectives (MbO), competencies and behaviours.

Personal objectives for members of the Senior Management focus on areas such as contribution to the Group and business results, exceptional contributions to cross-business cooperation, strategic and operational leadership skills, outstanding professional behaviour and technical expertise, commitment to the Julius Baer Group, adherence to corporate values and principles, and active risk management.

The Board of Directors is informed annually by the chairperson of the Compensation Committee of the results of the salary review and variable compensation allocation process.

(iii) In order to attract and retain the best talent and employees in each local market where it operates in and in order to live up to the claim of being the 'employer of choice', Julius Baer provides supplementary employee benefits that are competitive within each of these markets. Julius Baer considers benefits to be a supplemental element of compensation and the benefits offered may vary substantially from location to location.

In Switzerland, Julius Baer provides a competitive, future-oriented and flexible pension fund scheme which includes a basic plan where employees can choose the amount they wish to contribute and a supplementary plan where individuals can choose between different investment strategies. This flexible solution offers a variety of individual pension benefits in combination with additional financial security in case of disability or death.

## Changing remuneration standards

The Compensation Committee took note of the adjusted remuneration standards issued by the Swiss Financial Market Supervisory Authority (FINMA) already in December 2009 and although these guidelines were not deemed to be mandatory for Julius Baer Group Ltd., the Compensation Committee decided to analyse the Group's existing remuneration systems and policies based on these guidelines and to propose amendments, if necessary, in the course of 2010.

This analysis was in the end based not only on the FINMA standards, but also to some extent on the recommendations and guidelines issued by the Financial Stability Board (FSB) and the Committee of European Banking Supervisors (CEBS) and to a lesser extent some national financial regulators and authorities such as the Hong Kong Monetary Authority and the Monetary Authority of Singapore.

Although many of the key elements highlighted by the regulators, such as the alignment of total remuneration with the firm's risk policies and the deferral of part of the variable remuneration, already were a part of the remuneration policy of the Group, some changes have been introduced following the analysis to comply with the new regulatory environment. Most notable of the changes are the introduction of economic profit as a criterion for the funding of the variable compensation pool and the design of two new equity-based long-term incentive plans with a deferral component (Premium Share Plan and Incentive Share Plan), both described in the following section.

## Equity-based incentives

The programmes described below reflect the plan landscape as at 31 December 2010. However, the two new plans (i.e. Premium Share Plan and Incentive Share Plan, see below) have not yet been implemented fully. The shares of Julius Baer Group Ltd. required for the equity-based incentives are procured from the market. More information on the equity-based incentives is disclosed in Note 27.

**Staff Participation Plan**
The Staff Participation Plan of the Julius Baer Group offers employees the opportunity to purchase shares of the Company at a discount. The discount is defined annually and may change from year to year. The shares acquired by the participants are blocked from sale for three years following purchase.

The objective of this plan is to strengthen the identification with the Group and its future development of employees on all levels of the organisation.

More information about the Staff Participation Plan 2010 can be found in Note 27.

**Long-Term Incentive Plan**
The Long-Term Incentive Plan (LTI) of the Julius Baer Group is aimed at employees who have a significant influence on the Group's long-term development and financial results. The purpose of the LTI is to strengthen long-term commitment to the Group and to foster interdisciplinary teamwork required for the long-term success of the organisation as a whole. LTI is part of the total compensation of the Board of Directors and in some individual cases the LTI is used to compensate new hires for their lost long-term incentives forfeited to their previous employer due to resignation.

LTI participants are granted a number of shares which vest in equal one-third portions over a period of three years. The shares are transferred to the employees at vesting, subject to continued employment and any other conditions set out in the plan rules, and remain blocked from sale until the third anniversary of the grant. In case of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested shares will be forfeited.

Until vesting, the granted shares are managed by the Loteco Foundation. The Loteco Foundation hedges its liabilities from the LTI on grant date through the purchase of the corresponding shares from the market.

### Equity-based incentives with a deferral component

#### Premium Share Plan

The Premium Share Plan (PSP) is a deferred equity plan which applies to certain senior members of the staff and comprises between 19% and 47% of their total variable compensation. The plan is designed to link and tie a portion of the employee's variable compensation to the long-term development and success of the Group through the share price.

At the start of the plan period, a certain percentage of the employee's variable cash incentive is deferred to the PSP, and the employee is then granted a number of shares equal in value to the deferred cash element. These shares vest in equal one-third portions over a three-year plan period. At the end of the plan period, subject to continued employment, the employee receives an additional share award representing one third of the original grant.

Until vested, the shares are subject to forfeiture in certain circumstances including resignation by the employee, termination for cause, substantial breaches of legal or regulatory requirements, financial losses and a variety of other events where the employee's behaviour has substantially contributed to a financial loss of the Group or caused reputational damage.

No grants have yet been made from the PSP. The plan will be implemented from 2011 onwards.

#### Incentive Share Plan

The Incentive Share Plan (ISP) applies to the members of the Senior Management and some other key members of the staff. The ISP is designed to link part of the variable compensation of the executive directly to the long-term performance of the Company and part of the payment depends on achievement against two performance targets over a three-year period:

*Economic Profit*, which measures value creation of the Julius Baer Group against the strategic three-year plan of the Company over the three-year plan period.

*Relative Share Price,* which compares the performance of the Julius Baer Group share against the STOXX Europe 600 Banks Index.

The three-year performance period and the targets reflect the Group's underlying business cycle and its short- and long-term risk profile.

At the start of the plan period, 15% to 40% of the executive's variable incentive is deferred to the ISP and the employee is then granted a number of shares equal in value to the deferred element. These shares vest in equal one-third portions over the three-year plan period, subject to continued employment.

Also at the start of the plan period, the executives are granted a certain number of performance units which, subject to the achievement of the predefined targets and continued employment, vest at the end of the three-year performance period in the form of additional shares. The total number of vested additional shares can be between zero and two times the number of performance units (for plan participants other than members of the Senior Management and of the Executive Board of Bank Julius Baer) resp. zero to four times for members of the Senior Management and of the Executive Board of Bank Julius Baer. Including the value development of the performance units the ISP can represent between 15% and 67% (77% for members of Senior Management) of the total variable compensation of the executive.

Until vested, the units/shares are subject to forfeiture in certain circumstances including resignation by the employee, termination for cause, substantial breaches of legal or regulatory requirements, financial losses and a variety of other events where the employee's behaviour has substantially contributed to a financial loss of the Group or caused reputational damage.

The ISP has been applied to the members of the Senior Management and selected key staff as part of the variable compensation for 2010. The Compensation Committee decided on 25 January 2011 on the participants of the ISP and on the individual allocations as part of the variable compensation for 2010.

**Compensation for the Board of Directors, Group Executive Board and the CEO**

**Chairman of the Board of Directors**
The Chairman of the Board of Directors has a full-time employment relationship with the Company.

His base salary is determined ultimately by the Compensation Committee and is reviewed regularly based on the complexity of the function in relation to the overall Group structure.

In addition to the base salary, the Chairman is awarded a fixed number of shares of Julius Baer Group Ltd. annually. The shares are tied to a linear vesting schedule (annual instalments of one third over the course of three years) and forfeiture clauses (corresponding to the clauses of the LTI – see above). The Chairman is entitled to the shares only after the expiration of the vesting period, provided that he is in ongoing employment with the Julius Baer Group and that all other conditions of the plan are met. The shares are blocked from sale until the third anniversary of the grant date.

Furthermore, depending on the yearly assessment of the Chairman's work by the Compensation Committee, the Chairman might be awarded a performance payment (in cash and/or shares of Julius Baer Group Ltd.). Such payment depends on the overall Group result and is driven by the strategic leadership and achievements of the Chairman and his/her contribution to the successful development of the Group in the interest of all stakeholders.

The Compensation Committee takes industry benchmarks or comparable data of other financial institutions (such as Bank Vontobel or Bank Sarasin) and aggregated data of SMI companies into consideration in determining the overall compensation of the Chairman of the Board of Directors.

**Members of the Board of Directors, excluding the Chairman**
The compensation of the members of the Board of Directors consists of a base honorarium (covering the period from one Ordinary Annual General Meeting to the next), dependent on each member's function within this corporate body and his/her involvement in the various Board Committees, and an allotment of Julius Baer Group Ltd. shares for each year of their term on the Board. The allotment of such shares takes place at the time of election and re-election respectively and is granted for the entire term (usually three years). The number of shares to be granted to the members of the Board of Directors (excluding the Chairman) has been fixed at 2600 shares of the Company per year of term. The shares cannot be disposed of until the third anniversary of the grant date and are subject to vesting and forfeiture clauses.

No options are granted to the members of the Board of Directors.

The base honorarium is regularly reviewed by the Compensation Committee, taking into account respective benchmark analysis (i.e. Swiss financial institutions such as Bank Vontobel and Bank Sarasin) and aggregated data of SMI companies. Respective requests for amendments are forwarded for approval to the complete Board of Directors.

Reflecting the independent status of members of the Board of Directors (excluding the Chairman), the remuneration of members of the Board includes no variable component and is therefore not dependent on the financial performance of the Julius Baer Group. No additional compensation is made for members of the Board of Directors for attending meetings.

None of the Board members (excluding the Chairman) has any contract with Julius Baer providing for benefits upon termination of the term of office on the Board of Directors.

**CEO and Executive Board**
The compensation of members of the Executive Board including the CEO consists of a base salary, a variable performance payment determined annually (with the character of a one-time payment) comprising a cash component and an equity-based incentive with a deferral component as described in the section Incentive Share Plan above, and supplementary benefits.

The Compensation Committee of the Board of Directors is responsible for determining the total compensation (and individual components thereof) of the members of the Executive Board.

The base salary is determined on an individual basis taking into consideration the role, tasks and responsibilities and the experience of each member of the Executive Board. Any adjustments are limited to significant changes in job responsibility. Individual performance payments are fundamentally contingent on a performance appraisal based on annually defined goals, guidelines and expectations.

Variable compensation remains an important component of the total compensation of the members of the Executive Board. It is based on a clear individual performance review of each member of the Executive Board and his/her managed unit. Performance review criteria include key performance indicators (KPI) such as revenues, net new money, costs, sound risk management, the realisation of strategic projects, leadership and people development achievements, as well as cross-business contributions to the Group.

Market benchmarks of other Swiss financial institutions such as Bank Sarasin, Bank Vontobel and the private banking divisions of UBS and Credit Suisse are taken into account when determining both the base salary and the variable compensation.

There are neither target bonus amounts nor fixed relationships between base salary and performance-related payments. Due to the variability of annual performance payments and awards from equity-based incentives, the ratio of base salary to total compensation can vary significantly from year to year. In 2010, the average ratio of fixed to variable compensation for the members of the Executive Board amounted to 19 : 81%, compared to 23 : 77% in 2009.

Julius Baer considers benefits to be a supplemental element of compensation, and the benefits offered may vary substantially from location to location. In general, there are no special benefits for members of the Executive Board; they receive the same benefits as all other employees in the location and business where they work. The members of the Executive Board (all of whom have an employment relationship in Switzerland) share the same retirement plan benefits as all other employees in Switzerland.

## Shareholders’ participation rights (as at 31 December 2010)

### Voting-rights restrictions and representation

In relation to the Company, any person entered in the share register shall be deemed to be a shareholder. Shareholders may represent their shares themselves or have them represented by a third party at the Ordinary Annual General Meeting.

There are no voting-rights restrictions; each share entitles to one vote.

### Statutory quorums

Except where otherwise required by mandatory law and/or by Article 8.14 of the Articles of Incorporation, all resolutions of the Ordinary Annual General Meeting are passed by an absolute majority of the votes cast, excluding blank or invalid ballots.

### Convocation of the Ordinary Annual General Meeting

The convocation of the Ordinary Annual General Meeting complies with the applicable legal regulations. The convocation of a General Meeting may also be requested by one or more shareholders who together represent at least 10% of the share capital. The Board of Directors must convene the requested General Meeting within six weeks of receiving the request.

### Agenda

Shareholders who represent shares of a nominal value of CHF 100 000 may demand that matters be put on the agenda. This request must be submitted to the Company at least six weeks before the date of the Ordinary Annual General Meeting. The request to convene a meeting and to put a matter on the agenda must be done in writing including the matters to be handled and the proposals.

### Registrations in the share register

In the invitation to the Ordinary Annual General Meeting, the Board of Directors states the applicable record date by which shareholders must be registered in the share register to be eligible to participate and vote at the meeting.

## Changes of control and defence measures

### Duty to make an offer

The Articles of Incorporation do not deviate from the standards set by the law (no opting-out or opting-up rules).

### Clauses on changes of control

There are no clauses on changes of control benefiting the members of the Board of Directors and/or the Executive Board and/or other members of Management.

# Audit

Audit is an integral part of corporate governance. While retaining their independence, the external auditor and Group Internal Audit closely coordinate their work. The Audit Committee and ultimately the Board of Directors supervise the adequacy of audit work.

**Duration of mandate and term of office of Lead Auditor**

In accordance with the Articles of Incorporation, the external auditor must be elected at each Ordinary Annual General Meeting for a term of office of one year. KPMG AG has been the statutory external auditor of Julius Baer Group Ltd. (and of the former Julius Baer Holding Ltd.) since the Ordinary Annual General Meeting of the former Julius Baer Holding Ltd. on 12 April 2006.

In accordance with the applicable governance regulations, Daniel Senn serves as the Lead Auditor.

The Lead Auditor responsible for the Julius Baer Group may hold this engagement for a maximum of seven consecutive years, but may resume the engagement after a break of three years.

**External audit fees**

The Julius Baer Group paid KPMG AG audit fees totalling CHF 3.8 million in the 2010 financial year. The previous year, the audit fees totalled CHF 3.3 million.

**Additional fees**

For *additional audit-related services* covering topics such as accounting and risk management as well as tax and project analysis, the Julius Baer Group paid KPMG AG fees totalling CHF 2.3 million during the 2010 financial year. The previous year, the additional audit-related fees totalled CHF 0.4 million.

For *additional consulting-related services* comprising legal, IT, compliance and other project-related counselling, the Julius Baer Group paid KPMG AG fees totalling CHF 0.1 million during the 2010 financial year. The previous year, the additional consulting-related fees totalled CHF 0.4 million.

**Monitoring and control instruments vis-à-vis the external auditor**

The Audit Committee of Julius Baer Group Ltd. issued an audit guideline that governs the cooperation with the external auditor and ensures adherence to the relevant provisions of the Swiss Code of Obligations, Swiss Banking Act, SIX Swiss Exchange, Swiss Institute of Certified Accountants and Tax Consultants and International Federation of Accountants (IFAC) with regard to the independence of the external auditor.

The external auditor is independent from the Julius Baer Group, its Board of Directors, its management and its shareholders, and in particular from any individual significant shareholders. The external auditor has direct access to the Audit Committee at all times.

The external auditor examines whether the accounting, the Group accounts and annual financial statements and the proposal for the appropriation of the net profit for the year comply with the law, the Articles of Incorporation and the relevant IFRS provisions. As a result, the external auditor submits a report to the Ordinary Annual General Meeting of Shareholders on conclusion of its audit and recommends the approval with or without qualification, or the rejection of the financial statements. In its capacity as banking law auditor, the external auditor also reviews adherence to the provisions of the Federal Act on Banks and Savings Banks, the SIX regulations, the Collective Investment Act and its implementing Ordinance for every company subject to supervision of FINMA and, as far as applicable with the consolidated monitoring, for the entire Julius Baer Group, and issues a long-form report for submission to the Board of Directors and FINMA.

Apart from the legally required reports to the supervisory authorities, the external auditor discusses the Group accounts and individual financial statements, the material risks, the results of the audit activities, the appropriateness and expediency of the internal control systems of the Group, and other issues arising with regard to 'good practice' with the Audit Committee.

The Audit Committee has adopted the Guidelines on Independence of the Auditor of the Swiss Institute of Certified Accountants and Tax Consultants, the Code of Ethics of IFAC and the relevant provisions issued by FINMA with regard to the independence requirements for the external auditor. The external auditor may, within the scope of these guidelines, render additional services to the Julius Baer Group. To this end, the Audit Committee issued a list with approved audit services (Audit List). This list contains the maximum fees per calendar year (caps) and individual thresholds. Any other services the auditor might render are subject to approval by the Audit Committee. The caps apply to an individual type of service throughout the Julius Baer Group. The thresholds apply to every single mandate.

If a threshold is exceeded, the continuance of the mandate must be approved beforehand, or, during an ongoing mandate, be approved immediately by the chairperson of the Audit Committee. If a cap for a type of service as listed in the approved Audit List is exceeded, any additional mandate for the auditor in this category must, without exception, first be approved by the chairperson of the Audit Committee. Services rendered that are not contained in the Audit List must, without exception, be approved by the Audit Committee. The chairperson of the Audit Committee reports any exceeding of caps or thresholds to the Audit Committee at the following ordinary meeting of the Audit Committee.

Julius Baer Group companies may give mandates to the external auditor within the caps and thresholds contained in the Audit List; this, however, is subject to proper approval according to the internal procedures. The Group companies are to report any such mandate immediately to the Chief Financial Officer (CFO).

The external auditor shall inform the CFO on a periodic basis about the volume of services rendered. The CFO informs the Audit Committee on a periodic basis (i.e. in its ordinary meetings) about the volume of services rendered by the external auditor.

The external auditor submits an annual report on its fees to the Audit Committee including:

- adherence to the independence requirements of the external auditor and its employees;
- duration of the mandate and term of office of the Lead Auditor;
- total sum of audit fees and fee budget for the following year;
- total sum of fees for additional services according to the Audit List.

The CFO discusses this report with the external auditor before it is presented to the Audit Committee on a yearly basis for review and final approval.

The external auditor attends the meetings of the Audit Committee but not the meetings of the complete Board of Directors. The chairperson of the Audit Committee is responsible for providing relevant information to the complete Board of Directors.

The external auditor is assessed yearly by the Audit Committee. The assessment includes a judgement of the external auditor's independence (based on the External Audit Guideline). In addition, the Audit Committee assesses the scope and quality of the reports and management letters submitted to management and the Audit Committee and the cooperation with Group Internal Audit, Management and the Audit Committee based on respective feedback requested from the Head Group Internal Audit as well as representatives from the Senior Management (especially the Chief Executive Officer, the CFO, the Chief Risk Officer and the General Counsel). The chairperson of the Audit Committee informs the external auditor of the results of such assessment.

The Group Internal Audit department comprised 24 individuals as at 31 December 2010 and was headed by Max Raemy. Group Internal Audit establishes a risk-based annual audit plan which is coordinated with internal risk monitoring functions as well as with the external auditor. The plan is approved by the Audit Committee.

To ensure independence, Group Internal Audit reports directly to the Chairman of the Board of Directors and to the Audit Committee, respectively.

# Information policy

Julius Baer Group Ltd. informs its shareholders and the public each year by means of the Annual and Half-year Reports. Together with the Annual Report, the Julius Baer Group publishes a Remuneration Report in the form of a separate brochure, which is a compilation of all compensation-related topics from the Annual Report. Julius Baer furthermore provides a summary account of the business performance for the first four months and the first ten months, respectively, in separate Interim Management Statements. It also publishes press releases, presentations and brochures as needed. The documents are generally available to the public in electronic form at www.juliusbaer.com as well as in printed form.

**Important dates**

| | |
|---|---|
| 7 April 2011 | Ordinary Annual General Meeting, Zurich |
| 11 April 2011 | Ex-dividend date |
| 13 April 2011 | Record date |
| 14 April 2011 | Dividend payment date |
| 12 May 2011 | Publication of Interim Management Statement |
| 22 July 2011 | Publication of 2011 half-year results, Zurich |

Additional information events are held regularly and as needed in Switzerland and abroad.

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# Consolidated financial statements
## Consolidated income statement

| | Note | 2010<br>CHF 1000 | 2009<br>CHF 1000 | Change<br>% |
|---|---|---|---|---|
| Interest income | | **519 477** | 576 488 | -9.9 |
| Interest expense | | **64 104** | 110 013 | -41.7 |
| Net interest income | 1 | **455 373** | 466 475 | -2.4 |
| Fee and commission income | | **1 197 095** | 1 006 240 | 19.0 |
| Commission expense | | **216 725** | 187 556 | 15.6 |
| Net fee and commission income | 2 | **980 370** | 818 684 | 19.7 |
| Net trading income | 3 | **332 340** | 298 538 | 11.3 |
| Other ordinary results | 4 | **26 297** | 2 430 | - |
| **Operating income** | | **1 794 380** | 1 586 127 | 13.1 |
| Personnel expenses | 5 | **823 740** | 688 744 | 19.6 |
| General expenses | 6 | **376 009** | 301 848 | 24.6 |
| Depreciation of property and equipment | 13 | **28 449** | 22 777 | 24.9 |
| Amortisation of customer relationships | 13 | **91 606** | 76 371 | 19.9 |
| Amortisation of other intangible assets | 13 | **40 324** | 21 823 | 84.8 |
| **Operating expenses** | | **1 360 128** | 1 111 563 | 22.4 |
| **Profit before taxes** | | **434 252** | 474 564 | -8.5 |
| Income taxes | 7 | **81 483** | 85 266 | -4.4 |
| **Net profit** | | **352 769** | 389 298 | -9.4 |
| Attributable to: | | | | |
| Shareholders of Julius Baer Group Ltd. | | **351 992** | 388 699 | -9.4 |
| Non-controlling interests | | **777** | 599 | - |
| | | **352 769** | 389 298 | -9.4 |

| | Note | 2010<br>CHF | 2009<br>CHF | Change<br>% |
|---|---|---|---|---|
| **Share information** | | | | |
| Basic net profit per share | 9 | **1.71** | 1.88 | -9.2 |
| Diluted net profit per share | 9 | **1.71** | 1.88 | -9.1 |
| Dividend proposal 2010 and dividend 2009 | | **0.60** | 0.40 | 50.0 |

# Consolidated statement of comprehensive income

| | **2010** CHF 1000 | 2009 CHF 1000 |
|---|---|---|
| **Net profit recognised in the income statement** | **352 769** | 389 298 |
| Other comprehensive income (net of taxes): | | |
| Net unrealised gains/(losses) on financial investments available-for-sale | **12 604** | 79 787 |
| Net realised (gains)/losses reclassified to the income statement on financial investments available-for-sale | **18 283** | 26 364 |
| Hedging reserve for cash flow hedges | **977** | 3 125 |
| Translation differences | **-29 281** | -2 433 |
| **Other comprehensive income for the year recognised directly in equity** | **2 583** | 106 843 |
| **Total comprehensive income for the year recognised in the income statement and in equity** | **355 352** | 496 141 |
| Attributable to: | | |
| Shareholders of Julius Baer Group Ltd. | **354 575** | 495 542 |
| Non-controlling interests | **777** | 599 |
| | **355 352** | 496 141 |

# Consolidated balance sheet

| | Note | **31.12.2010** CHF 1000 | 31.12.2009 CHF 1000 | Change CHF 1000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | | **1 121 310** | 2 814 818 | -1 693 508 |
| Due from banks | 10 | **6 586 620** | 6 598 181 | -11 561 |
| Loans | 10 | **14 570 410** | 10 431 185 | 4 139 225 |
| Trading assets | 11 | **3 751 967** | 2 735 065 | 1 016 902 |
| Derivative financial instruments | 23 | **2 713 110** | 1 859 252 | 853 858 |
| Financial assets designated at fair value | 16 | **1 006 134** | 963 566 | 42 568 |
| Financial investments available-for-sale | 12 | **13 885 105** | 15 011 513 | -1 126 408 |
| Property and equipment | 13 | **371 803** | 331 922 | 39 881 |
| Goodwill and other intangible assets | 13 | **1 797 777** | 1 705 318 | 92 459 |
| Accrued income and prepaid expenses | | **174 646** | 141 245 | 33 401 |
| Deferred tax assets | 18 | **10 074** | 3 474 | 6 600 |
| Other assets | | **297 645** | 133 430 | 164 215 |
| **Total assets** | | **46 286 601** | 42 728 969 | 3 557 632 |

| | Note | **31.12.2010** CHF 1000 | 31.12.2009 CHF 1000 | Change CHF 1000 |
|---|---|---|---|---|
| **Liabilities and equity** | | | | |
| Due to banks | | **4 251 834** | 3 962 382 | 289 452 |
| Due to customers | | **28 846 738** | 27 284 715 | 1 562 023 |
| Trading liabilities | 11 | **800 882** | 714 886 | 85 996 |
| Derivative financial instruments | 23 | **2 772 368** | 1 786 221 | 986 147 |
| Financial liabilities designated at fair value | 16 | **4 160 559** | 3 942 687 | 217 872 |
| Debt issued | 17 | **240 210** | 253 502 | -13 292 |
| Accrued expenses and deferred income | | **349 505** | 308 316 | 41 189 |
| Current tax liabilities | | **44 834** | 11 141 | 33 693 |
| Deferred tax liabilities | 18 | **121 893** | 85 761 | 36 132 |
| Provisions | 19 | **32 196** | 17 291 | 14 905 |
| Other liabilities | | **181 535** | 170 276 | 11 259 |
| Total liabilities | | **41 802 554** | 38 537 178 | 3 265 376 |
| Share capital | | **4 133** | 4 133 | - |
| Retained earnings | | **4 581 923** | 4 312 902 | 269 021 |
| Other components of equity | | **-81 778** | -84 361 | 2 583 |
| Treasury shares | | **-22 472** | -42 622 | 20 150 |
| Equity attributable to shareholders of Julius Baer Group Ltd. | | **4 481 806** | 4 190 052 | 291 754 |
| Non-controlling interests | | **2 241** | 1 739 | 502 |
| Total equity | | **4 484 047** | 4 191 791 | 292 256 |
| **Total liabilities and equity** | | **46 286 601** | 42 728 969 | 3 557 632 |

# Consolidated statement of changes in equity

| | Share capital *CHF 1000* | Retained earnings [1] *CHF 1000* |
|---|---|---|
| At 1 January 2009 represented | 4 133 | 3 701 098 |
| Net profit attributable to shareholders of Julius Baer Group Ltd. | - | 388 699 |
| Net profit attributable to non-controlling interests | - | - |
| Unrealised gains/(losses) | - | - |
| Realised (gains)/losses reclassified to the income statement | - | - |
| Changes | - | - |
| Dividends | - | -72 321 [2] |
| Contribution received due to the Artio Global IPO | - | 309 000 |
| Treasury shares and own equity derivative activity | - | -13 574 |
| Changes in derivatives on own shares | - | - |
| Acquisitions of own shares | - | - |
| Disposals of own shares | - | - |
| At 31 December 2009 | 4 133 | 4 312 902 |
| **At 1 January 2010** | **4 133** | **4 312 902** |
| Net profit attributable to shareholders of Julius Baer Group Ltd. | **-** | **351 992** |
| Net profit attributable to non-controlling interests | **-** | **-** |
| Unrealised gains/(losses) | **-** | **-** |
| Realised (gains)/losses reclassified to the income statement | **-** | **-** |
| Changes | **-** | **-** |
| Dividends | **-** | **-82 652** |
| Treasury shares and own equity derivative activity | **-** | **-319** |
| Changes in derivatives on own shares | **-** | **-** |
| Acquisitions of own shares | **-** | **-** |
| Disposals of own shares | **-** | **-** |
| **At 31 December 2010** | **4 133** | **4 581 923** |

[1] Retained earnings include the capital reserves of Bank Julius Baer & Co. Ltd. and the share premium of Julius Baer Group Ltd.
[2] The amount is based on the assumption that the Group contributed to the dividend distributed by the former Julius Baer Holding Ltd. (see page 50).

| Other components of equity | | | | | | |
|---|---|---|---|---|---|---|
| Financial investments available-for-sale, net of taxes *CHF 1000* | Hedging reserve for cash flow hedges, net of taxes *CHF 1000* | Translation differences *CHF 1000* | Treasury shares *CHF 1000* | Equity attributable to shareholders of Julius Baer Group Ltd. *CHF 1000* | Non-controlling interests *CHF 1000* | **Total equity** *CHF 1000* |
| -171 390 | -4 188 | -15 626 | -30 881 | 3 483 146 | 1 415 | 3 484 561 |
| – | – | – | – | 388 699 | – | 388 699 |
| – | – | – | – | – | 599 | 599 |
| 79 787 | 3 125 | – | – | 82 912 | – | 82 912 |
| 26 364 | – | – | – | 26 364 | – | 26 364 |
| – | – | -2 433 | – | -2 433 | – | -2 433 |
| – | – | – | – | -72 321 | -275 | -72 596 |
| - | - | - | - | 309 000 | - | 309 000 |
| – | – | – | – | -13 574 | – | -13 574 |
| – | – | – | 920 | 920 | – | 920 |
| – | – | – | -183 038 | -183 038 | – | -183 038 |
| – | – | – | 170 377 | 170 377 | – | 170 377 |
| -65 239 | -1 063 | -18 059 | -42 622 | 4 190 052 | 1 739 | 4 191 791 |
| **-65 239** | **-1 063** | **-18 059** | **-42 622** | **4 190 052** | **1 739** | **4 191 791** |
| **-** | **-** | **-** | **-** | **351 992** | **-** | **351 992** |
| **-** | **-** | **-** | **-** | **-** | **777** | **777** |
| **12 604** | **977** | **-** | **-** | **13 581** | **-** | **13 581** |
| **18 283** | **-** | **-** | **-** | **18 283** | **-** | **18 283** |
| **-** | **-** | **-29 281** | **-** | **-29 281** | **-** | **-29 281** |
| **-** | **-** | **-** | **-** | **-82 652** | **-275** | **-82 927** |
| **-** | **-** | **-** | **-** | **-319** | **-** | **-319** |
| **-** | **-** | **-** | **26 477** | **26 477** | **-** | **26 477** |
| **-** | **-** | **-** | **-142 469** | **-142 469** | **-** | **-142 469** |
| **-** | **-** | **-** | **136 142** | **136 142** | **-** | **136 142** |
| **-34 352** | **-86** | **-47 340** | **-22 472** | **4 481 806** | **2 241** | **4 484 047** |

# Consolidated statement of cash flows

| | **2010** CHF 1000 | 2009 CHF 1000 |
|---|---|---|
| Net profit | **352 769** | 389 298 |
| Adjustments to reconcile net profit to cash flow from/(used in) operating activities: | | |
| Non-cash items included in net profit and other adjustments: | | |
| - Depreciation of property and equipment | **28 449** | 22 777 |
| - Amortisation of intangible assets | **131 930** | 98 194 |
| - Allowance for credit losses | **10 535** | 6 092 |
| - Deferred tax expense/(benefit) | **-5 028** | -13 248 |
| - Net loss/(gain) from investing activities | **21 872** | 8 155 |
| - Other non-cash income and expenses | **20 393** | 9 695 |
| Net increase/decrease in operating assets and liabilities: | | |
| - Net due from/to banks | **590 987** | 1 327 527 |
| - Trading portfolios and derivative financial instruments | **-797 640** | -1 328 390 |
| - Loans/due to customers | **-3 454 763** | 1 167 063 |
| - Accrued income, prepaid expenses and other assets | **-161 439** | 67 466 |
| - Accrued expenses, deferred income, other liabilities and provisions | **-18 873** | -243 153 |
| Adjustment for income tax expenses | **86 511** | 98 514 |
| Income taxes paid | **-60 985** | -100 031 |
| Cash flow from operating activities after taxes | **-3 255 282** | 1 509 959 |
| Purchase of property and equipment and intangible assets | **-96 959** | -66 839 |
| Disposal of property and equipment and intangible assets | **17 235** | 258 |
| Net (investment in)/divestment of financial investments available-for-sale | **-1 935 187** | -1 695 063 |
| Acquisition of subsidiaries, net of cash acquired | **-233 857** | -9 045 |
| Cash flow from investing activities | **-2 248 768** | -1 770 689 |
| Net money market instruments issued/(repaid) | **-13 292** | 22 335 |
| Net movements in treasury shares and own equity derivative activity | **-857** | -39 152 |
| Dividend payments | **-82 652** | -72 321 |
| Contribution received due to the Artio Global IPO | **-** | 309 000 |
| Issuance and repayment of long-term debt, including financial liabilities designated at fair value | **175 304** | 847 482 |
| Dividend payment to non-controlling interests | **-275** | -275 |
| Cash flow from financing activities | **78 228** | 1 067 069 |
| **Total** | **-5 425 822** | 806 339 |

| | | |
|---|---|---|
| Cash and cash equivalents at the beginning of the year | **18 390 505** | 17 591 612 |
| Cash flow from operating activities after taxes | **-3 255 282** | 1 509 959 |
| Cash flow from investing activities | **-2 248 768** | -1 770 689 |
| Cash flow from financing activities | **78 228** | 1 067 069 |
| Effects of exchange rate changes | **298 427** | -7 446 |
| **Cash and cash equivalents at the end of the year** | **13 263 110** | 18 390 505 |

Cash and cash equivalents are structured as follows:

| | **31.12.2010** *CHF 1000* | 31.12.2009 *CHF 1000* |
|---|---|---|
| Cash | **1 121 310** | 2 814 818 |
| Money market instruments | **5 993 113** | 9 086 662 |
| Due from banks (original maturity of less than three months) | **6 148 687** | 6 489 025 |
| **Total** | **13 263 110** | 18 390 505 |

| | **31.12.2010** *CHF 1000* | 31.12.2009 *CHF 1000* |
|---|---|---|
| **Additional information** | | |
| Interest received | **424 265** | 642 877 |
| Interest paid | **-53 631** | -131 642 |
| Dividends on equities received | **68 648** | 16 250 |
| **Total** | **439 282** | 527 485 |

# Separation of the businesses of the former Julius Baer Holding Ltd.

**The transaction**

Following a strategic review conducted during early 2009, the Board of Directors of the former Julius Baer Holding Ltd. decided to separate the businesses of the former Julius Baer Holding Ltd. into two distinct, independent entities, both listed on the SIX Swiss Exchange, being:

- Julius Baer Group Ltd., together with its subsidiaries, comprising Bank Julius Baer & Co. Ltd. as its principal operating entity, as well as certain related ancillary businesses; and
- GAM Holding Ltd., together with its subsidiaries, comprising GAM, and the Julius Baer-branded asset management business (the JBAM business), which includes the Private Label Funds business that formerly was part of Julius Baer Holding's Bank Julius Baer reporting segment, and its stake in Artio Global whose initial public offering was completed by 24 September 2009.

On 1 October 2009, Julius Baer Group Ltd.'s shares were distributed as a dividend in kind to holders of Julius Baer Holding Ltd.'s shares and were listed according to the main standard of and traded on the SIX Swiss Exchange. The former Julius Baer Holding Ltd. was renamed GAM Holding Ltd.

The following financial report comprises the financial statements of the new Julius Baer Group Ltd. only.

**Future relationship of Julius Baer Group and GAM Holding**

Following the completion of the transaction, Julius Baer Group and GAM Holding operate as separate, publicly listed corporate groups. Each group is managed by its own Board of Directors and management team and, subject to certain transitional arrangements, deals on an arm's-length basis with each other. Each of the two listed groups addresses its own capital management separately.

Consistent with the separation of the two businesses of private banking and asset management, production and management of Julius Baer-branded investment fund products will be carried out by GAM Holding. For this purpose, the Julius Baer Group entered into an arm's-length royalty-generating brand licence with GAM Holding pursuant to which GAM Holding has the exclusive right to produce and manage Julius Baer-branded investment fund products worldwide. Subject to certain limited exceptions, the Julius Baer Group will refrain from offering investment fund management services for the duration of the licence.

**Accounting impact on financial statements 2009**

The Julius Baer Group is the continuation of the private banking business of the former Julius Baer Holding. Therefore, in the financial statements as at 31 December 2009, the new Julius Baer Group is presented as if it had already existed on 1 January 2008. For this purpose, the income, expenses and balances relating to the new Group have been separated from the previously published financial statements 2008 and 2009 of Julius Baer Holding. In addition, the effects of any intercompany transactions and balances between the Julius Baer Group and the new GAM Holding have been converted into third-party transactions and balances.

Additional details regarding the separation of the former Julius Baer Holding and the respective accounting impacts have been published in the Listing Prospectus, dated 24 September 2009.

# Summary of significant accounting policies

### Basis of accounting

Julius Baer Group Ltd. is a Swiss corporation which was established in 2009 as a result of the separation of the private banking and asset management businesses of the former Julius Baer Holding Ltd. (see page 50 for the details of the transaction). The consolidated financial statements as at 31 December 2010 comprise those of Julius Baer Group Ltd. and all its subsidiaries (the Group). The Board of Directors approved these financial statements on 4 February 2011. In addition, they must be approved by the Ordinary Annual General Meeting on 7 April 2011.

Amounts in the annual financial statements are stated in Swiss francs. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS). Generally, the historical cost principle is applied, with the exception of financial assets at fair value through profit or loss, derivative financial instruments and financial investments available-for-sale, as well as certain financial liabilities, which are measured at fair value.

### Use of estimates in preparing the consolidated financial statements

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent liabilities. Actual results in future periods could differ from such estimates.

Estimates and assumptions are used mainly in the following areas of the consolidated financial statements and are discussed in the corresponding notes: determining fair values of financial instruments, uncertainties in measuring provisions and allowance for credit losses, pension assets and liabilities (measurement of defined benefit obligation), deferred tax assets (use of tax losses), share-based payments, goodwill and other intangible assets (measurement of recoverable amount).

### Accounting policies

All Group companies apply uniform accounting and measurement principles, which have remained the same as in the previous year, except as outlined at the end of this summary of significant accounting policies.

**Subsidiaries and associates**
Subsidiaries in which Julius Baer Group Ltd. directly or indirectly owns a majority of the voting shares or in which it exercises control in some other way are fully consolidated. A complete list of these companies is provided in Note 25. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control is transferred to the Group until the date that control ceases.

The effects of all intercompany transactions and balances are eliminated on consolidation.

**Foreign currency translation**
The Group companies prepare their financial statements in the respective functional currency. The balance sheets of Group companies that are denominated in foreign currencies are translated into Swiss francs at the closing exchange rates on the balance sheet date. Average exchange rates for the reporting period are used for the income statements. Exchange differences arising from consolidation using closing and average exchange rates for the reporting period are recognised in other comprehensive income.

In the individual financial statements of the Group companies, income and expenses denominated in foreign currencies are translated at the exchange rate on the date of the respective transaction. Assets and liabilities are translated at the closing exchange rate on the balance sheet date. The resulting gains and losses on monetary assets and liabilities are recognised in the income statement as foreign exchange gains/losses. Unrealised exchange differences on equity securities available-for-sale are a component of the change in their entire fair value and are recognised in other comprehensive income.

The following exchange rates are used for the major currencies:

| | Year-end rates | | Average exchange rates for the year | |
|---|---|---|---|---|
| | **31.12.2010** | 31.12.2009 | **2010** | 2009 |
| USD/CHF | **0.9321** | 1.0337 | **1.0365** | 1.0825 |
| EUR/CHF | **1.2505** | 1.4832 | **1.3690** | 1.5070 |
| GBP/CHF | **1.4594** | 1.6694 | **1.5985** | 1.6945 |

**Reporting of transactions**
Money market transactions are recorded on the balance sheet on settlement date. Spot foreign exchange and securities transactions and securities underwriting transactions are recorded on the balance sheet on trade date. All financial instruments are assigned to one of the four categories (loans and receivables, held-to-maturity investments, financial assets and financial liabilities at fair value through profit or loss, and available-for-sale financial assets) and uniformly recognised within these categories on trade date or settlement date.

**Income recognition**
Income from services is either recognised at the time the service is performed, i.e. upon execution of a transaction, or in the corresponding periods over the life of a contract if services are provided over a certain period of time. Income and income components that are based on performance are recognised at the time when all performance criteria are fulfilled.

**Cash**
Cash includes notes and coins on hand, as well as balances held with central banks.

**Due from banks and loans**
Amounts due from banks and loans are initially recognised at fair value, which is the cash given to originate the receivable or loan, plus any attributable transaction costs. Subsequently, these receivables and loans are measured at their amortised cost using the effective interest method.

Loans are classified as past due when the counterparty has failed to make a payment when contractually due. The exposure is not considered impaired as the Group believes that on the basis of the collateral available it is still covered.

Loans and amounts due from banks for which it is probable that, based on current information and events, the Group will be unable to collect the whole amounts due according to the original contractual terms of the loan agreement, are measured on an individual basis, and a specific allowance for credit losses is established for impaired amounts, if necessary. Related collaterals are also included in the evaluation.

Impairment is measured and an allowance for credit losses is established for the difference between the carrying amount of the loan and its estimated recoverable amount, taking into account the counterparty risk and the net proceeds from the possible liquidation of any collateral. The recoverable amount equals the present value of estimated future cash flows discounted at the loan's original effective interest rate. The allowance for credit losses is recognised through the income statement.

A write-off is made against the established specific allowance for credit losses when all or part of a loan is deemed uncollectible or forgiven. Recoveries of amounts that were previously written off are credited directly to the income statement.

In addition to the specific allowances for credit losses, a collective allowance for credit losses is established to account for inherent credit risks collectively, i.e. on a portfolio basis. This collective allowance for credit losses is calculated on the basis of prudently estimated default rates for each portfolio, which are based on internal credit ratings that are used for classifying the loans.

In the balance sheet, the allowances for credit losses are offset against the corresponding loans and amounts due from banks.

Impaired loans are rated as fully recoverable if the creditworthiness has improved such that there is a reasonable assurance of timely collection of principal and interest according to the original contractual terms.

**Securities lending and borrowing transactions**

Securities borrowed as well as securities received by the Group as collateral under securities lending transactions are only recorded in the balance sheet if the Group obtains control of the contractual rights (risks and rewards of ownership) associated with these securities. Similarly, securities lent as well as securities provided by the Group as collateral under securities borrowing transactions are only derecognised from the balance sheet if the Group relinquishes control of the contractual rights associated with these securities. Securities lent and securities provided as collateral that remain in the balance sheet are remeasured according to the respective position they are recorded in. The fair values of securities received or provided are monitored daily in order to provide or request additional collateral in accordance with the underlying agreements.

If securities are transferred in a securities lending or borrowing transaction, cash collateral received is recognised as an obligation, and cash collateral provided is recognised as a receivable.

Fees received or paid in connection with securities lending and borrowing transactions are recognised as commission income or commission expenses on an accrual basis.

**Repurchase and reverse repurchase transactions**

Reverse repurchase transactions and repurchase transactions are considered secured financing transactions and are recorded at the value of the cash collateral provided or received.

Securities received and securities delivered are only recorded in the balance sheet or derecognised from the balance sheet if control of the contractual rights (risks and rewards of ownership) associated with these securities is relinquished as well. The fair values of the securities received or delivered are monitored daily in order to provide or request additional collateral in accordance with the underlying agreements.

Interest income from reverse repurchase transactions and interest expenses from repurchase transactions are accrued in the corresponding periods over the life of the underlying transactions in the respective interest positions.

**Trading assets/liabilities**

All trading positions are recognised at fair value. Realised gains and losses on disposal or redemption and unrealised gains and losses from changes in the fair value are recognised in net trading income.

Interest and dividend income and interest expense from trading positions are included in net interest income.

Precious metals held for trading purposes are measured at fair value less costs to sell with all changes in the fair value recognised in net trading income.

**Financial assets and liabilities designated at fair value**
Financial assets and liabilities may be initially designated as at fair value through profit or loss (fair value option) if one of the following conditions is met:

- they are hybrid instruments which consist of a debt host and an embedded derivative component;
- they are part of a portfolio which is risk-managed on a fair value basis; or
- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise.

The Group measures its issued financial instruments, i.e. its structured products containing a debt instrument and an embedded derivative, at fair value, with changes in fair value recognised in net trading income, thus eliminating the requirement to account for the embedded derivative and its host contract separately.

In addition, the Group reports assets and liabilities related to investment contracts where the beneficiary bears all the related risk and rewards from the investments, as designated at fair value.

**Derivative financial instruments and hedging**
Derivative financial instruments held for trading, including foreign exchange products, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (written options as well as purchased options), are recognised at fair value. In order to calculate the fair value, corresponding stock exchange prices, discounted cash flow models and option pricing models are employed. Derivatives are reported as an asset position if their fair value is positive and as a liability position if their fair value is negative. Changes in fair value on trading positions are recognised in net trading income.

The Group uses derivative financial instruments for hedging the cash flows (cash flow hedges) or fair values (fair value hedges) when transactions meet the specified criteria to obtain hedge accounting treatment. Derivatives categorised as serving such purposes on their settlement date are treated as hedging instruments in the financial statements if they fulfil the following criteria:

- existence of documentation that specifies the underlying transaction (balance sheet item or cash flow), the hedging instrument as well as the hedging strategy/relationship;
- effective and reliably measurable elimination of the hedged risks through the hedging transaction during the entire reporting period;
- sustained high effectiveness of the hedging transaction. A hedge is regarded as highly effective if actual results are within a range of 80% to 125%; and
- high probability of the underlying forecast transaction.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and reported as hedging reserve for cash flow hedges. If a hedge of a probable forecast transaction results in the recognition of a financial asset or financial liability, any gain or loss on the hedging instrument that was previously recognised in other components of equity is reclassified into the income statement in the same period in which the financial asset or liability affects income. If the hedged forecast transaction results in direct recognition through the income statement, any related cumulative gain or loss previously recognised in other components of equity is recognised in the income statement in the same period in which the hedged forecast transaction affects income.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are reported in the income statement. The changes in the fair value of the hedged item that are attributable to the risk hedged with the derivative are reflected in an adjustment to the carrying value of the hedged item and are also recognised in the income statement.

Certain derivative transactions represent financial hedging transactions and are in line with the risk management principles of the Group. However, in view of the strict and specific guidelines of IFRS, they do not fulfil the criteria to be treated as hedging transactions for accounting purposes. They are therefore reported as trading positions. Changes in fair value are recognised directly in the income statement in the corresponding period.

**Financial investments available-for-sale**
Security positions, including money market instruments, which are not held for trading purposes, are reported as debt and equity securities available-for-sale and are recognised at fair value. Unrealised gains and losses are recognised in other comprehensive income and reported in other components of equity until the security is sold, or an impairment loss is recognised, at which point the cumulative gain or loss previously recorded in other components of equity is recognised in the income statement in other ordinary results.

Equity securities are deemed impaired if there has been a significant or prolonged decline of fair value below the initial cost. A debt instrument is deemed impaired if the creditworthiness of the issuer significantly deteriorates or if there are other indications that an event has a negative impact on the future estimated cash flows related to the debt instrument, i.e., if it is likely that the amount due according to the contractual terms cannot be entirely collected.

Interest on debt securities is accrued using the effective interest method and, together with dividend income on equity securities, recognised in interest income.

**Property and equipment**
Property and equipment includes bank premises, IT, communication systems, leasehold improvements as well as other installations and equipment. They are carried at cost less accumulated depreciation and impairment losses. Items of property and equipment are depreciated over their estimated useful lives using the straight-line method.

Bank premises are depreciated over a period of 66 years. Leasehold improvements are depreciated over the shorter of the residual lease term or useful life. Installations are depreciated over a period not exceeding ten years, IT hardware over three years and other items of property and equipment over five years.

Leasehold improvements are investments made to customise buildings and offices occupied under operating lease contracts to make them suitable for the intended purpose. If a leased property must be returned to its original condition at the end of the lease term, the present value of the estimated reinstatement costs is capitalised as part of the total leasehold improvement costs. At the same time, a provision for reinstatement costs is recognised to reflect the obligation incurred. The reinstatement costs are recognised in the income statement through depreciation of the capitalised leasehold improvements over their useful life.

Subsequent expenditure on an item of property and equipment is recognised in the carrying value of the item if it is probable that the Group will profit from the future economic benefits of the investment. Current maintenance and servicing costs are expensed through the income statement.

On each balance sheet date, the items of property and equipment are reviewed for indications of impairment. If such indications exist, it is determined whether the carrying amount of the item is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

**Leasing**
Under operating leasing, leased assets are not recognised on the balance sheet, as the risks and rewards of ownership remain with the lessor. Lease payments for operating leases are recognised through the item general expenses in the income statement over the lease term on a straight-line basis.

**Intangible assets**
Intangible assets are classified into the following categories.

*Goodwill:* in a business combination, the acquiree's identifiable assets and liabilities are recognised at their respective fair value at acquisition date. Goodwill is measured as the difference between the sum of the fair value of consideration transferred plus the recognised amount of any non-controlling interests in the acquiree, and the recognised amount of the identifiable assets acquired and liabilities assumed. Goodwill is not amortised; it is tested for impairment annually at the cash-generating-unit level, and an impairment loss is recognised if the recoverable amount is less than its carrying amount.

*Customer relationships:* this position comprises long-term customer relationship intangibles from recent business combinations. Customer relationships are amortised over their estimated useful life not exceeding ten years, using the straight-line method.

*Software:* the Group capitalises costs relating to the acquisition, installation and development of software if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and that the costs of the asset can be identified and measured reliably. The capitalised software is amortised using the straight-line method over its useful life, usually not exceeding three to five years.

On each balance sheet date, the intangible assets with a finite life are reviewed for indications of impairment. If such indications exist, it is determined whether the carrying amount of the intangible assets is fully recoverable, and an impairment loss is recognised if the carrying amount exceeds the recoverable amount.

**Due to banks and customers**
Amounts due to banks and customers are initially recognised at fair value less directly attributable transaction costs and subsequently reported at amortised cost. Interest and discounts are debited to interest expenses on an accrual basis, using the effective interest method.

**Debt issued**
Issued bonds are initially recognised at the fair value of the consideration received, net of directly attributable transaction costs. They are subsequently reported in the balance sheet at amortised cost using the effective interest method.

Own bonds that the Group holds as a result of market-making activities or for resale in the near term are treated as redemption and therefore are extinguished.

**Provisions**
A provision is recognised if, as a result of a past event, the Group has a legal or constructive present obligation existing on the balance sheet date that will probably lead to an outflow of resources and whose amount can be reliably estimated. The amount recognised as a provision is the best estimate of the consideration required to settle the obligation as at the balance sheet date, taking into account the risks and uncertainties related to the obligation. The recognition and release of provisions are recorded in the income statement through general expenses.

Restructuring provisions in the event of sale or termination of a line of business, closure or relocation of business locations, changes in management structure or another fundamental reorganisation are recognised if a constructive obligation is incurred and a detailed and formal restructuring plan exists. In addition, the implementation must have begun or the announcement of the main features to the employees affected must have taken place before the balance sheet date. Restructuring provisions include only necessary direct expenditures caused by the restructuring, not costs associated with the ongoing business activities.

**Income taxes**
Income tax expense comprises current and deferred taxes. Current income taxes are calculated on the basis of the applicable tax laws of the respective countries and are recognised as expense in the financial year in which the related taxable income arises. Liabilities related to current taxes are recognised in the balance sheet as current tax liabilities.

Deferred tax assets and deferred tax liabilities are taken into account for the expected future tax consequences of all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding tax values.

Deferred tax assets arising from temporary differences and from loss carryforwards eligible for offsetting are capitalised if it is likely that sufficient taxable profits will be available against which those differences or loss carryforwards can be offset.

Deferred tax assets and deferred tax liabilities are calculated at tax rates expected to apply in the period in which the tax assets will be realised, or the tax liabilities settled.

Current tax assets and tax liabilities are offset against each other when they refer to the same taxable entity, concern the same tax authority, and an enforceable right to offset exists. The same rule applies to deferred tax assets and liabilities.

Current and deferred taxes are credited or charged directly to equity if the taxes refer to items that are credited or charged directly to other components of equity.

**Post-employment benefits**
The Group maintains various defined contribution and defined benefit pension plans in Switzerland and abroad. The pension plans in Switzerland have been set up on the basis of the Swiss method of defined contributions but do not fulfil all the criteria of a defined contribution pension plan according to IAS 19. For this reason, the Swiss pension plans are treated as defined benefit pension plans.

The pension obligations are largely covered through pension plan assets of pension funds that are legally separated and independent from the Group. The pension funds are managed by a board of trustees consisting of representatives of the employees and the employer. The organisation, management and financing of the pension plans comply with the legal requirements, the foundation charters and the applicable pension regulations. Employees and pensioners or their survivors receive statutorily determined benefits upon leaving the company or retiring as well as in the event of death or invalidity. These benefits are financed through employer and employee contributions.

In the case of defined benefit pension plans, the pension expenses and obligations are valued according to the projected unit credit method. The corresponding calculations are carried out by independent qualified actuaries.

The pension expenses recognised in the income statement for the defined benefit pension plans correspond to the actuarially determined pension cost minus the employee contributions and are recorded in personnel expenses.

A portion of actuarial gains and losses are recognised if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period are in excess of 10% of the greater of the present value of the plan obligation or the fair value of plan assets and are systematically amortised through the income statement over the expected average remaining service lives of employees participating in the plan.

In the case of defined contribution pension plans, the contributions are expensed when the employees render the corresponding service to the Group.

Defined benefit assets are only recognised in the balance sheet if they are available to the Group as refunds or future reductions in contributions.

**Share-based payments**
The Group maintains various share-based payment plans in the form of share or share option plans for its employees. When such payments are made to employees, the fair value of these payments at grant date serves as the basis for calculating the personnel expenses. Share-based payments that are not subject to any further conditions are expensed immediately at grant date. Share-based payments that are subject to the completion of a service period or to other vesting conditions are expensed over the respective vesting period starting at grant date.

Share-based payment plans that are settled in own equity instruments (shares or options) result in a corresponding increase in equity and are not remeasured for subsequent changes in the fair value of the underlying equity instruments. Share-based payment plans that are settled by the payment of cash are recognised as a liability and are adjusted through the income statement for changes in fair value of the underlying equity instruments until final settlement.

**Share capital**
The share capital comprises all issued, fully paid shares of Julius Baer Group Ltd. Please refer to the Note on page 50 regarding the separation of the former Julius Baer Holding Ltd.

**Treasury shares and contracts on treasury shares**
Shares of Julius Baer Group Ltd. held by the Group are classified in equity as treasury shares and accounted for at weighted average cost. The difference between the proceeds from sales of treasury shares and their cost (net of taxes, if any) is recognised in retained earnings.

Contracts on shares of Julius Baer Group Ltd. that require settlement in a fixed number of shares for a fixed amount are recognised in retained earnings. Upon settlement of such contracts, the proceeds received (net of costs and any taxes) are also recognised in retained earnings.

Contracts on shares of Julius Baer Group Ltd. that must be net settled in cash or that offer a choice of settlement methods are treated as derivative instruments, with changes in fair value recognised in net trading income.

For physically settled written put option contracts the discounted strike price is deducted from equity and recorded as a liability at recognition. The liability is subsequently increased during the term of the contract up to the strike price using the effective interest method. Upon settlement of the contract the liability is derecognised.

**Earnings per share**
Basic consolidated earnings per share is calculated by dividing the net profit for the reporting period attributable to shareholders of Julius Baer Group Ltd. by the weighted average number of shares outstanding during the reporting period.

Diluted consolidated earnings per share is calculated using the same method as for basic consolidated earnings per share, with the determinants adjusted to reflect the potential dilution that could occur if outstanding options, warrants, convertible debt securities or other contracts to issue shares were converted or exercised into shares.

**Segment reporting**
Determination of the operating segments is based on the management approach. The management approach reflects the way in which management organises the entity for making operating decisions and for assessing performance, based on discrete financial information. Therefore, the adoption of the management approach results in the disclosure of information for segments in substantially the same manner as they are reported internally and used by the entity's chief operating decision maker for purposes of evaluating performance and making resource allocation decisions.

### Changes in accounting policies

The Group applied the following new and revised accounting standards for the first time in 2010:

**Eligible Hedged Items (Amendment to IAS 39 – Financial Instruments: Recognition and Measurement)**
The amendment provides clarification on two issues in relation to hedge accounting: a) inflation can only be designated as a hedged risk or portion if it is a contractually specified portion of the cash flows (for example, in an inflation-linked bond where the inflation feature is not a separable embedded derivative); and b) the time value of a purchased option used as a hedging instrument is not a risk or portion present in a hedged item and would cause ineffectiveness if the entire option is designated. The amendment had no impact on the Group's financial statements.

**Improvements to IFRSs**
A number of amendments to several standards are included in the IASB's Annual Improvement Project. The amendments had no material impact on the Group's financial statements.

### New standards and interpretations not yet adopted

Certain new standards, revisions and interpretations of existing standards were published that must be applied in future financial periods. The Group plans not to adopt these in advance. These changes are not expected to have any significant impact on the Group's consolidated financial statements, except for the new IFRS 9 standard.

The following standards, revisions and interpretations will be relevant to the Group:

**Disclosures – Transfers of Financial Assets (Amendments to IFRS 7)**
The new disclosure requirements enable the users to a) understand the relationship between transferred financial assets (e.g. securitisations) that are not derecognised in their entirety and the associated liability; and b) evaluate the nature of, and the risks associated with, the entity's continuing involvement in derecognised financial assets.

The amendment does not change the existing derecognition requirements.

**IFRS 9 – Financial Instruments**
The new standard, which is the first part of replacement of IAS 39, includes the following changes to current accounting for financial instruments:

- all recognised financial assets are measured at either amortised cost or fair value;
- only a debt instrument that (a) is held within a business model whose objective is to collect the contractual cash flows and (b) has contractual cash flows that are solely payments of principal and interest may be measured at amortised cost;
- if a debt instrument measured at amortised cost is derecognised prior to maturity, the gain or loss has to be presented separately in the income statement, with an analysis of that gain or loss and the reasons for the sale;

- for debt instruments, classification as trading (i.e. at fair value) and a fair value option are available;
- equity instruments are to be measured at fair value, with the default recognition of gains and losses recognised in the income statement;
- equity instruments designated as at fair value through other comprehensive income: only if an equity instrument is not held for trading can an irrevocable election be made at initial recognition to measure it at fair value through other comprehensive income (equity), without any subsequent reclassification to the income statement (i.e., the current requirement to perform an assessment of impairment and to reclassify cumulative gains and losses on disposal no longer applies).

The new standard will be applicable as of 1 January 2013, with earlier application permitted. The impact of the new standard on the Group's financial statements has not yet been assessed.

**IFRS 9 – Financial Instruments: Financial Liabilities**
The new standard retains the fair value option for financial liabilities, but requires that the amount of change in fair value attributable to changes in the credit risk of the liability (own credit risk) be presented in other comprehensive income (OCI) without reclassification to the income statement. The remaining amount of total gain or loss is included in the income statement.

If this approach creates or enlarges an accounting mismatch, the whole change in fair value may be recognised in the income statement.

**IAS 24 – Related Party Disclosure**
The revised standard provides a simplified definition of related parties by clarifying its intended meaning and eliminating inconsistencies from the definition. The revised standard will be applicable as of 1 January 2011.

**Classification of Rights Issues (Amendment to IAS 32 – Financial Instruments: Presentation)**
The amendment specifies that a rights issue offered pro rata to all of an entity's existing shareholders on the exercise of which the entity will receive a fixed amount of cash for a fixed number of the entity's own equity instruments is classified as an equity instrument regardless of the currency in which the exercise price is denominated. The amendment will be applicable as of 1 January 2011.

**Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14)**
The updated interpretation provides guidance on assessing the amount of surplus that can be recognised as an asset in the case of prepayments made by the employer. Such amounts reduce the future minimum funding requirement contributions for future services. The updated interpretation will be applicable for annual periods beginning on or after 1 January 2011.

**IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments**
The interpretation clarifies that the issue of an entity's equity instruments to a creditor to extinguish all or part of a financial liability qualifies as consideration paid and therefore as extinguishment of the liability. The entity shall measure the equity instruments issued at the fair value of the equity instruments issued or the fair value of the liability extinguished, whichever is more reliably determinable. Possible gains or losses are to be disclosed separately. The new interpretation will be applicable for annual periods beginning on or after 1 July 2010.

**Improvements to IFRSs**
A number of amendments to several standards are included in the IASB's Annual Improvement Project. The amendments will be applicable as of 1 January 2011.

# Comment on risk and capital management
## Risk management framework and process

### Risk types

For the purposes of this report, risk is defined as the product of the probability of a given event occurring and the extent to which its occurrence could potentially result in an adverse deviation from the Group's defined objectives. Risk management therefore constitutes an integral part of our business framework. It is supported by a number of risk control procedures, which are seen as business enablers critical to the management process of the Julius Baer Group (the Group). The principal risks to which the Group is exposed to are:

- strategic and business risk
- credit risk
- market risk
- liquidity and financing risk
- operational risk (including legal, compliance and personnel risk)
- reputational risk

The risk control framework comprises both qualitative elements, including policies and authorities, and quantitative components, including limits. It is continually adapted and enhanced, both in response to changes in the business environment and to any modifications to the business models pursued by the Group.

### Risk governance

The Board of Directors of Julius Baer Group Ltd. defines the Group's risk policies and regularly reviews their appropriateness. This ensures that risks are managed effectively at Group level and that suitable processes are in place. The risk categories and the risk management processes as well as a common risk terminology for the Group are laid down in the Group Risk Policy. Specific Group policies are defined for particular risk categories. Overall responsibility for the implementation of the Group's risk management lies with those members of the Executive Board of Julius Baer Group Ltd. with designated risk management duties – the Chief Risk Officer (CRO) and the General Counsel (GC). The CRO is responsible for the management and control of credit risk, market risk (trading book and banking book), liquidity and financing risk (particularly with regard to the banking book) and of operational risk (excluding legal and compliance risk). He coordinates his activities with the GC, who is responsible for the management and control of legal and compliance risk. In addition, the CRO and the GC coordinate their activities with the Chief Financial Officer (CFO), who is responsible for balance sheet management and capital management, i.e. the maintenance of a sound ratio of eligible capital to risk-weighted positions.

The CRO and the GC establish appropriate risk guidelines and policies, coordinate, and contribute directly to the risk management of the business areas and thus ensure that risk is controlled independently.

Additional Board committees and the Executive Board are integrated into the Group-wide risk management structure as follows:

The Chairman's and Risk Committee's responsibilities principally include:

- setting the standards and methodologies for risk control with regard to risks other than operational risk (including legal and regulatory risk) which are employed to comply with the principles and risk profiles formulated by the Board of Directors of Julius Baer Group Ltd. or other relevant supervisory or managing bodies;
- the determination, coordination and review of risk limits;
- reviewing policies with regard to risks other than operational risk (including legal and regulatory risks);
- authorising, with taking into consideration the respective risk parameters, certain market, credit and financial transactions, including in particular loans granted to members of the Board of Directors and of the Executive Board of Julius Baer

Group Ltd. and/or entities affiliated with it and individuals with whom such entities are closely connected.

The Audit Committee is responsible for the standards and methods applied to the control of operational risk (including legal and regulatory risks) in order to ensure compliance with the principles and risk profiles formulated by the Board of Directors or other relevant supervisory or managing bodies. The Audit Committee is also responsible for reviewing the Group's operational risk directives.

The activities carried out in connection with these duties are based on the risk landscape formulated in accordance with the relevant risk directives.

The Executive Board of the Group's principal operating entity, Bank Julius Baer & Co. Ltd., is responsible for measuring and supervising market, liquidity, financing and operational risks in the Group's banking activities. Accordingly, its principal tasks are:

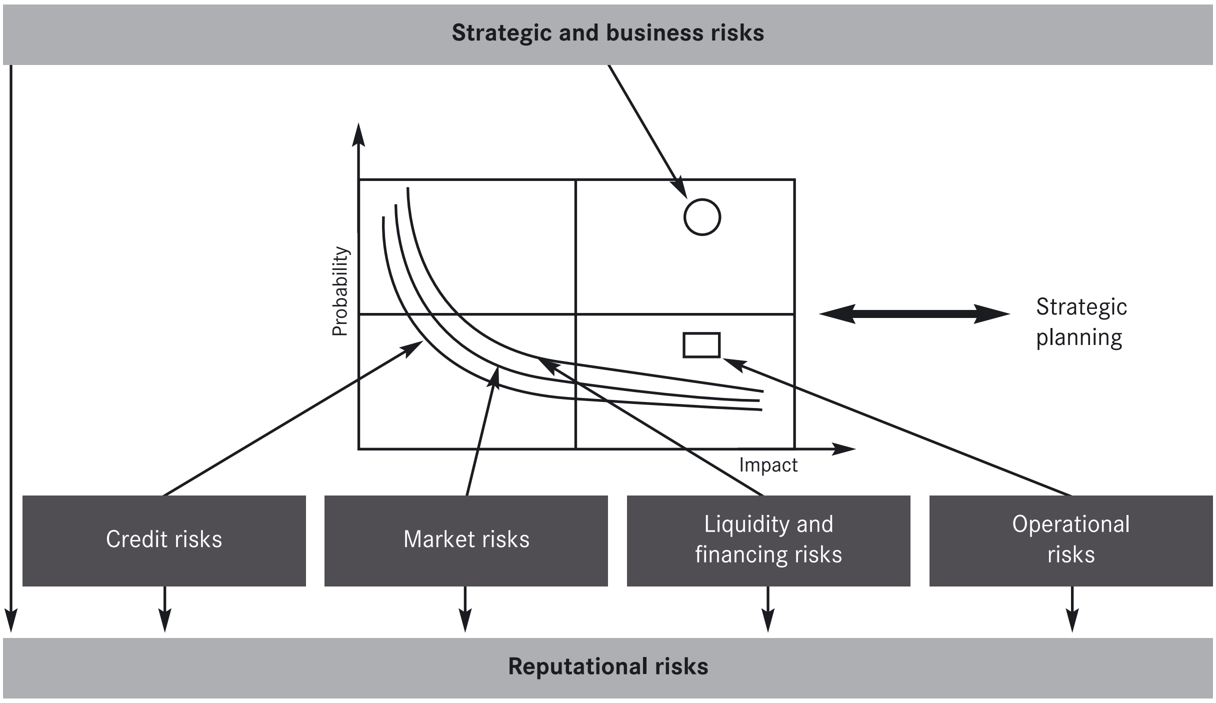
- to formulate policies governing market, liquidity, financing and operational risk in the Group's banking business;
- to allocate risk limits in accordance with those policies;
- to receive and review reports relating to those risks.

The Credit Committee of the Executive Board of Bank Julius Baer & Co. Ltd. is responsible for measuring and supervising credit risk. In particular, it is responsible for:

- formulating policies governing credit risk;
- making credit business decisions and allocating credit limits within the scope of its remit;
- delegating credit authority;
- receiving and reviewing credit risk reports.

The main responsibility for managing risks, however, primarily lies with the individual organisational units. All risks are mapped to a risk landscape, which provides a consolidated picture of the probability of their occurrence and its potential impact. The individual organisational units are responsible for managing the risks to which they are exposed. The risk landscape is also used by the business areas, the Executive Board and the Board of Directors of Julius Baer Group Ltd. and by Bank Julius Baer & Co. Ltd. in their annual strategic planning process.

**Risk landscape: illustrative diagram**




# Strategic and business risk

Based on the principles of value- and risk-oriented management and controlling, an annual strategic check-up is carried out, and the results are consolidated in a risk landscape. This check-up reviews the probability and impact of potential strategic and business risks and defines mitigating actions. The results are also used as an important input into the strategic planning process and thus influence the rolling three-year plan and hence the annual budgets.

# Credit risk

Credit or counterparty risk is the risk of non-compliance with an obligation which a client or a counterparty owes to the Group or to an individual Group company. Such non-compliance may result in a loss to the Group.

The Group has a policy of lending to private clients primarily on a collateralised basis. The credit risk resulting from such transactions may arise from lending or from derivatives exposure resulting from trading activities in foreign exchange, equity, interest rate and commodity products. As part of the risk management process, client portfolios are analysed and rated individually, and an advanceable value is assigned based on the quality of the collateral and the portfolio's diversification. Positions are monitored on a daily basis. A large majority of the collateral is also revalued daily.

In addition, the Group engages in transactions with banks, brokers and selected institutional clients on an unsecured basis. This involves individual risk limits and settlement limits being approved for each counterparty. The credit exposures arising from these transactions are monitored on a daily basis, and netting agreements and collateral agreements are also used to mitigate exposures further.

Country limits are set in order to contain the risks potentially arising from country-specific or region-specific events.

It is not a policy of the Group to engage in corporate lending activities except for collateralised lending to corporate structures linked to its core private banking business.

The Group's rating concept allows an internal rating classification to be assigned to each individual exposure, and it is on these classifications that the related limit-granting processes and monitoring are based.

The credit risk breakdown, as presented numerically in the tables Credit risk by region, Credit risk by sector, Credit risk secured/not secured and Credit risk by legal risk weights, is provided before deduction of the eligible collaterals and according to the Bank for International Settlement (Basel II BIS approach). Differences between the total amounts and the corresponding balance sheet positions are explained in the section Reconciliation of credit risk totals with balance sheet positions (see pages 69ff.).

In the following table the counterparty domicile serves as the fundamental basis for the geographical breakdown. For the secured portion of credit, however, the determining factor is either the domicile of the pledger, i.e. the domicile of the issuer of securities which are pledged as collateral, or the domicile of the guarantor.

## Credit risk by region

| | Switzerland CHF m | Europe CHF m | Americas CHF m | Asia/Pacific CHF m | Other countries CHF m | **31.12.2010 Total** CHF m |
|---|---|---|---|---|---|---|
| Due from banks | 682 | 4 338 | 112 | 1 096 | - | **6 228** |
| Loans | 4 730 | 4 299 | 3 183 | 2 246 | 132 | **14 590** |
| Financial investments available-for-sale | 1 491 | 10 309 | 1 159 | 826 | 11 | **13 796** |
| Derivative financial instruments | 795 | 910 | 363 | 325 | 5 | **2 398** |
| Contingent liabilities | 95 | 240 | 98 | 39 | 5 | **477** |
| Irrevocable commitments | 45 | 2 | - | - | - | **47** |
| Securities lending and repo transactions | 1 478 | 3 080 | 462 | 300 | 3 | **5 323** |
| **Total** | 9 316 | 23 178 | 5 377 | 4 832 | 156 | **42 859** |

| | Switzerland CHF m | Europe CHF m | Americas CHF m | Asia/Pacific CHF m | Other countries CHF m | 31.12.2009 Total CHF m |
|---|---|---|---|---|---|---|
| Due from banks | 315 | 3 964 | 174 | 840 | 1 | 5 294 |
| Loans | 3 280 | 3 174 | 2 349 | 1 535 | 107 | 10 445 |
| Financial investments available-for-sale | 1 093 | 11 790 | 1 434 | 567 | 12 | 14 896 |
| Derivative financial instruments | 550 | 688 | 221 | 138 | 7 | 1 604 |
| Contingent liabilities | 65 | 216 | 114 | 25 | 4 | 424 |
| Irrevocable commitments | 16 | 2 | - | - | - | 18 |
| Securities lending and repo transactions | 1 857 | 3 045 | 692 | 284 | - | 5 878 |
| Total | 7 176 | 22 879 | 4 984 | 3 389 | 131 | 38 559 |

In the following table the counterparty industry code serves as the fundamental basis for the sector breakdown. For the secured portion of credit, however, the determining factor is either the industry code of the pledger, i.e. the industry code of the issuer of securities which are pledged as collateral, or the industry code of the guarantor.

The column other is used for disclosure of securities from companies outside of the financial sector: these consist of proprietary positions of the Group which are reported under the balance sheet position financial investments available-for-sale as well as of the portion of credit secured by securities of companies outside of the financial sector.

## Credit risk by sector

| | | | | | **31.12.2010** |
|---|---|---|---|---|---|
| | Government and agencies *CHF m* | Financial institutions *CHF m* | Private clients *CHF m* | Other *CHF m* | **Total** *CHF m* |
| Due from banks | - | 6 228 | - | - | **6 228** |
| Loans | 939 | 2 656 | 8 284 | 2 711 | **14 590** |
| Financial investments available-for-sale | 4 509 | 7 529 | - | 1 758 | **13 796** |
| Derivative financial instruments | 48 | 1 642 | 579 | 129 | **2 398** |
| Contingent liabilities | 12 | 160 | 214 | 91 | **477** |
| Irrevocable commitments | 28 | 1 | 18 | - | **47** |
| Securities lending and repo transactions | 845 | 3 155 | 101 | 1 222 | **5 323** |
| **Total** | 6 381 | 21 371 | 9 196 | 5 911 | **42 859** |

| | | | | | 31.12.2009 |
|---|---|---|---|---|---|
| | Government and agencies *CHF m* | Financial institutions *CHF m* | Private clients *CHF m* | Other *CHF m* | Total *CHF m* |
| Due from banks | - | 5 294 | - | - | 5 294 |
| Loans | 453 | 1 919 | 6 075 | 1 998 | 10 445 |
| Financial investments available-for-sale | 3 963 | 8 773 | - | 2 160 | 14 896 |
| Derivative financial instruments | 106 | 904 | 529 | 65 | 1 604 |
| Contingent liabilities | 11 | 80 | 257 | 76 | 424 |
| Irrevocable commitments | 8 | 2 | 7 | 1 | 18 |
| Securities lending and repo transactions | 518 | 4 082 | - | 1 278 | 5 878 |
| Total | 5 059 | 21 054 | 6 868 | 5 578 | 38 559 |

As collateral to cover lombard loans, OTC derivatives positions as well as securities lending and repo transactions, primarily readily marketable securities are pledged. In the following table all of the collateral accepted within scope of the capital adequacy regulations is disclosed. The haircuts applied to the collaterals are based on the regulatory standard haircuts of Basel II.

## Credit risk secured/not secured

| | Secured by recognised financial collaterals [1] CHF m | Not secured by recognised financial collaterals CHF m | **31.12.2010** **Total** CHF m |
|---|---|---|---|
| Due from banks | 2 109 | 4 119 | **6 228** |
| Loans | 13 496 | 1 094 | **14 590** |
| Financial investments available-for-sale | - | 13 796 | **13 796** |
| Derivative financial instruments | 1 281 | 1 117 | **2 398** |
| Contingent liabilities | 435 | 42 | **477** |
| Irrevocable commitments | 10 | 37 | **47** |
| Securities lending and repo transactions | 4 632 | 691 | **5 323** |
| **Total** | 21 963 | 20 896 | **42 859** |

| | Secured by recognised financial collaterals [1] CHF m | Not secured by recognised financial collaterals CHF m | 31.12.2009 Total CHF m |
|---|---|---|---|
| Due from banks | 2 300 | 2 994 | 5 294 |
| Loans | 9 761 | 684 | 10 445 |
| Financial investments available-for-sale | - | 14 896 | 14 896 |
| Derivative financial instruments | 717 | 887 | 1 604 |
| Contingent liabilities | 396 | 28 | 424 |
| Irrevocable commitments | 7 | 11 | 18 |
| Securities lending and repo transactions | 4 779 | 1 099 | 5 878 |
| Total | 17 960 | 20 599 | 38 559 |

[1] Taking into account recognised collaterals with applied discount factors according to Swiss Capital Adequacy Ordinance

The following table gives an overview of the Credit risk by legal risk weights as defined under Basel II. The allocation of the receivables to the risk weights depends on the type and actual rating of the counterparty or the rating of the issue in the case of financial investments. The collateralised part of receivables is allocated to the 0% risk weight column, meaning that no capital is required for the respective outstanding amount.

## Credit risk by legal risk weights

| | 0% CHF m | 20% CHF m | 35% CHF m | 50% CHF m | 75% CHF m | 100% CHF m | 150% CHF m | **31.12.2010** Total CHF m |
|---|---|---|---|---|---|---|---|---|
| Due from banks | 2 444 | 2 667 | – | 1 084 | – | 17 | 16 | **6 228** |
| Loans | 9 749 | 5 | 2 844 | 627 | 58 | 1 278 | 29 | **14 590** |
| Financial investments available-for-sale | 4 226 | 6 384 | – | 3 018 | – | 71 | 97 | **13 796** |
| Derivative financial instruments | 1 281 | 307 | – | 429 | 2 | 379 | – | **2 398** |
| Contingent liabilities | 433 | 2 | – | 3 | 3 | 36 | – | **477** |
| Irrevocable commitments | 10 | 27 | – | – | 1 | 9 | – | **47** |
| Securities lending and repo transactions | 4 632 | 222 | – | – | – | 469 | – | **5 323** |
| **Total** | 22 775 | 9 614 | 2 844 | 5 161 | 64 | 2 259 | 142 | **42 859** |

| | 0% CHF m | 20% CHF m | 35% CHF m | 50% CHF m | 75% CHF m | 100% CHF m | 150% CHF m | 31.12.2009 Total CHF m |
|---|---|---|---|---|---|---|---|---|
| Due from banks | 2 364 | 2 088 | – | 823 | – | 7 | 12 | 5 294 |
| Loans | 7 341 | 9 | 1 922 | 150 | 57 | 926 | 40 | 10 445 |
| Financial investments available-for-sale | 3 796 | 8 112 | – | 2 801 | – | 102 | 85 | 14 896 |
| Derivative financial instruments | 717 | 263 | – | 245 | 2 | 377 | – | 1 604 |
| Contingent liabilities | 396 | – | – | – | 1 | 27 | – | 424 |
| Irrevocable commitments | 7 | 8 | – | – | 2 | 1 | – | 18 |
| Securities lending and repo transactions | 4 779 | 716 | – | – | – | 383 | – | 5 878 |
| Total | 19 400 | 11 196 | 1 922 | 4 019 | 62 | 1 823 | 137 | 38 559 |

### Reconciliation of credit risk totals

As management assesses credit risk based on the capital guidelines of the Basel Committee on Banking Supervision (Basel II BIS approach), the credit risk breakdown, as presented numerically in the tables before, is provided according to these guidelines. Balance sheet and off-balance-sheet positions exposed to credit risks are disclosed, except for the following balance sheet positions which include non-financial instruments: accrued income and prepaid expenses, deferred tax assets and other assets. In the following table the differences between the total amounts according to the Basel II BIS approach and the balance sheet and off-balance-sheet positions in accordance with IFRS are explained.

- The difference in the position Due from banks is due to the fact that under IFRS reverse repurchase transactions are recognised on balance sheet, whereas under the Basel II BIS approach reverse repurchase transactions are disclosed off-balance-sheet in the position Securities lending and repurchase transactions. The credit risk tables are adjusted to avoid double counting.
- The difference in the position Loans is due to the fact that the collective allowance is not deducted from loans under the Basel II BIS approach.
- In the position Financial investments available-for-sale the unrealised gains are deducted from the market value under the Basel II BIS approach.
- The total amount of the derivative financial instruments under the Basel II BIS approach corresponds to the total of the replacement values as disclosed in the balance sheet, plus calculated add-ons, minus under Basel II BIS permissible netting. The add-on is a percentage of the notional amount of the underlying instrument of the contract. The percentage depends on the type of the underlying and the residual term to maturity of the contract. Positive and negative replacement values of derivative exposures with the same counterparty (irrespective of maturity or currency) are netted against each other if a legally acknowledged netting agreement has been signed.
- The totals of the off-balance-sheet positions contingent liabilities and irrevocable commitments under the Basel II BIS approach correspond to the calculated credit equivalents. To get the credit equivalent the nominal or net current value of each off-balance-sheet transaction is multiplied by a credit conversion factor. The conversion factor depends on the original maturity of the contract. The contingent liabilities and irrevocable commitments as presented in the credit risk tables do not qualify as contingencies under IFRS.
- Under the Basel II BIS approach securities lending and repurchase transactions are disclosed including risk premiums. The percentage of the risk premium depends on the quality of the security involved in each securities lending or repo transaction.

## Reconciliation of credit risk totals with balance sheet positions

| | Basel II BIS approach *CHF m* | Balance sheet total *CHF m* | Deviation *CHF m* | Comment |
|---|---|---|---|---|
| Due from banks | 6 228.0 | 6 586.6 | -358.6 | reverse repurchase transactions deducted; collective allowance of CHF 6.2 million not deducted |
| Loans | 14 589.7 | 14 570.4 | 19.3 | collective allowance not deducted |
| Financial investments available-for-sale | 13 796.3 | 13 885.1 | -88.8 | unrealised gains deducted |
| Derivative financial instruments | 2 397.8 | 2 713.1 | -315.3 | |
| *of which security supplement (add-ons)* | | | *945.2* | *according to add-on and netting rules under BIS approach* |
| *of which netting of replacement values* | | | *-1 260.5* | *impact of netting rules under BIS approach* |
| **Total 31.12.2010** | **37 011.8** | **37 755.2** | **-743.4** | |

## Comments to off-balance-sheet positions

| | Basel II BIS approach *CHF m* | Off-balance-sheet total *CHF m* | Deviation *CHF m* | Comment |
|---|---|---|---|---|
| Contingent liabilities | 477.1 | 950.9 [1] | -473.8 | converted in credit equivalent |
| Irrevocable commitments | 47.2 | 111.2 [1] | -64.0 | converted in credit equivalent |
| Securities lending and repo transactions | 5 322.5 | 4 978.3 | 344.2 | including risk premium under BIS approach |
| **Total 31.12.2010** | **5 846.8** | | | |

[1] These amounts reflect the maximum payments the Group is committed to making.

## Reconciliation of credit risk totals with balance sheet positions

| | Basel II BIS approach *CHF m* | Balance sheet total *CHF m* | Deviation *CHF m* | Comment |
|---|---|---|---|---|
| Due from banks | 5 293.9 | 6 598.2 | -1 304.3 | reverse repurchase transactions deducted; collective allowance of CHF 9.2 million not deducted |
| Loans | 10 445.2 | 10 431.2 | 14.0 | collective allowance not deducted |
| Financial investments available-for-sale | 14 896.2 | 15 011.5 | -115.3 | unrealised gains deducted |
| Derivative financial instruments | 1 604.1 | 1 859.3 | -255.2 | |
| *of which security supplement (add-ons)* | | | *557.9* | *according to add-on and netting rules under BIS approach* |
| *of which netting of replacement values* | | | *-813.1* | *impact of netting rules under BIS approach* |
| Total 31.12.2009 | 32 239.4 | 33 900.2 | -1 660.8 | |

## Comments to off-balance-sheet positions

| | Basel II BIS approach *CHF m* | Off-balance-sheet total *CHF m* | Deviation *CHF m* | Comment |
|---|---|---|---|---|
| Contingent liabilities | 424.1 | 848.3 [1] | -424.2 | converted in credit equivalent |
| Irrevocable commitments | 17.6 | 69.6 [1] | -52.0 | converted in credit equivalent |
| Securities lending and repo transactions | 5 877.7 | 5 333.4 | 544.3 | including risk premium under BIS approach |
| Total 31.12.2009 | 6 319.4 | | | |

[1]These amounts reflect the maximum payments the Group is committed to making.

The following table provides an analysis of the Group's exposure to credit risk by credit quality and contains data that is retrieved from the internal Credit Supervision System used for the calculation and monitoring of the Group's exposure to credit risk. Credit exposure is measured against the following two types of limits: a) risk limits for unsecured credit exposures, which applies mainly to banks and brokers, but also includes selected non-financial institutions issuing debt securities; and b) lombard limits for collateralised credit exposures, which relates mainly to private clients.

Credit exposure in the context of this analysis comprises primarily the following elements: cash exposure (such as advances, account overdrafts, cash balances with correspondent banks, etc.), derivative exposure (replacement value plus add-on), and issuer risk from debt securities in the investment and treasury books of the Group. Not included in the credit exposure analysis are gross exposures from reverse repo and securities lending transactions, as such positions do not create credit exposure due to over-collateralisation on a netted basis. Netted basis means in this context that the margin provided without any regulatory standard haircuts covers the securities position without the addition of a risk premium per transaction. Intraday settlement exposures are also not included in the credit exposure analysis, although monitored separately.

For the purpose of this analysis, cash balances across different accounts are netted against each other for clients with lombard limits. Derivative exposure across different products, accounts and counterparties are netted against each other if an ISDA master netting agreement has been signed (close-out netting).

## Exposure to credit risk by credit rating

| | **31.12.2010** Collateralised *CHF m* | 31.12.2009 Collateralised *CHF m* | **31.12.2010** Unsecured *CHF m* | 31.12.2009 Unsecured *CHF m* |
|---|---|---|---|---|
| Neither past due nor impaired | **16 613.7** | 12 131.5 | **18 795.0** | 20 878.6 |
| Past due but not impaired | **143.5** | - | **-** | - |
| Impaired | **81.8** | 66.9 | **3.6** | 3.5 |
| **Total** | **16 839.0** | 12 198.4 | **18 798.6** | 20 882.1 |
| **Neither past due nor impaired** | | | | |
| R1 to R3 | **13 577.2** | 10 006.6 | **18 275.5** | 20 420.4 |
| R4 to R6 (including temporarily unrated) | **3 036.5** | 2 124.9 | **519.5** | 458.2 |
| **Total** | **16 613.7** | 12 131.5 | **18 795.0** | 20 878.6 |
| **Past due but not impaired** | | | | |
| R7 | **143.5** | - | **-** | - |
| **Total** | **143.5** | - | **-** | - |
| *Collateral held or credit enhancement available* | ***223.0*** | - | **-** | - |
| **Impaired** | | | | |
| R8 | **23.6** | 57.4 | **0.1** | - |
| R9 to R10 | **58.2** | 9.5 | **3.5** | 3.5 |
| **Total** | **81.8** | 66.9 | **3.6** | 3.5 |
| *Collateral held or credit enhancement available* | ***51.9*** | *31.8* | **-** | - |
| **Allowance for credit losses** | | | | |
| Specific allowance for credit losses | **64.0** | 38.8 | **3.6** | 3.5 |
| Collective allowance for credit losses | **21.3** | 14.1 | **6.2** | 9.1 |
| **Total** | **85.3** | 52.9 | **9.8** | 12.6 |

The internal credit ratings R1–R10 form the basis for calculating allowances for credit losses. Loans, receivables and other exposures are allocated to one of the ten rating classes. In the case of balances in rating classes R1–R6, the balances are being serviced, the advance rate of collateral is appropriate, and the repayment of the balance is not doubtful. For these exposures, no specific allowances for credit losses are established. Balances in rating class R7 are past due, but the exposure is still covered by collateral, and allowances are only established for past due interests. For balances in rating class R8, specific allowances for credit losses are established provided that it is more likely than not that a loss could arise. The credit risks of rating classes R9 and R10 are very high, and specific allowances for credit losses are established for balances in these rating classes.

The following table shows the Group's maximum exposure to credit risk as of the balance sheet date, which represents the exposure in the event of other parties failing to perform their obligations, without taking account of any collateral held or other credit enhancements. For financial assets, these exposures are typically the gross carrying amount, net of any amounts offset on the balance sheet or any impairment losses recognised.

### Maximum exposure to credit risk

| | **31.12.2010** Gross maximum exposure *CHF m* | 31.12.2009 Gross maximum exposure *CHF m* |
|---|---|---|
| Cash (excluding cash on hand) | **1 081.9** | 2 770.3 |
| Due from banks | **6 586.6** | 6 598.2 |
| Loans | **14 570.4** | 10 431.2 |
| Trading assets | **300.9** | 363.3 |
| Derivative financial instruments | **2 713.1** | 1 859.3 |
| Financial investments available-for-sale | **13 738.1** | 14 841.2 |
| Accrued income | **154.6** | 123.7 |
| Other assets | **6.8** | 5.6 |
| **Total maximum exposure to credit risk** | **39 152.4** | 36 992.7 |

## Market risk (trading book)

The following definitions are used to separate trading book and banking book activities: the *trading book* consists of proprietary positions in financial instruments that are held for resale or repurchase and that are usually taken on with the intention of benefiting from expected short-term differences between their purchase and sale prices. These activities are closely related to our clients' requirements for capital market products and are thus understood as being carried out in support of our core business. The *banking book* generally has a longer-term investment focus and is defined as all other assets, liabilities and off-balance-sheet items that either result from classical banking transactions or are intended to be held in order to generate income over time.

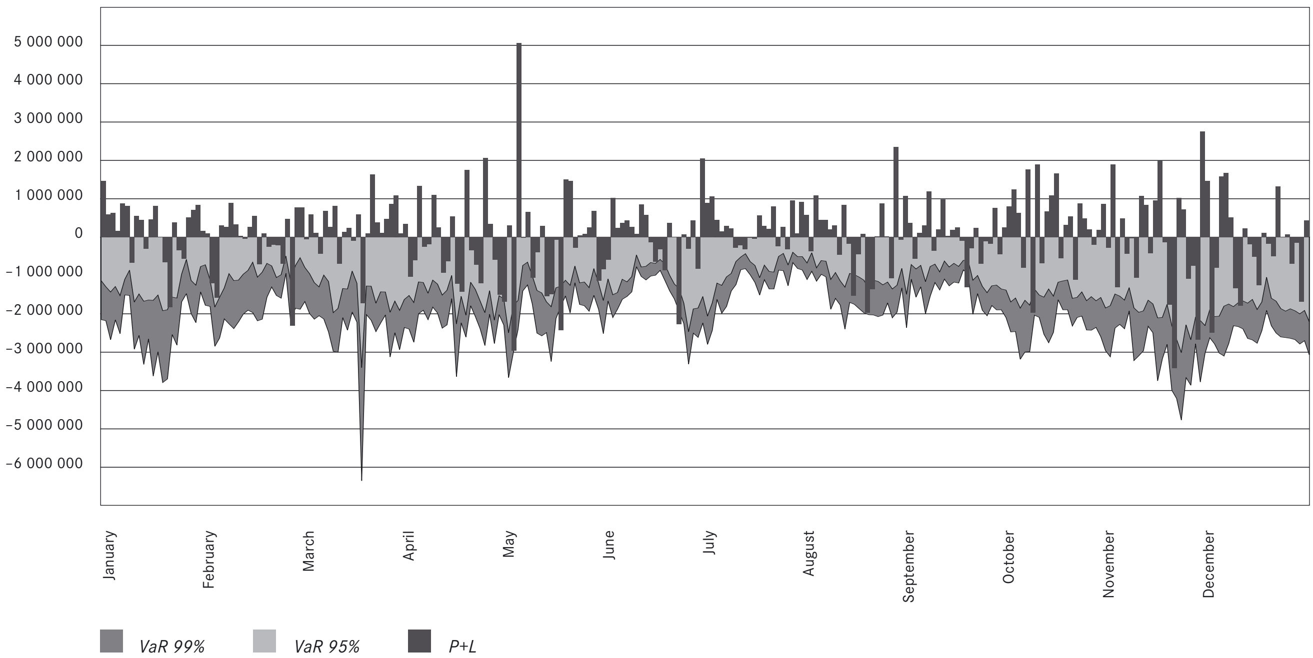
Market risk measures the potential loss to which the Group is exposed through changes in market prices in interest rate, equity, foreign exchange and commodity markets. Market risk management involves the identification, measurement, control and management of the market risks assumed. The trading units enter into market risk positions within defined limits.

### Market risk measurement, market risk limitation, back testing and stress testing

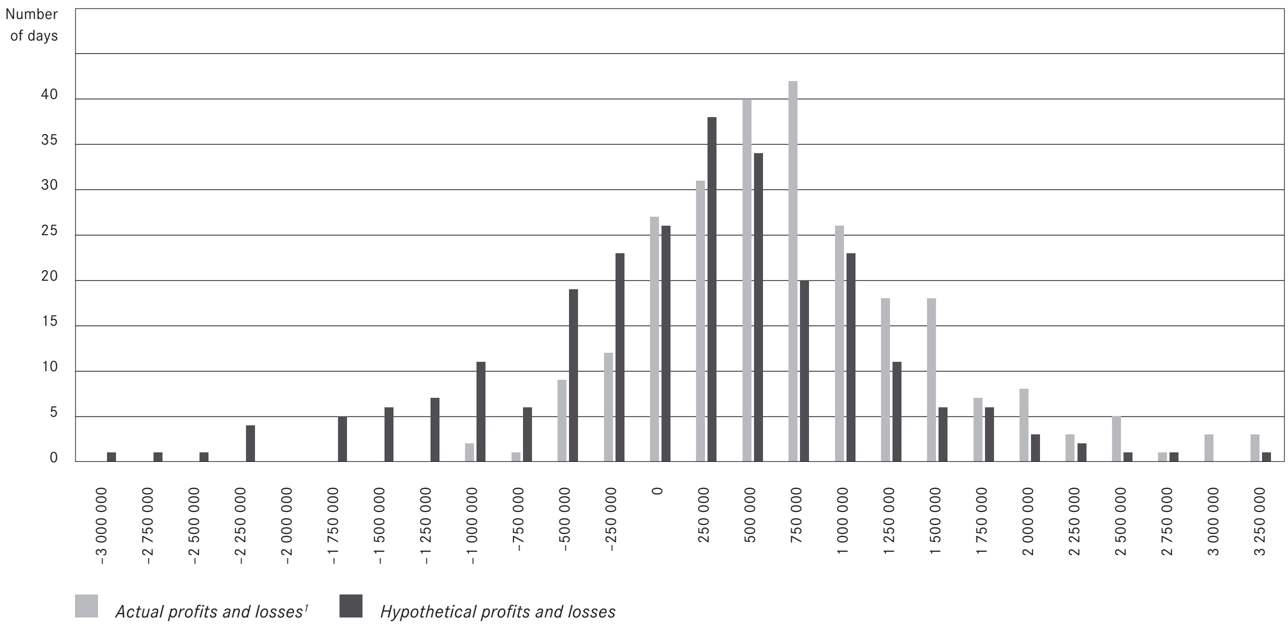
The Group uses the following methods to measure and limit market risk: value at risk (VaR) limits, sensitivity or concentration limits (delta, vega, basis point and nominal limits as well as scenario analysis), and country limits for trading positions. VaR, the key risk figure, measures the magnitude of the loss on a portfolio that, under normal circumstances and for a specific probability (confidence interval), will not be exceeded during the observed holding period. The VaR of the Group amounted to

CHF 2.31 million on 31 December 2010 (one-day holding period, 95% confidence interval). The maximum VaR recorded in 2010 amounted to CHF 3.39 million; the minimum was CHF 0.39 million. The adequacy of the VaR calculation, which is based on historical market movements, is monitored through regular back testing. This involves the comparison of the daily gains and losses generated by the trading book with the VaR values calculated each day. The following chart shows the daily calculations of VaR in 2010 (at confidence intervals of 95% and 99% and for a one-day holding period) compared with the hypothetical gains or losses which would have occurred if the positions had been left unchanged for one day. The second chart compares these hypothetical gains and losses with the actual profit and loss generated by the trading operations of the Group. To ensure comparability, pure commission income has been removed from these profit and loss results.

**Back testing trading of Julius Baer Group for 2010 (CHF)**



### Distribution of daily revenues from trading activities of Julius Baer Group for 2010 (CHF)




[1] Pure trading revenues excluding commissions and fees

Whereas VaR forecasts identify potential losses during normal market conditions, daily stress tests are carried out in order to estimate the consequences of extreme market swings. Limits are set for both these risk metrics and their utilisation is monitored on a daily basis.

### VaR method and regulatory capital

For its VaR calculation, the Group uses historical simulation with complete revaluation of all trading positions in each instance. The historical simulation is based on empirically observed changes in market parameters (prices, yield curves, volatilities) over the last 300-trading-day period. As a result, correlation is taken into account implicitly, without having to draw on calculations and assumptions based on a correlation matrix. The risk management platform and the internal market risk models of the Group fulfil the relevant regulatory requirements and have been approved by the Swiss Financial Market Supervisory Authority (FINMA) for use in determining the capital requirement for market risks in the trading book. Regulatory approval of our models relates to both so-called general market risk and to issuer-specific risk.

The following table is a summary of the VaR positions of the Group's trading portfolios:

## Market risk – VaR positions by risk type

| | At 31 December<br>*CHF 1000* | Average<br>*CHF 1000* | Maximum<br>*CHF 1000* | **2010**<br>Minimum<br>*CHF 1000* |
|---|---|---|---|---|
| Equities | **-2 423** | **-1 327** | **-3 307** | **-384** |
| Interest rates | **-1 073** | **-459** | **-1 206** | **-161** |
| Foreign exchange/precious metals | **-262** | **-416** | **-1 497** | **-43** |
| Effects of correlation | **1 442** | | | |
| **Total** | **-2 316** | **-1 350** | **-3 392** | **-393** |

| | At 31 December<br>*CHF 1000* | Average<br>*CHF 1000* | Maximum<br>*CHF 1000* | 2009<br>Minimum<br>*CHF 1000* |
|---|---|---|---|---|
| Equities | -706 | -1 201 | -2 554 | -362 |
| Interest rates | -303 | -706 | -1 024 | -303 |
| Foreign exchange/precious metals | -798 | -783 | -2 106 | -111 |
| Effects of correlation | 661 | | | |
| Total | -1 146 | -1 487 | -3 004 | -626 |

# Liquidity, financing and interest rate risks in the banking book

Financing risk is the risk of the Group being unable to finance its existing or planned activities on an ongoing basis at acceptable prices. Liquidity risk, conversely, is the risk of the Group being unable to meet its payment obligations when they become due.

Group Treasury manages the liquidity and financing risks on an integrated basis. Currently, the Group's activities are largely financed by client sight deposits. Given its active participation in the interbank market, the Group would, however, quickly be able to access additional sources of refinancing at any time. The liquidity position of Bank Julius Baer & Co. Ltd., in particular, as well as those of the other Group companies, are monitored and managed daily and exceed the regulatory minimum, as required by the Group's liquidity policy. In addition, payment flow simulations are run on a weekly basis in order to analyse the liquidity of the balance sheet under extreme conditions.

Interest rate risk is defined as the impact of potential changes in interest rates on the market value of the assets and liabilities of the Group. One objective measure of this risk can be provided by showing the impact of a positive change of 1% (+100 basis points) in the entire yield curve in the respective currency. The table below, broken down according to maturity bands and currencies, shows the results of such a scenario as at 31 December 2010. Negative values under this scenario reflect a potential drop in fair value within the respective maturity band; positive values reflect a potential increase in fair value. This risk measure is also used to carry out scenario analyses on a regular basis. As there are no material option structures in the banking book, a negative change of 1% in the yield curves would result in scenario values of the same magnitude but with the opposite sign, though such outcomes are mitigated by the fact that the yield curves of the currencies in which the Group carries out most of its activities are currently close to zero.

### Interest rate sensitivity positions

| | Within 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total<br>*CHF 1000* |
|---|---|---|---|---|---|---|
| **Interest sensitivity by time bands and 100 bp parallel increase** | | | | | | |
| **CHF** | | | | | | |
| **2010** | **830** | **521** | **21 236** | **-25 785** | **-38 959** | **-42 157** |
| 2009 | 805 | 149 | 16 437 | -35 694 | -8 704 | -27 007 |
| **USD** | | | | | | |
| **2010** | **2 222** | **-2 619** | **1 584** | **-3 539** | **-54** | **-2 406** |
| 2009 | 2 806 | -3 444 | 1 107 | -6 701 | -232 | -6 464 |
| **EUR** | | | | | | |
| **2010** | **1 089** | **-1 597** | **-3 631** | **-11 037** | **-43** | **-15 219** |
| 2009 | 1 418 | -3 201 | 5 023 | -8 464 | -268 | -5 492 |
| **Other** | | | | | | |
| **2010** | **987** | **-1 185** | **-269** | **-569** | **-2 415** | **-3 451** |
| 2009 | -244 | -596 | -95 | 271 | -1 588 | -2 252 |

In addition, the effect on interest earnings resulting from a parallel shift of 1% in the yield curve is measured. In this gap analysis, the interest-bearing assets and liabilities are offset within maturity bands. The impact of the yield curve shift on the residual exposure over the time horizon from the next repricing date to a point twelve months ahead is measured. Based on the assumptions described above, the effect on interest earnings was CHF 1.0 million at the end of 2010 (2009: CHF -7.5 million).

Exposures to risks, other than interest rate and liquidity risks, arising from positions held by the Group in the banking book are limited and monitored using nominal and VaR limits. Price risk exposures arise from positions in equities, funds and non-traditional funds. They are managed by the Group treasury. Currency risks on the banking book are transferred into the trading book. By way of exception, Group entities may carry currency exposures. These exposures are limited and measured according to individual balance sheet management guidelines and are included in the Group's VaR calculation.

**Hedging interest rate risks**

The Group accepts deposits from customers at both floating and fixed rates and for various periods and invests these funds in high-quality assets. Through consolidating the short-term client money taken up and lending it out at longer maturities, an effort is made to increase the interest margin. At the same time, sufficient liquid assets are held in order to be always able to meet all maturing obligations. In managing the associated interest rate risks, the Group hedges a portion of the interest rate risk associated with cash flows resulting from term deposits or term loans by employing interest rate swaps. The market value of these swaps on 31 December 2010 amounted to net CHF -0.4 million (2009: CHF -7.6 million).

The following table shows an analysis of the Group's financial assets and financial liabilities by remaining expected maturities as of the balance sheet date. The expected maturities are based on management estimates and may differ from the contractual maturities. Balances are classified as on demand if they may be cancelled at any time.

## Remaining expected maturities of financial assets and liabilities

| | On demand *CHF m* | Due within 3 months *CHF m* | Due within 3 to 12 months *CHF m* | Due within 12 months to 5 years *CHF m* | Due after 5 years *CHF m* | Total *CHF m* |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash | 1 121.3 | - | - | - | - | **1 121.3** |
| Due from banks | - | 6 310.6 | 231.3 | 44.7 | - | **6 586.6** |
| Loans | - | 9 809.5 | 2 446.0 | 1 733.6 | 581.3 | **14 570.4** |
| Trading assets | 3 752.0 | - | - | - | - | **3 752.0** |
| Derivative financial instruments | 2 713.1 | - | - | - | - | **2 713.1** |
| Financial assets designated at fair value | 1 006.1 | - | - | - | - | **1 006.1** |
| Financial investments available-for-sale | - | 5 645.2 | 3 279.1 | 4 323.8 | 637.1 | **13 885.1** |
| Accrued income | - | 154.6 | - | - | - | **154.6** |
| **Total 31.12.2010** | 8 592.5 | 21 919.9 | 5 956.3 | 6 102.1 | 1 218.4 | **43 789.3** |
| Total 31.12.2009 | 8 372.7 | 21 488.5 | 4 688.7 | 5 354.4 | 633.0 | 40 537.3 |

| | On demand *CHF m* | Due within 3 months *CHF m* | Due within 3 to 12 months *CHF m* | Due within 12 months to 5 years *CHF m* | Due after 5 years *CHF m* | Total *CHF m* |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Due to banks | - | 4 209.3 | 21.1 | 21.4 | - | **4 251.8** |
| Due to customers | - | 21 616.5 | 5 569.3 | 1 660.9 | - | **28 846.7** |
| Trading liabilities | 800.9 | - | - | - | - | **800.9** |
| Derivative financial instruments | 2 772.4 | - | - | - | - | **2 772.4** |
| Financial liabilities designated at fair value | 1 908.5 | 299.6 | 815.9 | 689.7 | 446.9 | **4 160.6** |
| Debt issued | - | 13.9 | - | 1.3 | 225.0 | **240.2** |
| Accrued expenses | - | 104.3 | - | - | - | **104.3** |
| **Total 31.12.2010** | 5 481.8 | 26 243.6 | 6 406.3 | 2 373.4 | 671.9 | **41 176.9** |
| Total 31.12.2009 | 3 575.8 | 25 435.6 | 6 290.6 | 2 065.4 | 661.3 | 38 028.7 |

The following table shows an analysis of the Group's financial liabilities by remaining contractual maturities as of the balance sheet date. Contrary to the balance sheet presentation, these amounts include the total of contractual undiscounted interest payments related to these financial liabilities. Liabilities without a stated maturity, i.e. that can be cancelled at any time, are classified as on demand. All derivative financial instruments are classified as on demand, as there are no single derivatives or classes of derivatives for which the contractual maturities are relevant for the timing of the total cash flows of the Group.

## Remaining contractual maturities of financial liabilities

| | On demand *CHF m* | Due within 3 months *CHF m* | Due within 3 to 12 months *CHF m* | Due within 12 months to 5 years *CHF m* | Due after 5 years *CHF m* | Total *CHF m* |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Due to banks | 3 224.0 | 810.3 | 211.7 | 9.9 | – | **4 255.9** |
| Due to customers | 24 674.7 | 3 964.9 | 139.4 | 72.5 | – | **28 851.5** |
| Trading liabilities | 800.9 | – | – | – | – | **800.9** |
| Derivative financial instruments | 2 772.4 | – | – | – | – | **2 772.4** |
| Financial liabilities designated at fair value | 1 908.5 | 322.7 | 870.5 | 696.7 | 446.9 | **4 245.3** |
| Debt issued | – | 13.8 | 8.3 | 34.5 | 225.0 | **281.6** |
| Accrued expenses | – | 104.3 | – | – | – | **104.3** |
| **Total 31.12.2010** | 33 380.4 | 5 216.0 | 1 229.9 | 813.6 | 671.9 | **41 311.8** |
| Due to banks | 3 367.3 | 394.3 | 0.3 | 200.6 | – | 3 962.5 |
| Due to customers | 24 847.5 | 2 254.1 | 184.6 | 1.0 | – | 27 287.2 |
| Trading liabilities | 714.9 | – | – | – | – | 714.9 |
| Derivative financial instruments | 1 786.2 | – | – | – | – | 1 786.2 |
| Financial liabilities designated at fair value | 1 074.6 | 1 447.1 | 603.1 | 448.0 | 436.3 | 4 009.1 |
| Debt issued | – | 25.7 | 8.3 | 35.9 | 233.3 | 303.2 |
| Accrued expenses | – | 84.3 | – | – | – | 84.3 |
| Total 31.12.2009 | 31 790.5 | 4 205.5 | 796.3 | 685.5 | 669.6 | 38 147.4 |

# Operational risk

### Operational risk – definition and objectives

Operational risk is defined as the risk of loss resulting from inadequacies or failures either in internal processes, people and/or systems, or from external events.

The qualitative and quantitative standards defined by the Basel Committee for Banking Supervision are met by the current operational risk management and control set-up.

The objectives of the operational risk management process which have been defined for the purpose of avoiding substantial operational losses which could jeopardise the Group's ongoing business activities are the following:

- continuously to pursue the further development of the operational risk control framework, thus enabling the organisation to manage and minimise operational risks effectively;
- to promote a high level of risk awareness at all levels of the organisation;
- to contribute to the enhancement of internal regulations, processes and systems so as to minimise risks;
- to ensure that business operations continue to run smoothly in the event of infrastructure breakdowns and catastrophes (Business Continuity Management);
- to assess all risk-related issues before new services or products are offered;
- to ensure that operational risk reports are submitted to the appropriate levels of management;
- to ensure that shareholders' equity is correctly allocated to cover operational risks.

In addition, the Group's operational risk control framework also covers legal and regulatory risks.

### Risk related to Business Continuity Management

The objectives of Business Continuity Management (BCM) are:

- to promulgate directives and standards which ensure the protection of people within the organisation's premises (clients and staff), information, assets and infrastructure;
- to reduce reputational risks and protect the Julius Baer brand;
- to minimise the probability/impact of events such as business interruptions, pandemics, etc.;
- to maintain the Group's credibility with the media, markets and other stakeholders;
- to meet regulatory, legal and insurance requirements.

BCM assesses the respective risks together with local representatives. The insights thus gained make it possible to define and implement risk mitigation measures in order to achieve adequate protection of people within the organisation's premises, information, assets and building infrastructure throughout the firm. Through a defined set of minimum global standards for the protection of Julius Baer Group premises, BCM ensures that economically viable operational and physical security measures are in place.

### Legal and compliance risk

Legal risk essentially comprises default and liability risk. Default risk is defined as the risk of financial or other loss or injury resulting from a Group company being unable to enforce existing or anticipated rights, most commonly contractual rights, against third parties. Liability risk, on the other hand, arises when a Group company, or someone acting on its behalf, fails to meet an obligation owed to a third party or fails to respect the rights of a third party, and that such failure results in injury to the third party concerned.

Regulatory or compliance risk is the risk of financial or other loss or injury resulting from a breach of applicable laws and regulations or the departure from internal or external codes of conduct or market practice. The loss or injury in such circumstances may take the form of fines imposed by regulatory authorities or other sanctions such as restrictions on business activities or the imposition of mandatory remedial measures.

Measures aimed at minimising legal and regulatory or compliance risks include raising staff awareness of legal and regulatory issues through training and internal directives and controls to ensure adherence to the legal and regulatory requirements within which the Group operates.

**Personnel risk**

Given the structure of the risks to which we are exposed, our major personnel risks lie in the Group's dependence on highly qualified staff and the availability of the necessary management and leadership capabilities. Based on this risk assessment and given the unchanged demand for qualified staff, our efforts are focused on attracting and developing talented professionals and retaining their services for the long term. The quality of our management's leadership, the attractiveness of our employment conditions, and targeted training and development measures are the critical factors in this regard.

**Insurance**

With the objective of covering or reducing the potential negative financial consequences to which the occurrence of the operational risks described above could lead, the Group takes out insurance cover for specific areas of its business activities in line with general industry practice.

# Reputational risk

Reputational risk describes the risk of events which could do lasting harm to the Group's reputation and thus impair its franchise. The Group's ability to conduct its business is critically dependent on the reputation it has established over the more than one hundred years of the existence of Bank Julius Baer & Co. Ltd., the Group's main operating entity. Maintaining its good reputation is therefore vitally important for the Group, and all staff must make this a top priority. Appropriate measures are taken on a regular basis to ensure that staff are aware of the critical importance of the Group's reputation.

# Management of capital including regulatory capital

In managing its capital, the Group considers a variety of requirements and expectations. Sufficient capital must be in place to support current and projected business activities, according to both the Group's own internal assessment and the requirements of its regulators, in particular its lead regulator the Swiss Financial Market Supervisory Authority (FINMA). Capital is also managed in order to achieve sound capital ratios and to ensure strong external credit ratings.

Ensuring compliance with minimum regulatory capital requirements and targeted capital ratios is central to capital adequacy management. In this ongoing process, the Group manages its capital on the basis of target ratios for core (tier 1) capital and total capital. In the target-setting process the Group takes into account the regulatory minimum capital requirements and regulatory expectations that the Group will hold additional capital above the minimum, the Group's internal assessment of aggregate risk exposure requiring equity capital provision, the views of rating agencies, and comparison to peer institutions, considering the Group's business mix and market presence.

In 2010, the scope of consolidation used for the calculation of capital adequacy differs from that applied for accounting purposes. Julius Baer Life (Bahamas) Ltd., a Group insurance company founded in 2008, is not consolidated for the calculation of the capital adequacy. For further information about consolidated companies, please refer to Note 25.

In contrast to the calculations carried out for its financial reporting, for which the Group calculates risk-weighted assets according to BIS guidelines, the calculation of the Group's regulatory capital requirement is based on FINMA legal requirements. For its regulatory reporting, the Group applies the Swiss standardised approach (SA-CH). This results in higher risk-weighted assets and, consequently, higher capital requirements than would be required by BIS guidelines.

The tier 1 ratio is required to be at least 4% of risk-weighted assets, and total eligible capital is required to be at least 8% of risk-weighted assets. As at 31 December 2010 and as at 31 December 2009, the Group was adequately capitalised under the respective FINMA and BIS guidelines.

## Capital ratios

| | 31.12.2010 CHF m | 31.12.2009 CHF m |
|---|---|---|
| **Risk-weighted positions** | | |
| Credit risk | **8 115.9** | 7 140.6 |
| Non-counterparty-related risk | **534.1** | 465.0 |
| Market risk[1] | **514.2** | 708.6 |
| Operational risk[1] | **2 896.3** | 2 656.2 |
| **Total** | **12 060.5** | 10 970.4 |
| **Eligible capital** | | |
| Eligible tier 1 capital | **2 873.4** | 2 656.4 |
| *of which hybrid tier 1 capital* | ***225.0*** | *225.0* |
| Eligible tier 1 and tier 2 capital | **2 933.6** | 2 725.2 |
| BIS tier 1 ratio | **23.8%** | 24.2% |
| BIS tier 1 and tier 2 ratio | **24.3%** | 24.8% |

[1]Risk-weighted figure calculated by taking 12.5 times the capital adequacy requirement according to the applied approach

Hybrid tier 1 capital represents 7.8% of the Group's total tier 1 capital. The hybrid tier 1 capital consists of preferred securities issued by Julius Baer Capital (Guernsey) I Limited. The preferred securities were issued in exchange for a note of Julius Baer Group Ltd., in the same amount and with mirror conditions. Their maturity is essentially perpetual and they are subordinate to all other borrowings. They have a preference over equity with regard to the payment of dividends and liquidation proceeds, though such dividends and liquidation proceeds will be paid only to the extent that they comply with the banking and company law regulations applicable to distributions made by Julius Baer Group Ltd. The preferential dividend right is not cumulative. The preferred securities are fully paid up, devoid of any voting rights or rights associated therewith, capable of sustaining losses, unsecured and repayable at the issuer's option only, no earlier than 2 December 2015 and only with the approval of the regulatory authorities. The hybrid equity created by the issue of preferred securities is recognised in full as core capital for the purpose of adherence to consolidated equity requirements.

The main adjustment to total equity for the purpose of determining total eligible capital is the deduction of intangible assets. These and other capital components are shown in the following table.

Required capital (see table on page 86) for credit risks arising from amounts due from banks, loans, financial investments and derivative financial instruments accounts for more than 67% (2009: over 65%) of the total required capital. Capital required for non-counterparty risk (2010: 5%; 2009: 4%) and market risk (2010: 4%; 2009: 7%) is of minor significance. The capital required to cover operational risk accounts for more than 24% of total required capital (2009: 24%).

## Capital components

| | 31.12.2010<br>CHF m | 31.12.2009<br>CHF m |
|---|---|---|
| Gross tier 1 capital after deduction of treasury shares | **4 586.0** | 4 329.1 |
| *of which non-controlling interests* | ***2.1*** | *1.7* |
| *of which innovative capital instruments* | ***225.0*** | *225.0* |
| Goodwill and other intangible assets | **-1 635.4** | -1 572.2 |
| Other deductions | **-77.2** | -100.5 |
| **Eligible tier 1 capital** | **2 873.4** | 2 656.4 |
| Tier 2 capital | **60.2** | 68.8 |
| **Eligible tier 1 and tier 2 capital** | **2 933.6** | 2 725.2 |

## Minimum capital requirement

| | 31.12.2010<br>CHF m | 31.12.2009<br>CHF m |
|---|---|---|
| Credit risk | **649.3** | 571.2 |
| *of which for equity securities in the banking book* | ***9.9*** | *10.8* |
| Non-counterparty-related risk | **42.7** | 37.2 |
| Market risk | **41.1** | 56.7 |
| Operational risk | **231.7** | 212.5 |
| **Total** | **964.8** | 877.6 |

For further details of the Group's capital adequacy under Swiss law, please refer to www.juliusbaer.com (information will be available at the end of April 2011).

# Information on the consolidated income statement

## 1 Net interest income

| | 2010<br>CHF 1000 | 2009<br>CHF 1000 | Change<br>% |
|---|---|---|---|
| Interest income on amounts due from banks | **30 999** | 43 012 | -27.9 |
| Interest income on loans | **239 345** | 223 062 | 7.3 |
| Interest income on money market instruments | **42 867** | 155 056 | -72.4 |
| Interest income on financial investments available-for-sale | **131 625** | 137 165 | -4.0 |
| Dividend income on financial investments available-for-sale | **2 328** | 3 605 | -35.4 |
| Interest income on trading portfolios | **5 993** | 1 943 | 208.4 |
| Dividend income on trading portfolios | **66 320** | 12 645 | 424.5 |
| Total interest income | **519 477** | 576 488 | -9.9 |
| Interest expense on amounts due to banks | **11 612** | 6 438 | 80.4 |
| Interest expense on amounts due to customers | **44 324** | 95 407 | -53.5 |
| Interest expense on debt issued | **8 168** | 8 168 | - |
| Total interest expense | **64 104** | 110 013 | -41.7 |
| **Total** | **455 373** | 466 475 | -2.4 |

## 2 Net fee and commission income

| | 2010<br>CHF 1000 | 2009<br>CHF 1000 | Change<br>% |
|---|---|---|---|
| Investment fund fees | **112 521** | 98 580 | 14.1 |
| Fiduciary commissions | **19 363** | 25 898 | -25.2 |
| Portfolio and other management fees | **600 499** | 499 693 | 20.2 |
| Total fee and commission from asset management | **732 383** | 624 171 | 17.3 |
| Income from brokerage and securities underwriting | **412 853** | 341 856 | 20.8 |
| Commission income on lending activities | **4 759** | 3 400 | 40.0 |
| Commission income on other services | **47 100** | 36 813 | 27.9 |
| Total fee and commission income | **1 197 095** | 1 006 240 | 19.0 |
| Commission expense | **216 725** | 187 556 | 15.6 |
| **Total** | **980 370** | 818 684 | 19.7 |

# 3 Net trading income

| | 2010<br>CHF 1000 | 2009<br>CHF 1000 | Change<br>% |
|---|---|---|---|
| Debt instruments | **8 077** | 10 206 | -20.9 |
| Equity instruments | **-11 238** | 22 250 | -150.5 |
| Foreign exchange | **335 501** | 266 082 | 26.1 |
| **Total** | **332 340** | 298 538 | 11.3 |

# 4 Other ordinary results

| | 2010<br>CHF 1000 | 2009<br>CHF 1000 | Change<br>% |
|---|---|---|---|
| Net gains/(losses) from disposal of financial investments available-for-sale | **-7 010** | -9 344 | 25.0 |
| Real estate income | **5 552** | 5 720 | -2.9 |
| Other ordinary results | **27 755** | 6 054 | 358.5 |
| **Total** | **26 297** | 2 430 | 982.2 |

# 5 Personnel expenses

| | 2010<br>CHF 1000 | 2009<br>CHF 1000 | Change<br>% |
|---|---|---|---|
| Salaries and bonuses | **648 695** | 557 076 | 16.4 |
| Contributions to staff pension plans (defined benefits) | **53 467** | 44 022 | 21.5 |
| Contributions to staff pension plans (defined contributions) | **14 986** | 11 606 | 29.1 |
| Other social security contributions | **53 431** | 48 837 | 9.4 |
| Share-based payments | **20 393** | 9 695 | 110.3 |
| Other personnel expenses | **32 768** | 17 508 | 87.2 |
| **Total** | **823 740** | 688 744 | 19.6 |

# 6 General expenses

| | **2010** CHF 1000 | 2009 CHF 1000 | Change % |
|---|---|---|---|
| Occupancy expense | **55 236** | 50 164 | 10.1 |
| IT and other equipment expense | **55 595** | 44 965 | 23.6 |
| Information, communication and advertising expense | **118 143** | 94 835 | 24.6 |
| Service expense, fees and taxes | **121 040** | 85 320 | 41.9 |
| Valuation adjustments, provisions and losses | **24 802** | 25 526 | -2.8 |
| Other general expenses | **1 193** | 1 038 | 14.9 |
| **Total** | **376 009** | 301 848 | 24.6 |

# 7 Income taxes

| | **2010** CHF 1000 | 2009 CHF 1000 | Change % |
|---|---|---|---|
| Income tax on profit before taxes (expected tax expense) | **95 535** | 104 404 | -8.5 |
| Tax rate difference on income of components subject to foreign taxation | **-19 744** | -34 159 | 42.2 |
| Tax rate difference from local differences in domestic tax rates | **-7 949** | -2 168 | -266.7 |
| Lower taxed income | **-12 289** | -13 755 | 10.7 |
| Effect of utilisation of prior-year losses | **-219** | - | - |
| Effect from not capitalised losses | **5 141** | 8 986 | -42.8 |
| Adjustments related to prior years | **-1 894** | 1 349 | -240.4 |
| Non-deductible expenses | **22 665** | 20 567 | 10.2 |
| Other | **237** | 42 | 464.3 |
| **Actual income tax expense** | **81 483** | 85 266 | -4.4 |

A tax rate of 22% (2009: 22%) was applied in the calculation of income tax in Switzerland. Not capitalised accumulated operating loss carryforwards in the amount of CHF 36.5 million (2009: CHF 23.5 million) exist in the Group that do not expire.

| | **2010** *CHF 1000* | 2009 *CHF 1000* | Change % |
|---|---|---|---|
| Domestic income taxes | **78 888** | 81 749 | -3.5 |
| Foreign income taxes | **2 595** | 3 517 | -26.2 |
| **Total** | **81 483** | 85 266 | -4.4 |

| | | | |
|---|---|---|---|
| Current income taxes | **86 511** | 98 514 | -12.2 |
| Deferred income taxes | **-5 028** | -13 248 | 62.0 |
| **Total** | **81 483** | 85 266 | -4.4 |

## Tax effects relating to components of other comprehensive income

| | | | **2010** |
|---|---|---|---|
| | Before-tax amount *CHF 1000* | Tax (expense)/ benefit *CHF 1000* | Net-of-tax amount *CHF 1000* |
| Net unrealised gains/(losses) on financial investments available-for-sale | 15 294 | -2 690 | 12 604 |
| Net realised (gains)/losses reclassified to the income statement on financial investments available-for-sale | 19 349 | -1 066 | 18 283 |
| Hedging reserve for cash flow hedges | 1 253 | -276 | 977 |
| Translation differences | -29 281 | - | -29 281 |
| **Other comprehensive income for the year recognised directly in equity** | **6 615** | **-4 032** | **2 583** |

| | | | 2009 |
|---|---|---|---|
| | Before-tax amount *CHF 1000* | Tax (expense)/ benefit *CHF 1000* | Net-of-tax amount *CHF 1000* |
| Net unrealised gains/(losses) on financial investments available-for-sale | 89 188 | -9 401 | 79 787 |
| Net realised (gains)/losses reclassified to the income statement on financial investments available-for-sale | 29 580 | -3 216 | 26 364 |
| Hedging reserve for cash flow hedges | 4 006 | -881 | 3 125 |
| Translation differences | -2 433 | - | -2 433 |
| Other comprehensive income for the year recognised directly in equity | 120 341 | -13 498 | 106 843 |

# 8 Reporting by segment

Since the separation of the businesses of the former Julius Baer Holding Ltd. into two distinct, independent entities, the new Julius Baer Group engages exclusively in private banking activities primarily in Switzerland, Europe and Asia. This focus on pure-play private banking has been defined by the new strategy and positioning of the Group. It includes certain internal supporting functions which serve entirely the core business activities. Revenues from private banking activities primarily encompass fees charged for servicing and advising private clients as well as net interest income on financial instruments.

The Group's external segment reporting is based on the internal reporting to the chief operating decision-maker, who is responsible for allocating resources and assesses the financial performance of the business. The CEO has been identified as the chief operating decision-maker, as he is responsible for the operational management of the whole Group.

Various management reports with discrete financial information are prepared at regular intervals for various management levels. However, the CEO reviews and uses for his management decisions the aggregated financial information on the level of the Group only.

In accordance with the applicable rules and based on the analysis of the relevant factors determining segments, the new Group consists of the single reportable segment Private Banking. This is in line with the new strategy and business model of Julius Baer Group and reflects the management structure and the use of information by management in making operating decisions.

Therefore, the Group does not disclose separate segment information, as the external reporting provided in these financial statements reflects the internal management accounting.

## Entity-wide disclosures

| | **31.12.2010** Total assets *CHF m* | 31.12.2009 *CHF m* | **2010** Operating income *CHF m* | 2009 *CHF m* | **2010** Investments *CHF 1000* | 2009 *CHF 1000* |
|---|---|---|---|---|---|---|
| Switzerland | **37 919** | 34 950 | **1 488** | 1 157 | **271 932** | 68 750 |
| Europe (excl. Switzerland) | **11 653** | 15 102 | **162** | 271 | **28 198** | 1 590 |
| Americas | **1 816** | 1 759 | **44** | 55 | **519** | 2 806 |
| Other countries | **5 422** | 3 784 | **179** | 120 | **10 624** | 4 232 |
| Less consolidation items | **10 523** | 12 866 | **79** | 17 | | |
| **Total** | **46 287** | 42 729 | **1 794** | 1 586 | **311 273** | 77 378 |

The information about geographical areas is based on the domicile of the reporting entity. This geographical information is provided to comply with IFRS and does not reflect the way the Group is managed.

# 9 Earnings per share and shares outstanding

| | **2010** | 2009 |
|---|---|---|
| **Basic net profit per share** | | |
| Net profit (CHF 1000) | **351 992** | 388 699 |
| Weighted average number of shares outstanding | **205 969 204** | 206 601 420 |
| Basic net profit per share (CHF) | **1.71** | 1.88 |

| | | |
|---|---|---|
| **Diluted net profit per share** | | |
| Net profit (CHF 1000) | **351 992** | 388 699 |
| Less (profit)/loss on equity derivative contracts (CHF 1000) | **-31** | -308 |
| Net profit for diluted EPS (CHF 1000) | **351 961** | 388 391 |
| Weighted average number of shares outstanding | **205 969 204** | 206 601 420 |
| Dilution effect | **20 216** | 81 171 |
| Weighted average number of shares outstanding for diluted EPS | **205 989 420** | 206 682 591 |
| Diluted net profit per share (CHF) | **1.71** | 1.88 |

| | **31.12.2010** | 31.12.2009 |
|---|---|---|
| **Shares outstanding** | | |
| Total shares issued | **206 630 756** | 206 630 756 |
| Treasury shares | **541 002** | 345 169 |
| **Total** | **206 089 754** | 206 285 587 |

# Information on the consolidated balance sheet

## 10a Due from banks

| | 31.12.2010 CHF 1000 | 31.12.2009 CHF 1000 | Change CHF 1000 |
|---|---|---|---|
| Due from banks | **6 596 299** | 6 610 890 | -14 591 |
| Allowance for credit losses | **-9 679** | -12 709 | 3 030 |
| **Total** | **6 586 620** | 6 598 181 | -11 561 |

Due from banks by type of collateral:

| | | | |
|---|---|---|---|
| Securities collateral | **861 856** | 1 548 708 | -686 852 |
| Without collateral | **5 724 764** | 5 049 473 | 675 291 |
| **Total** | **6 586 620** | 6 598 181 | -11 561 |

## 10b Loans

| | 31.12.2010 CHF 1000 | 31.12.2009 CHF 1000 | Change CHF 1000 |
|---|---|---|---|
| Loans | **10 991 413** | 8 165 506 | 2 825 907 |
| Mortgages | **3 631 943** | 2 318 417 | 1 313 526 |
| Subtotal | **14 623 356** | 10 483 923 | 4 139 433 |
| Allowance for credit losses | **-52 946** | -52 738 | -208 |
| **Total** | **14 570 410** | 10 431 185 | 4 139 225 |

Loans by type of collateral:

| | | | |
|---|---|---|---|
| Securities collateral | **7 274 644** | 4 749 735 | 2 524 909 |
| Mortgage collateral | **3 607 469** | 2 308 450 | 1 299 019 |
| Other collateral (mainly cash and fiduciary deposits) | **3 375 488** | 3 209 220 | 166 268 |
| Without collateral | **312 809** | 163 780 | 149 029 |
| **Total** | **14 570 410** | 10 431 185 | 4 139 225 |

# 10c Allowance for credit losses

| | **2010** | | | 2009 |
|---|---|---|---|---|
| | Specific *CHF 1000* | Collective *CHF 1000* | Specific *CHF 1000* | Collective *CHF 1000* |
| Balance at the beginning of the year | **42 295** | **23 152** | 40 753 | 19 778 |
| Write-offs | **-9 553** | **-** | -390 | - |
| Increase in allowance for credit losses | **8 761** | **2 310** | 3 278 | 3 374 |
| Decrease in allowance for credit losses | **-536** | **-** | -171 | - |
| Translation differences and other adjustments | **-3 804** | **-** | -1 175 | - |
| **Balance at the end of the year** | **37 163** | **25 462** | 42 295 | 23 152 |

# 10d Impaired loans

| | **31.12.2010** *CHF 1000* | 31.12.2009 *CHF 1000* | Change *CHF 1000* |
|---|---|---|---|
| Gross loans | **63 204** | 70 441 | -7 237 |
| Specific allowance for credit losses | **-37 163** | -42 295 | 5 132 |
| **Net loans** | **26 041** | 28 146 | -2 105 |

# 11a Trading assets and liabilities

| | **31.12.2010** *CHF 1000* | 31.12.2009 *CHF 1000* | Change *CHF 1000* |
|---|---|---|---|
| **Trading assets** | | | |
| Debt instruments | **300 944** | 363 340 | -62 396 |
| *of which listed* | ***271 622*** | *266 885* | *4 737* |
| *of which unlisted* | ***29 322*** | *96 455* | *-67 133* |
| Equity instruments | **2 986 846** | 1 992 108 | 994 738 |
| *of which listed* | ***2 300 883*** | *772 297* | *1 528 586* |
| *of which unlisted* | ***685 963*** | *1 219 811* | *-533 848* |
| Precious metals | **464 177** | 379 617 | 84 560 |
| **Total** | **3 751 967** | 2 735 065 | 1 016 902 |

| | | | |
|---|---|---|---|
| **Trading liabilities** | | | |
| Short positions – debt | **11 699** | 36 728 | -25 029 |
| *of which listed* | ***8 116*** | *4 685* | *3 431* |
| *of which unlisted* | ***3 583*** | *32 043* | *-28 460* |
| Short positions – equity | **789 183** | 678 158 | 111 025 |
| *of which listed* | ***34 599*** | *57 398* | *-22 799* |
| *of which unlisted* | ***754 584*** | *620 760* | *133 824* |
| **Total** | **800 882** | 714 886 | 85 996 |

# 11b Reclassifications

In 2008, the Group reclassified certain trading assets to financial investments available-for-sale, as those assets were no longer held for the purpose of selling them in the near term. In 2009 and 2010, the Group did not reclassify any financial assets.

The carrying amount of these financial investments available-for-sale as at 31 December 2010 is CHF 14.1 million, as compared to CHF 46.8 million in the previous year and CHF 58.0 million in 2008. Changes in fair value recognised in other comprehensive income amounted to CHF -2.3 million (2009: CHF 4.1 million). Financial investments at the carrying amount of CHF 30.5 million (2009: CHF 17.2 million) were sold or matured during the 2010 financial year, with net gains recognised in the income statement of CHF 0.1 million (2009: CHF 1.9 million).

For these financial investments, interest income of CHF 0.8 million was recognised in the income statement (2009: CHF 2.4 million).

# 12a Financial investments available-for-sale

| | 31.12.2010 CHF 1000 | 31.12.2009 CHF 1000 | Change CHF 1000 |
|---|---|---|---|
| **Money market instruments** | **5 993 113** | 9 086 662 | -3 093 549 |
| Government and agency bonds | **2 517 560** | 931 664 | 1 585 896 |
| Financial institution bonds | **3 368 591** | 2 839 403 | 529 188 |
| Corporate bonds | **1 858 816** | 1 983 515 | -124 699 |
| **Debt instruments** | **7 744 967** | 5 754 582 | 1 990 385 |
| *of which listed* | ***7 323 453*** | *5 170 858* | *2 152 595* |
| *of which unlisted* | ***421 514*** | *583 724* | *-162 210* |
| **Equity instruments** | **147 025** | 170 269 | -23 244 |
| *of which listed* | ***15 172*** | *5 817* | *9 355* |
| *of which unlisted* | ***131 853*** | *164 452* | *-32 599* |
| **Total** | **13 885 105** | 15 011 513 | -1 126 408 |

# 12b Financial investments available-for-sale – Credit ratings

| **Debt instruments by credit rating classes (excluding money market instruments)** | **Fitch, S&P** [1] | **Moody's** [1] | 31.12.2010 CHF 1000 | 31.12.2009 CHF 1000 | Change CHF 1000 |
|---|---|---|---|---|---|
| 1–2 | AAA – AA- | Aaa – Aa3 | **5 843 183** | 4 062 464 | 1 780 719 |
| 3 | A+ – A- | A1 – A3 | **1 709 393** | 1 428 324 | 281 069 |
| 4 | BBB+ – BBB- | Baa1 – Baa3 | **131 589** | 148 962 | -17 373 |
| 5–7 | BB+ – CCC- | Ba1 – Caa3 | **31 577** | 30 414 | 1 163 |
| Unrated | | | **29 225** | 84 418 | -55 193 |
| **Total** | | | **7 744 967** | 5 754 582 | 1 990 385 |

[1]This document may contain information obtained from third parties, including ratings from rating agencies such as Standard & Poor's, Moody's, Fitch and other similar rating agencies. Reproduction and distribution of third-party content in any form is prohibited except with the prior written permission of the related third party. Third-party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third-party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third-party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the market value of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

# 13 Intangible assets and property and equipment

| | Goodwill CHF m | Customer relationships CHF m | Software CHF m | **Total intangible assets** CHF m | Bank premises CHF m | Other property and equipment CHF m | **Total property and equipment** CHF m |
|---|---|---|---|---|---|---|---|
| **Historical cost** | | | | | | | |
| Balance on 01.01.2009 | 1 113.4 | 750.9 | 198.1 | 2 062.4 | 331.0 | 102.2 | 433.3 |
| Translation differences | - | - | - | - | - | 0.1 | 0.1 |
| Additions | - | 3.7 | 40.9 | 44.5 | 9.5 | 12.8 | 22.3 |
| Acquisition of subsidiaries | 9.1 | 1.2 | - | 10.3 | - | 0.2 | 0.2 |
| Disposals/transfers[1] | - | - | 0.8 | 0.8 | - | 1.2 | 1.2 |
| Balance on 31.12.2009 | 1 122.5 | 755.8 | 238.1 | 2 116.4 | 340.5 | 114.1 | 454.7 |
| Translation differences | - | -2.6 | -0.5 | -3.1 | - | -1.3 | -1.3 |
| Additions | - | - | 68.1 | 68.1 | 7.3 | 21.6 | 28.9 |
| Acquisition of subsidiaries | 4.3 | 163.0 | 1.8 | 169.1 | 41.7 | 3.5 | 45.2 |
| Disposals/transfers[1] | 9.9 [2] | - | 1.6 | 11.5 | 4.9 | 5.0 | 9.9 |
| Balance on 31.12.2010 | 1 117.0 | 916.2 | 305.9 | 2 339.1 | 384.7 | 133.0 | 517.6 |
| **Depreciation and amortisation** | | | | | | | |
| Balance on 01.01.2009 | - | 230.9 | 82.8 | 313.7 | 41.0 | 60.0 | 101.0 |
| Translation differences | - | - | - | - | - | - | - |
| Charge for the period | - | 76.4 | 21.8 | 98.2 | 5.2 | 17.6 | 22.8 |
| Disposals/transfers[1] | - | - | 0.8 | 0.8 | - | 0.9 | 0.9 |
| Balance on 31.12.2009 | - | 307.3 | 103.8 | 411.1 | 46.2 | 76.6 | 122.8 |
| Translation differences | - | -0.1 | -0.1 | -0.2 | - | -0.8 | -0.8 |
| Charge for the period | - | 91.6 | 40.3 | 131.9 | 6.5 | 21.9 | 28.5 |
| Disposals/transfers[1] | - | - | 1.6 | 1.6 | 0.1 | 4.6 | 4.7 |
| Balance on 31.12.2010 | - | 398.7 | 142.5 | 541.3 | 52.6 | 93.2 | 145.8 |
| **Book value** | | | | | | | |
| Balance on 31.12.2009 | 1 122.5 | 448.5 | 134.3 | 1 705.3 | 294.3 | 37.5 | 331.9 |
| **Balance on 31.12.2010** | **1 117.0** | **517.4** | **163.4** | **1 797.8** | **332.0** | **39.8** | **371.8** |

[1]Includes derecognition of fully depreciated and amortised assets
[2]In relation to the acquisition of Julius Baer Wealth Management (Monaco) S.A.M., Monaco, final price settlement induced goodwill adjustment

## Goodwill – Impairment testing

To identify any indications of impairment on goodwill, the recoverable amount based on the value in use is determined for the respective cash-generating unit (i.e. for the smallest identifiable groups of assets that generate cash inflows independently from other assets) and is subsequently compared to the carrying amount of that unit.

The Group uses a proprietary model based on the discounted cash flow method to calculate the recoverable amount. The Group estimates the free cash flows expected to be generated from the continuing use of the cash-generating unit based on its own four-year financial planning, taking into account the following key parameters and their single components:

- assets under management;
- return on assets (RoA) on the average assets under management (driven by fixed and performance fees, commissions, trading income and net interest income);
- operating income and expenses; and
- tax rate applicable.

To each of these applicable key parameters, reasonably expected growth assumptions are applied in order to calculate the projected cash flows. The Group assumes that markets will remain more volatile than they used to be and that short term disruptions cannot be excluded. However, the Group expects in the medium and long-term a favorable development of the private banking activities which is reflected in the respective growth of the key parameters. The Group also takes the relative strengths of itself as a pure private banking competitor vis-à-vis its peers into consideration, which should result in a better-than-average business development in the respective market. Additionally, the estimates of the expected free cash flows take into account the projected investments. The resulting free cash flows are discounted to present value, using a pre-tax discount rate of 9.4% (2009: 9.9%).

The Group's approach to determine the key assumptions and related growth expectations is based on management's knowledge and reasonable expectations of future business, using internal and external market information, planned business initiatives and other reasonable intentions of management. For that purpose, the Group uses historical information by taking into consideration the current and expected market situations as well as the current and expected future relative market position of the Group vis-à-vis its respective competitors and in its industry.

The discount rates used in the above calculation represent the Group's specific risk-weighted rates.

## Changes in key assumptions

Deviations of future actual results achieved vs. forecasted/planned key assumptions, as well as future changes of any of the key assumptions based on a future different assessment of the development of relevant markets, and/or the businesses, may occur. Such deviations may result from changes in products and client mix, profitability, required types and intensity of personnel resources, general and company-specific driven personnel cost development and/or changes in the implementation of known or addition of new business initiatives and/or other internal and/or external factors. These changes may cause the value of the business to alter and therefore either increase or reduce the difference between the carrying value in the balance sheet and the unit's recoverable amount or may even lead to a partial impairment of goodwill.

Management has performed sensitivity analyses on the discount rates and growth rates applied to a four-year forecast period. No impairment resulted from these analyses. However, there remains a degree of uncertainty involved in the determination of these assumptions due to the general market environment.

# 14 Operating lease commitments

| | 31.12.2010 *CHF 1000* | 31.12.2009 *CHF 1000* |
|---|---|---|
| Not later than one year | **45 762** | 43 370 |
| Later than one year and not later than five years | **83 262** | 81 302 |
| Later than five years | **98 347** | 61 638 |
| **Subtotal** | **227 371** | 186 310 |
| Less sublease rentals received under non-cancellable leases | **10 540** | 14 944 |
| **Total** | **216 831** | 171 366 |

Operating leases in the gross amount of CHF 45.1 million are included in operating expenses for the 2010 financial year (2009: CHF 45.5 million).

# 15 Assets pledged or ceded to secure own commitments and assets subject to retention of title

| | | 31.12.2010 | | 31.12.2009 |
|---|---|---|---|---|
| | Book value *CHF 1000* | Effective commitment *CHF 1000* | Book value *CHF 1000* | Effective commitment *CHF 1000* |
| Securities | **520 973** | **520 636** | 484 837 | 484 541 |
| Other | **665** | **492** | 548 | 452 |
| **Total** | **521 638** | **521 128** | 485 385 | 484 993 |

The assets are mainly pledged for lombard limits at central banks and for stock exchange securities deposits.

# 16 Financial liabilities designated at fair value

| | 2011<br>*CHF m* | 2012<br>*CHF m* | 2013<br>*CHF m* | 2014<br>*CHF m* | 2015<br>*CHF m* | 2016–2020<br>*CHF m* | **31.12.2010**<br>*CHF m* | 31.12.2009<br>*CHF m* |
|---|---|---|---|---|---|---|---|---|
| **Senior debt** | | | | | | | | |
| Fixed rate | 1 898.5 | 47.0 | 16.9 | 21.0 | - | - | **1 983.5** | 1 889.9 |
| Interest rates (ranges in %) | 0.3–68.5 | 0.2–12.0 | 1.5–3.0 | 6.1 | - | - | **-** | - |
| Floating rate | 673.7 | 176.6 | 50.9 | 31.6 | 8.0 | 230.1 | **1 170.9** | 1 089.2 |
| **Total** | **2 572.3** | **223.6** | **67.9** | **52.5** | **8.0** | **230.1** | **3 154.4** | 2 979.1 |

An additional financial liability designated at fair value of CHF 1006.1 million (2009: CHF 963.6 million) relates to Julius Baer Life (Bahamas) Ltd. and is compensated by respective financial assets designated at fair value in the same amount.

The table above indicates the maturities of the structured debt issues of Bank Julius Baer & Co. Ltd. with fixed interest rate coupons ranging from 0.2% up to 68.5%. The high and low coupons generally relate to structured debt issues prior to the separation of embedded derivatives. As a result, the stated interest rate generally does not reflect the effective interest rate paid to service the debt after the embedded derivative has been separated and, where applicable, the application of hedge accounting.

Changes in the fair value of financial liabilities designated at fair value are attributable to changes in the market risk factors of the embedded derivatives. The credit rating of the Bank had no material impact on the fair value changes of these liabilities.

# 17 Debt issued

| | **31.12.2010**<br>*CHF 1000* | 31.12.2009<br>*CHF 1000* |
|---|---|---|
| Money market instruments | **15 210** | 28 502 |
| Preferred securities | **225 000** | 225 000 |
| **Total** | **240 210** | 253 502 |

### Preferred securities[1]

| Year of issue | Interest rate<br>*%* | | Notional amount<br>*CHF 1000* | **31.12.2010**<br>Total<br>*CHF 1000* | 31.12.2009<br>Total<br>*CHF 1000* |
|---|---|---|---|---|---|
| **Julius Baer Capital (Guernsey) I Ltd.** | | | | | |
| 2005 | 3.63 | Preferred securities | 225 000 | **225 000** | 225 000 |
| **Total** | | | | **225 000** | 225 000 |

[1]See details regarding preferred securities on page 85

# 18a Deferred tax assets

| | **31.12.2010** *CHF 1000* | 31.12.2009 *CHF 1000* |
|---|---|---|
| Balance at the beginning of the year | **3 474** | 1 541 |
| Income statement – credit | **4 606** | 1 795 |
| Income statement – charge | **-28** | -22 |
| Acquisition of subsidiaries | **3 313** | 289 |
| Recognised directly in equity | **10** | - |
| Translation differences and other adjustments | **-1 301** | -129 |
| **Balance at the end of the year** | **10 074** | 3 474 |

The components of deferred tax assets are as follows:

| | | |
|---|---|---|
| Operating loss carryforwards | **7 071** | 3 052 |
| Employee compensation and benefits | **108** | 254 |
| Property and equipment | **92** | 140 |
| Valuation adjustments on loans | **2 793** | - |
| Other | **10** | 28 |
| **Total deferred tax assets** | **10 074** | 3 474 |

# 18b Deferred tax liabilities

| | **31.12.2010** *CHF 1000* | 31.12.2009 *CHF 1000* |
|---|---|---|
| Balance at the beginning of the year | **85 761** | 83 740 |
| Income statement – charge | **-** | 48 |
| Income statement – credit | **-450** | -11 523 |
| Acquisition of subsidiaries | **33 034** | - |
| Recognised directly in equity | **4 042** | 13 498 |
| Translation differences and other adjustments | **-494** | -2 |
| **Balance at the end of the year** | **121 893** | 85 761 |

The components of deferred tax liabilities are as follows:

| | | |
|---|---|---|
| Provisions | **53 976** | 53 976 |
| Property and equipment | **13 812** | 10 228 |
| Financial investments available-for-sale | **24 072** | 21 408 |
| Intangible assets | **30 033** | 149 |
| **Total deferred tax liabilities** | **121 893** | 85 761 |

# 19 Provisions

| | Restructuring CHF 1000 | Legal risks CHF 1000 | Other CHF 1000 | **2010** Total CHF 1000 | 2009 Total CHF 1000 |
|---|---|---|---|---|---|
| Balance at the beginning of the year | - | **14 953** | **2 338** | **17 291** | 36 577 |
| Utilised during the year | **-8 106** | **-14 734** | - | **-22 840** | -25 433 |
| Provisions made during the year | **15 420** | **10 568** | - | **25 988** | 9 330 |
| Provisions reversed during the year | - | **-956** | - | **-956** | -2 814 |
| Acquisition of subsidiaries | - | **14 384** | - | **14 384** | - |
| Other adjustments | - | **-1 671** | - | **-1 671** | -369 |
| **Balance at the end of the year** | **7 314** | **22 544** | **2 338** | **32 196** | 17 291 |
| **Maturity of provisions** | | | | | |
| Up to one year | **7 314** | **1 574** | - | **8 888** | - |
| Over one year | - | **20 970** | **2 338** | **23 308** | 17 291 |

| **Details to restructuring provisions** | | |
|---|---|---|
| Balance at the beginning of the year | - | 17 479 |
| Provisions made during the year | **15 420** | - |
| Provisions used: | | |
| – Personnel | **-7 800** | -17 479 |
| – Occupancy expense | **-306** | - |
| **Balance at the end of the year** | **7 314** | - |

The restructuring provisions made during the 2010 financial year relate to the acquisition of ING Bank (Switzerland) Ltd (see page 121).

The Group is involved in various legal proceedings in the course of normal business operations. The current business environment involves substantial legal and regulatory risks, the impact of which on the financial position or profitability of the Group – depending on the status of related proceedings – is difficult to assess. The Group establishes provisions for pending and threatened legal proceedings if the management is of the opinion that such proceedings are more likely than not to result in a financial obligation or loss or if the dispute for economic reasons should be settled without acknowledgment of any wrongdoing on the part of the Group and if the amount of such obligation or loss can be reasonably estimated. Described below are certain proceedings that might have a material effect on the Group.

In 2010, litigation was commenced against the principal operating entity of the Group, Bank Julius Baer & Co. Ltd. ('the Bank'), and numerous other financial institutions by the liquidators of the Fairfield funds, having acted as feeder funds for the Madoff (Ponzi) investment schemes, in the courts of New York and the British Virgin Islands. Plaintiff(s) have asserted claims to avoid, and for mistake and restitution based on, approximately USD 1.8 billion in payments made by the Fairfield funds and received by the Bank and overall more than 80 further defendants. The complaints also refer to, and in some cases include as defendants, the unnamed beneficial owners of the accounts on whose behalf the payments were made. The current status of the proceedings does not allow a reliable allocation of the claimed amounts to the Bank and the other defendants, and consequently in general a meaningful assessment of the potential outcome is not possible yet. The Bank is challenging the complaints on procedural and substantive grounds and has taken further measures to defend and protect its interests.

In connection with certain private banking client accounts managed by an external asset manager and previously held with the former New York branch of the Bank, as custodian and lender, there are civil legal proceedings pending before New York State Court against the Bank (the principal operating entity of the Group) alleging breach of contract, breach of fiduciary duty, negligence, conversion, unjust enrichment and/or fraud, and unauthorised pledging of client assets arising from and before 2001 when an external asset manager sent forged statements to certain clients and moved funds from certain clients' accounts, and pledged assets in certain clients' accounts, to cover losses in others. Proceedings before a New York arbitration panel in the same matter involving some of the same claimants have been closed in 2010 largely in favour of the Bank, among others also clearly rejecting any allegations of fraud, conspiracy and the like (disputed claims, without interest and unquantifiable claims for punitive damages and counterclaims, all court and arbitration proceedings – the latter closed in the meantime – initially amounted to approximately USD 105 million). Nevertheless, the affected claimants continue with their proceedings that include challenging the arbitration award in state court. The Bank is opposing these claims and has taken appropriate steps and measures to defend its interest.

# Additional information
## 20 Related party transactions

| | 31.12.2010<br>CHF 1000 | 31.12.2009<br>CHF 1000 |
|---|---|---|
| **Key management personnel compensation**[1] | | |
| Salaries and other short-term employee benefits | **13 025** | 8 378 |
| Post-employment benefits | **678** | 393 |
| Participation plans | **5 466** | 4 505 |
| **Total** | **19 169** | 13 276 |
| **Receivables from** | | |
| key management personnel[1] | **18 531** | 20 311 |
| own pension funds | **-** | 80 |
| **Total** | **18 531** | 20 391 |
| **Liabilities to** | | |
| key management personnel[1] | **16 842** | 26 261 |
| own pension funds | **3 542** | 2 308 |
| **Total** | **20 384** | 28 569 |
| **Credit guarantees to** | | |
| key management personnel[1] | **875** | 15 |
| **Total** | **875** | 15 |
| **Income from services provided to** | | |
| key management personnel[1] | **386** | 892 |
| **Total** | **386** | 892 |

[1] Key management personnel consists of the Board of Directors and the Executive Board of Julius Baer Group Ltd.
2010: The Executive Board of the Group company consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Communications Officer, the General Counsel, the Chief Risk Officer and the Private Banking Representative.
2009: The Executive Board of the Group company consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Communications Officer, the General Counsel and the Chief Risk Officer, three months of Julius Baer Group Ltd. and nine months of the former Julius Baer Holding Ltd.

For compensation, loans and share and option holdings of the Board of Directors and Senior Management, see pages 137-143.

The loans granted to key management personnel consist of lombard loans on a secured basis (through pledging of the securities portfolios) and mortgage loans on a fixed and variable basis.

The interest rates of the lombard loans and mortgage loans are in line with the terms and conditions that are available to other employees, which are in line with the terms and conditions granted to third parties, though employees of the Group are granted a discounted rate of the Bank's refinancing rate plus 0.25% for fixed mortgages and 0.5% for money market mortgages respectively. Variable mortgages are granted at client rates minus 1%. Interest rates of 0.64% to 4.55% are applied to the mortgage portfolio as at 31 December 2010. The residual maturities of the mortgage loans as at 31 December 2010 range between four days and ten years. Interest rates ranging from 0.49% to 3.45% are charged on the fixed-term lombard loans outstanding as at 31 December 2010.

Other financial services are transacted at arm's length.

# 21 Pension plans and other employee benefits

## Actuarial calculation of pension obligations with respect to employees[1]

| | 2010 CHF 1000 | 2009 CHF 1000 |
|---|---|---|
| **1. Development of pension obligations and assets** | | |
| Present value of funded obligation at the beginning of the year | **-1 368 939** | -1 356 481 |
| Acquisitions/transfer from restructuring reserve | **-141 494** | -1 634 |
| Service cost | **-76 791** | -70 557 |
| Past service cost | **-** | -66 |
| Interest cost | **-49 500** | -45 537 |
| Settlements | **2 351** | -2 262 |
| Benefits paid | **56 704** | 47 319 |
| Actuarial gain/(loss) | **-122 718** | 64 282 |
| Translation differences | **9 436** | -4 003 |
| Present value of funded obligation at the end of the year | **-1 690 951** | -1 368 939 |
| Fair value of plan assets at the beginning of the year | **1 375 805** | 1 213 546 |
| Acquisitions/transfer from restructuring reserve | **124 664** | 1 634 |
| Expected return on plan assets | **68 311** | 55 338 |
| Employer's contributions | **59 034** | 76 140 |
| Employees' contributions | **26 163** | 24 377 |
| Settlements | **-2 351** | 2 138 |
| Benefits paid | **-56 704** | -47 319 |
| Actuarial gain/(loss) | **18 734** | 46 451 |
| Translation differences | **-8 745** | 3 500 |
| Fair value of plan assets at the end of the year | **1 604 911** | 1 375 805 |

| | 31.12.2010 CHF 1000 | 31.12.2009 CHF 1000 |
|---|---|---|
| **2. Balance sheet** | | |
| Fair value of plan assets | **1 604 911** | 1 375 805 |
| Present value of funded obligation | **-1 690 951** | -1 368 939 |
| (Unfunded)/funded status | **-86 040** | 6 866 |
| Unrecognised plan assets | **-** | -11 083 |
| Unrecognised actuarial (gain)/loss | **88 317** | 17 065 |
| Translation differences | **-1 390** | -568 |
| (Accrued)/prepaid pension cost | **887** | 12 280 |

[1] Benefit obligations and pension costs appear with a negative sign.

The pension plan assets are invested in accordance with local laws and include no shares of Julius Baer Group Ltd.

| 3. Income statement | 2010 CHF 1000 | 2009 CHF 1000 |
|---|---|---|
| Service cost | **-76 791** | -70 557 |
| Interest cost | **-49 500** | -45 537 |
| Expected net return on plan assets | **68 311** | 55 338 |
| Amortisation of actuarial gain/(loss) | **43** | 66 |
| Past service cost | **-** | -66 |
| Recognised actuarial gain/(loss) | **-32 776** | 3 565 |
| Increase/(decrease) of unrecognised plan assets | **11 083** | -11 083 |
| Settlements | **-** | -125 |
| Net periodic pension cost | **-79 630** | -68 399 |
| Employees' contributions | **26 163** | 24 377 |
| **Expense recognised in the income statement** | **-53 467** | -44 022 |

| 4. Movement in the net asset or (liability) | 2010 CHF 1000 | 2009 CHF 1000 |
|---|---|---|
| (Accrued)/prepaid pension cost at the beginning of the year | **12 280** | -19 593 |
| Acquisitions | **-16 830** | - |
| Translation differences | **-130** | -245 |
| Expense recognised in the income statement | **-53 467** | -44 022 |
| Employer's contributions | **59 034** | 76 140 |
| **Amount recognised in the balance sheet** | **887** | 12 280 |
| Prepaid pension cost | **2 679** | 14 861 |
| Accrued pension liability | **-1 792** | -2 581 |
| **(Accrued)/prepaid pension cost** | **887** | 12 280 |
| **Actual return on plan assets** | **87 045** | 101 789 |

| 5. Asset allocation | 2010 % | 2009 % |
|---|---|---|
| Cash | **2.75** | 1.67 |
| Debt instruments | **37.49** | 42.78 |
| Equity instruments | **26.59** | 27.12 |
| Real estate | **12.52** | 12.51 |
| Other | **20.65** | 15.92 |
| **Total** | **100.00** | 100.00 |

| | 31.12.2010<br>CHF 1000 | 31.12.2009<br>CHF 1000 | 31.12.2008<br>CHF 1000 |
|---|---|---|---|
| **6. Defined benefit pension plans** | | | |
| Fair value of plan assets | **1 604 911** | 1 375 805 | 1 213 546 |
| Present value of funded obligation | **-1 690 951** | -1 368 939 | -1 356 481 |
| (Unfunded)/funded status | **-86 040** | 6 866 | -142 935 |
| Experience adjustment on plan liabilities | **-38 674** | 71 267 | -3 064 |
| Change in assumptions adjustment on plan liabilities | **-84 044** | -6 985 | 37 660 |
| Experience adjustment on plan assets | **18 734** | 46 451 | -238 520 |
| **Total actuarial gain/(loss)** | **-103 984** | 110 733 | -203 924 |

### Defined contribution pension plans

The Group maintains a number of defined contribution pension plans, primarily outside Switzerland. In the case of defined contribution pension plans, the pension expenses are charged to the income statement in the corresponding financial year. The expenses for contributions to these pension plans amounted to CHF 15.0 million for the 2010 financial year (2009: CHF 11.6 million).

### Actuarial calculation of pension assets and obligations

The latest actuarial calculation was carried out as at 31 December 2010. The actuarial assumptions are based on local economic conditions and are as follows for Switzerland which accounts for about 95% of all benefit obligations and plan assets:

| | **2010** | 2009 |
|---|---|---|
| Discount rate | **2.60%** | 3.25% |
| Expected net return on plan assets | **3.80%** | 4.50% |
| Average future salary increases | **2.00%** | 1.50% |
| Future pension increases | **0.00%** | 0.00% |

The expected return on funded pension plan assets is based on long-term historical performance of the asset categories as well as expectations for future market performance.

The expected employer contributions for the 2011 financial year are estimated at CHF 54.0 million.

The Group had outstanding liabilities to various pension plans in the amount of CHF 3.5 million (2009: CHF 2.3 million).

# 22 Securities transactions

| | **31.12.2010** *CHF m* | 31.12.2009 *CHF m* |
|---|---|---|
| **Securities lending and borrowing transactions / repurchase and reverse repurchase transactions** | | |
| Receivables from cash collateral provided in securities borrowing and reverse repurchase transactions | **402.5** | 1 260.7 |
| Obligations to return cash collateral received in securities lending and repurchase transactions | **585.3** | 320.4 |
| Own securities lent as well as securities provided as collateral for borrowed securities under securities borrowing and repurchase transactions | **1 105.0** | 1 451.2 |
| *of which securities the right to pledge or sell has been granted without restriction* | ***1 105.3*** | *1 451.2* |
| Securities borrowed as well as securities received as collateral for loaned securities under securities lending and reverse repurchase transactions | **4 536.4** | 8 064.0 |
| *of which repledged or resold securities* | ***3 783.5*** | *3 519.2* |

# 23 Derivative financial instruments

## Derivatives held for trading

| | Contract/ Notional amount *CHF m* | Positive replacement value *CHF m* | Negative replacement value *CHF m* |
|---|---|---|---|
| **Foreign exchange derivatives** | | | |
| Forward contracts | 94 839.9 | 1 524.4 | 1 618.3 |
| Futures | 52.2 | - | 0.9 |
| Options (OTC) | 43 642.1 | 715.3 | 644.6 |
| **Total foreign exchange derivatives 31.12.2010** | **138 534.2** | **2 239.7** | **2 263.8** |
| Total foreign exchange derivatives 31.12.2009 | 157 802.9 | 1 336.1 | 1 299.3 |
| **Interest rate derivatives** | | | |
| Swaps | 3 879.3 | 31.1 | 32.3 |
| Futures | 348.7 | 0.6 | 0.8 |
| Options (OTC) | 350.9 | 1.4 | 1.2 |
| **Total interest rate derivatives 31.12.2010** | **4 578.9** | **33.1** | **34.3** |
| Total interest rate derivatives 31.12.2009 | 2 329.8 | 29.2 | 28.2 |
| **Precious metals derivatives** | | | |
| Forward contracts | 3 289.2 | 102.3 | 108.0 |
| Futures | 145.5 | - | 1.2 |
| Options (OTC) | 12 649.1 | 136.1 | 123.7 |
| **Total precious metals derivatives 31.12.2010** | **16 083.8** | **238.4** | **232.9** |
| Total precious metals derivatives 31.12.2009 | 11 274.2 | 230.1 | 220.3 |
| **Equity/indices derivatives** | | | |
| Futures | 431.2 | 0.7 | 3.4 |
| Options (OTC) | 9 733.3 | 163.4 | 143.1 |
| Options traded | 2 026.0 | 37.3 | 69.2 |
| **Total equity/indices derivatives 31.12.2010** | **12 190.5** | **201.4** | **215.7** |
| Total equity/indices derivatives 31.12.2009 | 6 142.5 | 257.4 | 216.1 |
| **Other derivatives** | | | |
| Futures | 223.8 | - | 19.8 |
| **Total other derivatives 31.12.2010** | **223.8** | **-** | **19.8** |
| Total other derivatives 31.12.2009 | 465.8 | 6.0 | 8.9 |
| **Total derivatives held for trading 31.12.2010** | **171 611.2** | **2 712.6** | **2 766.5** |
| Total derivatives held for trading 31.12.2009 | 178 015.2 | 1 858.8 | 1 772.8 |

## Derivatives held for hedging

| | Contract/ Notional amount *CHF m* | Positive replacement value *CHF m* | Negative replacement value *CHF m* |
|---|---|---|---|
| **Derivatives designated as cash flow hedges** | | | |
| Interest rate swaps | 33.8 | 0.5 | 0.9 |
| **Derivatives designated as fair value hedges** | | | |
| Equity options (OTC) | 5.0 | - | 5.0 |
| **Total derivatives held for hedging 31.12.2010** | **38.8** | **0.5** | **5.9** |
| Total derivatives held for hedging 31.12.2009 | 323.4 | 0.5 | 13.4 |
| **Total derivative financial instruments 31.12.2010** | **171 650.0** | **2 713.1** | **2 772.4** |
| Total derivative financial instruments 31.12.2009 | 178 338.6 | 1 859.3 | 1 786.2 |

# 24a Financial instruments by category

## Financial assets

| | 31.12.2010 Book value CHF m | 31.12.2010 Fair value CHF m | 31.12.2009 Book value CHF m | 31.12.2009 Fair value CHF m |
|---|---|---|---|---|
| **Cash, loans and receivables** | | | | |
| Cash | **1 121.3** | **1 121.3** | 2 814.8 | 2 814.8 |
| Due from banks | **6 586.6** | **6 598.9** | 6 598.2 | 6 604.4 |
| Loans | **14 570.4** | **14 774.0** | 10 431.2 | 10 604.7 |
| Accrued income | **154.6** | **154.6** | 123.7 | 123.7 |
| **Total** | **22 432.9** | **22 648.8** | 19 967.9 | 20 147.6 |
| **Held for trading** | | | | |
| Trading assets | **3 287.8** | **3 287.8** | 2 355.4 | 2 355.4 |
| Derivative financial instruments | **2 712.6** | **2 712.6** | 1 858.8 | 1 858.8 |
| **Total** | **6 000.4** | **6 000.4** | 4 214.2 | 4 214.2 |
| **Derivatives designated as hedging instruments** | | | | |
| Derivative financial instruments | **0.5** | **0.5** | 0.5 | 0.5 |
| **Total** | **0.5** | **0.5** | 0.5 | 0.5 |
| **Designated at fair value** | | | | |
| Financial assets designated at fair value | **1 006.1** | **1 006.1** | 963.6 | 963.6 |
| **Total** | **1 006.1** | **1 006.1** | 963.6 | 963.6 |
| **Available-for-sale** | | | | |
| Financial investments available-for-sale | **13 885.1** | **13 885.1** | 15 011.5 | 15 011.5 |
| **Total** | **13 885.1** | **13 885.1** | 15 011.5 | 15 011.5 |
| **Total financial assets** | **43 325.0** | **43 540.9** | 40 157.7 | 40 337.4 |

## Financial liabilities

| | 31.12.2010 Book value CHF m | 31.12.2010 Fair value CHF m | 31.12.2009 Book value CHF m | 31.12.2009 Fair value CHF m |
|---|---|---|---|---|
| **Financial liabilities at amortised costs** | | | | |
| Due to banks | **4 251.8** | **4 255.1** | 3 962.4 | 3 962.4 |
| Due to customers | **28 846.7** | **28 850.0** | 27 284.7 | 27 286.7 |
| Debt issued | **240.2** | **269.3** | 253.5 | 283.4 |
| Accrued expenses | **104.3** | **104.3** | 84.3 | 84.3 |
| **Total** | **33 443.0** | **33 478.7** | 31 584.9 | 31 616.8 |
| **Held for trading** | | | | |
| Trading liabilities | **800.9** | **800.9** | 714.9 | 714.9 |
| Derivative financial instruments | **2 766.5** | **2 766.5** | 1 772.8 | 1 772.8 |
| **Total** | **3 567.4** | **3 567.4** | 2 487.7 | 2 487.7 |
| **Derivatives designated as hedging instruments** | | | | |
| Derivative financial instruments | **5.9** | **5.9** | 13.4 | 13.4 |
| **Total** | **5.9** | **5.9** | 13.4 | 13.4 |
| **Designated at fair value** | | | | |
| Financial liabilities designated at fair value | **4 160.6** | **4 160.6** | 3 942.7 | 3 942.7 |
| **Total** | **4 160.6** | **4 160.6** | 3 942.7 | 3 942.7 |
| **Total financial liabilities** | **41 176.9** | **41 212.6** | 38 028.7 | 38 060.6 |
| **Total difference between fair value and book value, excluding deferred taxes** | | **180.2** | | 147.8 |

The following methods are used in calculating the fair value of financial instruments in the balance sheet:

### Short-term financial instruments

Financial instruments with a maturity or a refinancing profile of one year or less are generally classified as short-term. This applies for the balance sheet items cash and money market instruments. Depending on the maturity, it also includes the following: due from banks; loans; mortgages; due to banks; due to customers and debt issued. For short-term financial instruments which do not have a market price published by a recognised stock exchange or notable market (referred to hereinafter as a market price), the book value fundamentally approximates the fair value.

### Long-term financial instruments

Depending on the maturity, these include the following balance sheet items: due from banks; loans; mortgages; due to banks; due to customers and debt issued. The fair value of long-term financial instruments, which have a maturity or a refinancing profile of more than one year, is derived by using the net present-value method.

### Trading assets and financial investments available-for-sale

For the majority of the trading assets and the financial investments available-for-sale (see Notes 11 and 12), the fair value corresponds to the market price. The fair value of instruments without a market price is derived by using generally accepted valuation methods.

### Derivative financial instruments

The fair value of the derivative financial instruments is derived primarily by using uniform models. If available, the market price is used for derivative instruments.

## 24b Financial instruments – Fair value determination

For listed trading assets and financial investments available-for-sale as well as for exchange-traded derivatives and other financial instruments whose prices are quoted in an active market, the fair value is determined directly from the quoted market prices (level 1).

For financial instruments for which quoted market prices are not directly available, fair values are estimated using valuation techniques or models based wherever possible on assumptions supported by observable market prices or rates existing on the balance sheet date (level 2). This is the case for the majority of OTC derivatives, most unlisted financial instruments, and other items that are not traded in active markets. The main pricing models and valuation techniques applied include forward pricing and swap models using present-value calculations, and option models such as the Black-Scholes model or generalisations of that model. The values derived from applying these models and techniques are significantly impacted by the choice of the valuation model used and the underlying assumptions made, such as the amounts and timing of future cash flows, discount rates, volatility, or credit risk.

For certain financial instruments, neither quoted market prices nor valuation techniques or models based on observable market prices are available for determining the fair value. In these cases, fair value is estimated indirectly using valuation techniques or models based on reasonable assumptions reflecting market conditions (level 3). In 2010, the Julius Baer Group did not have or transfer any such instruments.

The fair value of financial instruments carried at fair value are determined as follows:

| | Quoted market price<br>Level 1<br>*CHF m* | Valuation technique<br>market-<br>observable inputs<br>Level 2<br>*CHF m* | **31.12.2010**<br>Total<br>*CHF m* |
|---|---|---|---|
| **Determination of fair values** | | | |
| Trading assets | 3 054.0 | 233.8 | **3 287.8** |
| Derivative financial instruments | 50.0 | 2 663.1 | **2 713.1** |
| Financial assets designated at fair value | 937.1 | 69.0 | **1 006.1** |
| Financial investments available-for-sale | 576.1 | 13 309.0 | **13 885.1** |
| **Total assets at fair value** | **4 617.2** | **16 274.9** | **20 892.1** |
| Trading liabilities | 535.1 | 265.8 | **800.9** |
| Derivative financial instruments | 107.5 | 2 664.9 | **2 772.4** |
| Financial liabilities designated at fair value | 2 966.4 | 1 194.2 | **4 160.6** |
| **Total liabilities at fair value** | **3 609.0** | **4 124.9** | **7 733.9** |

| | Quoted market price<br>Level 1<br>*CHF m* | Valuation technique<br>market-<br>observable inputs<br>Level 2<br>*CHF m* | 31.12.2009<br>Total<br>*CHF m* |
|---|---|---|---|
| Determination of fair values | | | |
| Trading assets | 2 087.0 | 268.4 | 2 355.4 |
| Derivative financial instruments | 46.8 | 1 812.5 | 1 859.3 |
| Financial assets designated at fair value | 963.6 | - | 963.6 |
| Financial investments available-for-sale | 563.1 | 14 448.4 | 15 011.5 |
| Total assets at fair value | 3 660.5 | 16 529.3 | 20 189.8 |
| Trading liabilities | 488.2 | 226.7 | 714.9 |
| Derivative financial instruments | 99.6 | 1 686.6 | 1 786.2 |
| Financial liabilities designated at fair value | 2 361.2 | 1 581.5 | 3 942.7 |
| Total liabilities at fair value | 2 949.0 | 3 494.8 | 6 443.8 |

### Changes in fair value recognised in profit and loss during the period that were estimated using valuation techniques

Total results from trading operations came to CHF 332.3 million for the 2010 financial year (2009: CHF 298.5 million). This figure represents the net result from various products traded across different business activities, including the effect of foreign currency translation, and including both realised and unrealised income. Unrealised income is determined from changes in fair value, using quoted prices in active markets when available, and is otherwise estimated using valuation techniques.

Included in the unrealised portion of the results from trading operations are net losses from changes in fair values of CHF 131.8 million (2009: net gains CHF 247.9 million) on financial instruments whose fair value was estimated using valuation techniques. These valuation techniques included models such as those described above, which range from relatively simple models based on observable market factors, to more complex models based on assumptions or estimates reflecting market conditions.

The results from trading operations are frequently generated through transactions involving several financial instruments, or subject to hedging or other risk management techniques. This may result in different portions of the transactions being valued using different methods.

Consequently, the changes in fair value recognised in profit or loss during the reporting period that were estimated using valuation techniques represent only a portion of the results from trading operations. In many cases, these amounts were offset by other financial instruments or transactions that were realised or valued using quoted market prices or rates. The amount of such income for 2010, including the effect of foreign currency translation on unrealised transactions, was a gain of CHF 464.1 million (2009: CHF 50.6 million).

# 25 Companies consolidated as at 31 December 2010

## Listed company which is consolidated

| | Place of listing | Head Office | Currency | Share capital m | Capitalisation as at 31.12.10 m |
|---|---|---|---|---|---|
| Julius Baer Group Ltd. | SIX Swiss Exchange | Zurich | CHF | 4.1 | 9 050 |

Security number: 10 248 496, Bloomberg: BAER VX, Reuters: BAER.VX

## Unlisted companies which are consolidated

| | Head Office | Currency | Share capital m | Equity interest % |
|---|---|---|---|---|
| **Banks** | | | | |
| Bank Julius Baer & Co. Ltd. | Zurich | CHF | 575.000 | 100 |
| *Branches in Basle, Berne, Brig, Crans-Montana, Geneva, Guernsey,* | | | | |
| *Hong Kong, Kreuzlingen, Lausanne, Lucerne, Lugano, Singapore,* | | | | |
| *Sion, St. Gallen, St. Moritz, Verbier, Zug* | | | | |
| *Representative Offices in Abu Dhabi, Dubai, Istanbul,* | | | | |
| *Moscow, Santiago de Chile* | | | | |
| *including* | | | | |
| *Bank Julius Baer Nominees (Singapore) Pte. Ltd.* | *Singapore* | *SGD* | *0.000* | *100* |
| *Julius Baer (Singapore) Ltd.* | *Singapore* | *SGD* | *25.000* | *100* |
| *BJBJ (Jersey) Limited* | *Jersey* | *CHF* | *5.000* | *100* |
| *Arpese SA* | *Lugano* | *CHF* | *0.400* | *100* |
| *Julius Baer Wealth Management (Europe) SA* | *Luxembourg* | *CHF* | *0.200* | *100* |
| *including* | | | | |
| *- Julius Baer Patrimoine Conseil Sàrl* | *Paris* | *EUR* | *0.010* | *100* |
| *Ferrier Lullin Trust Management SA* | *Geneva* | *CHF* | *0.050* | *100* |
| | | | | |
| Bank Julius Bär Europe AG | Frankfurt | EUR | 15.000 | 100 |
| *Branches in Duesseldorf, Hamburg, Munich, Stuttgart* | | | | |
| *including* | | | | |
| *Julius Bär Capital GmbH* | *Frankfurt* | *EUR* | *0.024* | *100* |
| | | | | |
| Bank Julius Baer (Monaco) S.A.M. | Monaco | EUR | 30.000 | 100 |
| | | | | |
| Julius Baer Bank and Trust Company Ltd. | Grand Cayman | CHF | 20.000 | 100 |
| *including* | | | | |
| *Julius Baer Trust Company (Cayman) Ltd.* | *Grand Cayman* | *CHF* | *1.000* | *100* |
| *including* | | | | |
| *C.I. Directors Ltd.* | *Grand Cayman* | *USD* | *0.020* | *100* |

| | Head Office | Currency | Share capital<br>*m* | Equity interest<br>*%* |
|---|---|---|---|---|
| **Finance companies** | | | | |
| Julius Baer Investment Ltd. | Zurich | CHF | 0.100 | 100 |
| *including* | | | | |
| *Julius Baer Life (Bahamas) Ltd.* | *Bahamas* | *USD* | *1.000* | *100* |
| *Julius Baer Consultores S.A.* | *Caracas* | *USD* | *0.800* | *100* |
| | | | | |
| Baer Alternative Solutions Limited | Guernsey | USD | 0.050 | 100 |
| | | | | |
| Julius Baer Family Office & Trust Ltd. | Zurich | CHF | 0.100 | 100 |
| *including* | | | | |
| *Julius Baer Trust Company (New Zealand) Limited* | *Auckland* | *CHF* | *0.005* | *100* |
| *Bronte International SA* | *BVI* | *USD* | *0.000* | *100* |
| *Cantrade Corporate Directors Ltd.* | *BVI* | *USD* | *0.000* | *100* |
| | | | | |
| Infidar Investment Advisory Ltd. | Zurich | CHF | 1.000 | 73 |
| *including* | | | | |
| *Infidar (Liechtenstein) AG* | *Vaduz* | *CHF* | *0.100* | *73* |
| | | | | |
| JB Swiss Capital Market Research Ltd. | Zurich | CHF | 0.100 | 100 |
| | | | | |
| Julius Baer (Hong Kong) Limited | Hong Kong | HKD | 273.894 | 100 |
| | | | | |
| Julius Baer (Middle East) Ltd. | Dubai | USD | 22.000 | 100 |
| *including* | | | | |
| *Julius Baer Advisory S.A.E.* | *Cairo* | *EGP* | *12.847* | *100* |
| | | | | |
| Julius Baer (Uruguay) S.A. | Montevideo | USD | 1.002 | 100 |
| | | | | |
| Julius Baer Capital (Guernsey) I Ltd. | Guernsey | CHF | 0.000 | 100 |
| | | | | |
| Julius Baer Consultores (Peru) S.A.C. | Lima | PEN | 3.000 | 100 |
| | | | | |
| Julius Baer Fiduciaria S.r.l. | Milan | EUR | 0.100 | 100 |

| | Head Office | Currency | Share capital m | Equity interest % |
|---|---|---|---|---|
| **Finance companies** | | | | |
| Julius Baer Financial Consultancy S.A. | Buenos Aires | USD | 0.493 | 100 |
| Julius Baer International Ltd. | London | GBP | 16.300 | 100 |
| Julius Baer International (Panama) Inc. | Panama | CHF | 1.387 | 100 |
| *including* | | | | |
| *Julius Baer Bank & Trust (Bahamas) Ltd.* | *Bahamas* | *CHF* | *2.000* | *100* |
| *including* | | | | |
| *Julius Baer Trust Company (Bahamas) Ltd.* | *Bahamas* | *CHF* | *2.000* | *100* |
| Julius Baer Investment Advisory GesmbH | Vienna | EUR | 0.050 | 100 |
| Julius Bär Lizenzverwertungsgesellschaft AG | Zug | CHF | 0.100 | 100 |
| Julius Baer Società Di Intermediazione Mobiliare S.p.A. | Milan | EUR | 3.500 | 100 |
| *including* | | | | |
| *Representative Office in Rome* | | | | |
| Julius Baer Trust Company (Channel Islands) Ltd. | Guernsey | CHF | 0.100 | 100 |
| Julius Baer Wealth Management (Monaco) S.A.M. | Monaco | EUR | 0.465 | 100 |
| PT. Julius Baer Advisors (Indonesia) | Jakarta | USD | 0.197 | 100 |
| Ursa Company Ltd. | Grand Cayman | CHF | 0.500 | 100 |
| **Real estate company** | | | | |
| Aktiengesellschaft, formerly Waser Söhne & Cie., Werdmühle, Altstetten | Zurich | CHF | 2.260 | 100 |
| **Foundation** | | | | |
| Loteco Foundation | Zurich | CHF | 0.100 | 100 |

## Major changes in the companies consolidated:

- ING Bank (Switzerland) Ltd, Geneva, new and merged into Bank Julius Baer & Co. Ltd., Zurich
- Bank Julius Baer (Monaco) S.A.M., Monaco, new
- Julius Baer SIM (Società Di Intermediazione Mobiliare) S.p.A., Milan, merged into Alpha SIM S.p.A., Milan, and renamed into Julius Baer Società Di Intermediazione Mobiliare S.p.A., Milan

# 26 Acquisitions

On 28 September 2009, Julius Baer Group Ltd. acquired Alpha SIM S.p.A., Milan, for a purchase price of CHF 18.1 million in cash. At the time of acquisition, the assets under management amounted to CHF 607 million.

The assets and liabilities of the acquired entity were recorded as follows:

| | Book value<br>*CHF 1000* | Step-up<br>to fair value<br>*CHF 1000* | Fair value<br>*CHF 1000* |
|---|---|---|---|
| **Assets** | | | |
| Financial investments available-for-sale | 6 012 | - | 6 012 |
| Property and equipment | 164 | - | 164 |
| Goodwill | - | 9 134 | 9 134 |
| Intangible assets | 39 | 1 200 | 1 239 |
| All other assets | 2 624 | - | 2 624 |
| **Total** | 8 839 | 10 334 | 19 173 |

| | | | |
|---|---|---|---|
| **Liabilities and equity** | | | |
| All other liabilities | 1 066 | - | 1 066 |
| Total liabilities | 1 066 | - | 1 066 |
| Equity | 7 773 | 10 334 | 18 107 |
| **Total** | 8 839 | 10 334 | 19 173 |

The intangible assets recognised consist of CHF 1.2 million for the existing customer relationships of the acquired entity, which are amortised over an expected useful life of five years.

On 15 January 2010, Julius Baer Group acquired ING Bank (Switzerland) Ltd, a fully owned subsidiary of ING Group NV, including its subsidiaries in Monaco and Jersey. The Group paid a total consideration of CHF 499.1 million in cash. The purchase price was fully funded by existing excess capital of the Group. ING Bank (Switzerland) Ltd, which was active in private banking business, has been fully integrated into Bank Julius Baer & Co. Ltd. At the time of acquisition, the assets under management amounted to CHF 13.5 billion.

The assets and liabilities of the acquired entity were recorded as follows:

| | Fair value *CHF 1000* |
|---|---|
| **Assets** | |
| Cash | 265 214 |
| Due from banks | 1 745 884 |
| Loans[1] | 1 185 488 |
| Financial investments available-for-sale | 349 989 |
| Customer relationships | 163 007 |
| Goodwill | 4 348 |
| Deferred tax assets | 3 313 |
| All other assets | 83 209 |
| **Total** | 3 800 452 |
| | |
| **Liabilities and equity** | |
| Due to banks | 1 118 446 |
| Due to customers | 2 053 444 |
| Deferred tax liabilities | 33 034 |
| All other liabilities | 96 457 |
| Total liabilities | 3 301 381 |
| Equity | 499 071 |
| **Total** | 3 800 452 |

[1] At the acquisition date, the gross contractual amount of loans acquired was CHF 1223.2 million.

The transaction resulted in goodwill of CHF 4.3 million, which represents expected synergies and growth opportunities from the combined private banking activities. Other intangible assets recognised consist of CHF 163.0 million for the existing customer relationships of the acquired entity, which are amortised over an expected useful life of ten years.

# 27 Share-based payments

**Equity-based incentives**

The Compensation Committee of the Board of Directors is responsible for determining and making changes to all of the equity-based incentives. The programmes described below reflect the plan landscape as at 31 December 2010. However, the two new plans (i.e. Premium Share Plan and Incentive Share Plan, see below) have not yet been implemented fully. The shares of Julius Baer Group Ltd. required for the equity-based incentives are procured from the market.

**Staff Participation Plan**
The Staff Participation Plan of the Julius Baer Group offers employees the opportunity to purchase shares of the Company at a discount. The discount is defined annually and may change from year to year. The shares acquired by the participants are blocked from sale for three years following purchase.

The objective of this plan is to strengthen the identification with the Group and its future development of employees on all levels of the organisation. The offer price for the 2010 Staff Participation Plan was 25% below the average weighted market value of the shares of Julius Baer Group Ltd. for the period from 1 March until 12 March 2010.

**Equity Bonus Plan**
Up to 2006, Senior Management had the possibility to choose to have part or all of their bonus paid out in the form of the former Julius Baer Holding Ltd. shares and/or options on such shares at market price. The shares and options acquired in this way are subject to a sales restriction period.

**Long-Term Incentive Plan**
The Long-Term Incentive Plan (LTI) of the Julius Baer Group is aimed at employees who have a significant influence on the Group's long-term development and financial results. The purpose of the LTI is to strengthen long-term commitment to the Group and to foster interdisciplinary teamwork required for the long-term success of the organisation as a whole. LTI is part of the total compensation of the Board of Directors and in some individual cases the LTI is used to compensate new hires for their lost long-term incentives forfeited by their previous employer due to resignation.

LTI participants are granted a number of shares which vest in equal one-third portions over a period of three years. The shares are transferred to the employees at vesting, subject to continued employment and any other conditions set out in the plan rules, and remain blocked from sale until the third anniversary of the grant. In case of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested shares will be forfeited.

Until vesting, the granted shares are managed by the Loteco Foundation. The Loteco Foundation hedges its liabilities from the LTI on grant date through the purchase of the corresponding shares from the market.

**Equity-based incentives with a deferral component**

**Premium Share Plan**
The Premium Share Plan (PSP) is a deferred equity plan which applies to certain senior members of the staff and comprises between 19% and 47% of their total variable compensation. The plan is designed to link and tie a portion of the employee's variable compensation to the long-term development and success of the Group through the share price.

At the start of the plan period, a certain percentage of the employee's variable cash incentive is deferred to the PSP, and the employee is then granted a number of shares equal in value to the deferred cash element. These shares vest in equal one-third portions over a three-year plan period. At the end of the plan period, subject to continued employment, the employee receives an additional share award representing one third of the original grant.

Until vested, the shares are subject to forfeiture in certain circumstances including resignation by the employee, termination for cause, substantial breaches of legal or regulatory requirements, financial losses and a variety of other events where the employee's behaviour has substantially contributed to a financial loss of the Group or caused reputational damage.

No grants have yet been made from the PSP. The plan will be implemented from 2011 onwards.

**Incentive Share Plan**
The Incentive Share Plan (ISP) applies to the members of the Senior Management and some other key members of the staff. The ISP is designed to link part of the variable compensation of the executive directly to the long-term performance of the Company and part of the payment depends on achievement against two performance targets over a three-year period:

*Economic Profit,* which measures value creation of the Julius Baer Group against the strategic three-year plan of the Company over the three-year plan period.

*Relative Share Price,* which compares the performance of the Julius Baer Group share against the STOXX Europe 600 Banks Index.

The three-year performance period and the targets reflect the Group's underlying business cycle and its short- and long-term risk profile.

At the start of the plan period, 15% to 40% of the executive's variable incentive is deferred to the ISP and the employee is then granted a number of shares equal in value to the deferred element. These shares vest in equal one-third portions over the three-year plan period, subject to continued employment.

Also at the start of the plan period, the executives are granted a certain number of performance units which, subject to the achievement of the predefined targets and continued employment, vest at the end of the three-year performance period in the form of additional shares. The total number of vested additional shares can be between zero and two times the number of performance units (for plan participants other than members of the Senior Management and of the Executive Board of Bank Julius Baer) resp. zero to four times for members of the Senior Management and of the Executive Board of Bank Julius Baer. Including the value development of the performance units the ISP can represent between 15% and 67% (77% for members of Senior Management) of the total variable compensation of the executive.

Until vested, the units/shares are subject to forfeiture in certain circumstances including resignation by the employee, termination for cause, substantial breaches of legal or regulatory requirements, financial losses and a variety of other events where the employee's behaviour has substantially contributed to a financial loss of the Group or caused reputational damage.

The ISP has been applied to the members of the Senior Management and selected key staff as part of the variable compensation for 2010. The Compensation Committee decided on 25 January 2011 on the participants of the ISP and on the individual allocations as part of the variable compensation for 2010.

Movements in shares granted under various participation plans are as follows:

| | 31.12.2010 | 31.12.2009 |
|---|---|---|
| **Staff Participation Plan** | | |
| Number of shares taken up | **347 994** | 520 382 |
| Preferential price per share (CHF) | **26.71** [1] | 17.20 [2] |
| Compensation expense (CHF 1000) | **3 097** | 2 982 |

[1] The preferential price was 25% below the weighted average market value of Julius Baer Group Ltd. for the period from 1 March until 12 March 2010.
[2] The preferential price was 25% below the weighted average market value of the former Julius Baer Holding Ltd. for the period from 2 March until 11 March 2009.

## Equity Bonus Plan

Bonuses paid in the form of shares are recognised in the year in which the corresponding service is performed. Bonuses paid in the form of options which can be cash-settled are also recognised in the year in which the service is performed, and until realisation (sale or exercise) these options are recognised in the balance sheet as a liability at fair value. The net compensation expense recognised for the financial year resulted again in an income due to favourable changes in the fair value of the liabilities and amounted to CHF 0.3 million (2009: CHF 1.5 million).

| | 31.12.2010 | 31.12.2009 |
|---|---|---|
| **Long-Term Incentive Plan** | | |
| Unvested shares outstanding, at the beginning of the year | **472 668** | 133 197 |
| Shares awarded during the year | **293 634** | 445 910 |
| Vested during the year | **-244 749** | -106 439 |
| Forfeited during the year | **-6 552** | - |
| Unvested shares outstanding, at the end of the year | **515 001** | 472 668 |
| Weighted average fair value per share awarded (CHF) | **34.12** | 39.50 |
| Fair value of outstanding shares at the end of the year (CHF 1000) | **22 557** | 17 196 |

Movements in options granted under various participation plans are as follows:

| | 31.12.2010<br>Number of options | 31.12.2010<br>Weighted average exercise price<br>*CHF* | 31.12.2009<br>Number of options | 31.12.2009<br>Weighted average exercise price<br>*CHF* |
|---|---|---|---|---|
| **Equity Bonus Plan** | | | | |
| Options outstanding, at the beginning of the year | **191 380** | **55.00** | 417 550 | 44.03 |
| Exercised during the year | **-191 380** | **55.00** | -226 170 | 34.75 |
| Options outstanding, at the end of the year | **-** | **-** | 191 380 | 55.00 |

| | 31.12.2010<br>Number of options | 31.12.2010<br>Weighted average exercise price<br>*CHF* | 31.12.2009<br>Number of options | 31.12.2009<br>Weighted average exercise price<br>*CHF* |
|---|---|---|---|---|
| **Long-Term Incentive Plan** | | | | |
| Options outstanding, at the beginning of the year | **479 196** | **91.20** | 1 342 827 | 85.93 |
| Vested/exercised during the year | **-479 196** | **91.20** | -837 679 | 82.75 |
| Forfeited during the year | **-** | **-** | -25 952 | 91.20 |
| Options outstanding, at the end of the year | **-** | **-** | 479 196 | 91.20 |

The compensation expense recognised for the Long-Term Incentive Plan amounted to CHF 17.6 million (2009: CHF 8.2 million).

# 28 Assets under management

Assets under management include all bankable assets managed by or deposited with the Group for investment purposes. Assets included are portfolios of wealth management clients for which the Group provides discretionary or advisory asset management services. Assets deposited with the Group held for transactional or safekeeping/custody purposes, and where the Group does not offer advice on how the assets should be invested, are excluded from assets under management. In general, transactional or safekeeping/custody assets belong to banks, brokers, securities traders, custodians, or certain institutional investors. Non-bankable assets (e.g. art collections, real estate), asset flows driven more by liquidity requirements than investment purposes or assets primarily used for cash management, funding or trading purposes are also not considered assets under management.

Assets with discretionary mandate are defined as assets for which the investment decisions are made by the Group, and cover assets deposited with Group companies as well as assets deposited at third-party institutions. Other assets under management are defined as the assets for which the investment decision is made by the client himself. Both assets with discretionary mandate and other assets under management take into account client deposits as well as market values of securities, precious metals, and fiduciary investments placed at third-party institutions.

When assets under management are subject to more than one level of asset management services, double counting arises within the total assets under management. Each such separate discretionary or advisory service provides additional benefits to the respective client and generates additional revenue to the Group.

Net new money consists of new client acquisitions, client departures and in- or outflows attributable to existing clients. It is calculated through the direct method, which is based on individual client transactions. New or repaid loans and related interest expenses result in net new money flows. Interest and dividend income from assets under management, market or currency movements as well as fees and commissions are not included in the net new money result. Effects resulting from any acquisition or divestment of a Group subsidiary or business are stated separately. Reclassifications between assets under management and assets held for transactional or safekeeping/custody purposes result in corresponding net new money in- or outflows.

Assets under management are stated according to the Guidelines of the Swiss Financial Market Supervisory Authority (FINMA) governing financial statement reporting.

## Assets under management

| | 2010 CHF m | 2009 CHF m | Change % |
|---|---|---|---|
| Assets with discretionary mandate | **22 955** | 22 244 | 3.2 |
| Other assets under management | **146 715** | 131 358 | 11.7 |
| **Total assets under management (including double counting)** | **169 670** | 153 602 | 10.5 |
| *of which double counting* | ***2 851*** | *2 449* | *16.4* |
| Change through net new money | **8 753** | 5 106 | |
| Change through market and currency appreciation | **-6 195** | 18 800 | |
| Change through acquisition | **13 510** [2] | 607 [1] | |
| Client assets | **267 313** | 240 877 | 11.0 |

[1] On 30 September 2009, the Group acquired Alpha SIM S.p.A., Milan.
[2] On 15 January 2010, the Group acquired ING Bank (Switzerland) Ltd.

## Breakdown of assets under management

| | 2010 % | 2009 % |
|---|---|---|
| **By types of investment** | | |
| Equities | **26** | 22 |
| Bonds (including convertible bonds) | **28** | 30 |
| Money market instruments | **9** | 11 |
| Investment funds | **20** | 20 |
| Client deposits | **15** | 15 |
| Other | **2** | 2 |
| **Total** | **100** | 100 |

Client assets are defined as all bankable assets managed by or deposited with the Group companies for investment purposes and only those deposited assets held for transactional, safekeeping/custody or administrative purposes for which additional services, for example analysis and reporting or securities lending and borrowing, are provided. Non-bankable assets (e.g. art collections, real estate), asset flows driven more by liquidity requirements than investment purposes, assets primarily used for cash management, funding or trading purposes or deposited assets held purely for transactional or safekeeping/custody purposes are excluded from client assets.

# 29 Requirements of Swiss banking law

The Group is subject to supervision by the Swiss Financial Market Supervisory Authority (FINMA), which requires Swiss-domiciled banks using International Financial Reporting Standards (IFRS) as their primary accounting standard to provide a narrative explanation of the major differences between IFRS and Swiss GAAP. Swiss GAAP is ruled by the principal provisions of the Banking Ordinance and the related Guidelines governing financial statement reporting.

The following main differences exist between IFRS and Swiss GAAP (true and fair view):

Under IFRS, changes in the fair value of financial investments available-for-sale are directly recognised in equity. Under Swiss GAAP, such investments are recorded at the lower of cost or market, with changes in value where required recorded in the income statement. In addition, realised gains and losses on financial assets that are valued at amortised cost and that are sold or repaid prior to the final maturity are recorded immediately in the income statement. Under Swiss GAAP, such gains and losses are amortised to the stated maturity of the financial assets sold or prepaid.

Under IFRS, all income and expenses are attributed to ordinary business operations. Under Swiss GAAP, certain income and expenses are classified as extraordinary, e.g. if they are from non-operating transactions or are non-recurring.

Under IFRS, treasury shares are deducted from equity in the balance sheet. Gains or losses resulting from treasury shares are not recorded in the income statement but are directly set off against equity. Under Swiss GAAP, treasury shares not held for trading purposes are included in the position financial investments available-for-sale in the balance sheet and correspondingly separated into a reserve for treasury shares. Gains or losses resulting from the sale of treasury shares are recorded in the income statement.

Under IFRS, goodwill is not amortised but must be tested for impairment annually and a write-off is made if the recoverable amount is less than the carrying amount. Under Swiss GAAP, goodwill is amortised over its useful life, generally not exceeding five years (in justified cases up to twenty years), and tested for impairment.

Under IFRS, intangible assets with indefinite lives are not amortised but tested for impairment on an annual basis. Under Swiss GAAP, such intangible assets are amortised over the useful lives up to a maximum of five years, and tested for impairment.

With the exception of the CHF 22.5 million of treasury shares deducted from equity in the consolidated financial statements in accordance with IFRS, these differences between the requirements of IFRS and Swiss GAAP are not material for the consolidated financial statements.

# 30 Events after the balance sheet date

There are no events to report that had an influence on the balance sheet or the income statement for the 2010 financial year.

# Report of the Statutory Auditor to the Ordinary Annual General Meeting of Julius Baer Group Ltd., Zurich

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Report of the Statutory Auditor on the Consolidated Financial Statements to the General Meeting of Shareholders of

**Julius Baer Group Ltd., Zurich**

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As statutory auditor, we have audited the accompanying consolidated financial statements of Julius Baer Group Ltd., which comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes (pages 42 to 128) for the year ended 31 December 2010.

*Board of Directors' Responsibility*

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements for the year ended 31 December 2010 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

KPMG

***Julius Baer Group Ltd., Zurich***
*Report of the Statutory Auditor*
*on the Consolidated Financial Statements*
*to the General Meeting of Shareholders*

## Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the board of directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

| | |
|---|---|
| Daniel Senn | Hans Stamm |
| *Licensed Audit Expert* | *Licensed Audit Expert* |
| *Auditor in Charge* | |

Zurich, 4 February 2011

# III. Financial Statements
Julius Baer Group Ltd. 2010

# III. Financial Statements Julius Baer Group Ltd. 2010


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# Income statement

| | 2010<br>CHF 1000 | 2009<br>CHF 1000 | Change<br>% |
|---|---|---|---|
| **Income** | | | |
| Interest income | **11 550** | 2 628 | 339.5 |
| Interest expense | **10 384** | 2 649 | 292.0 |
| Net interest income | **1 166** | -21 | - |
| Commission income on services | **615** | 187 | 228.9 |
| Commission expense | **83** | - | 100.0 |
| Results from commission and service fee activities | **532** | 187 | 184.5 |
| Income from participations | **166 526** | 318 783 | -47.8 |
| Other ordinary results | **67 604** | 15 018 | 350.2 |
| **Operating income** | **235 828** | 333 967 | -29.4 |
| **Expenses** | | | |
| Personnel expenses | **8 741** | 10 268 | -14.9 |
| General expenses | **12 054** | 5 428 | 122.1 |
| Operating expenses | **20 795** | 15 696 | 32.5 |
| **Gross profit** | **215 033** | 318 271 | -32.4 |
| Extraordinary expense | **6 830** | - | 100.0 |
| Taxes | **5 327** | 2 180 | 144.4 |
| **Net profit** | **202 876** | 316 091 | -35.8 |

# Balance sheet

| | **31.12.2010** *CHF 1000* | 31.12.2009 *CHF 1000* | Change *CHF 1000* |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Due from banks | **624 269** | 442 623 | 181 646 |
| Other claims | **19 050** | 1 150 | 17 900 |
| Accrued income and prepaid expenses | **156 998** | 305 406 | -148 408 |
| Other assets | **4 347** | 4 111 | 236 |
| **Non-current assets** | | | |
| Participations | **3 099 727** | 3 041 033 | 58 694 |
| Other financial investments | **180 597** | 180 663 | -66 |
| **Total assets** | **4 084 988** | 3 974 986 | 110 002 |
| Due from Group companies | **822 590** | 624 554 | 198 036 |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Due to banks | **200 000** | 200 000 | - |
| Debt issued | **225 000** | 225 000 | - |
| Accrued expenses and deferred income | **23 603** | 20 049 | 3 554 |
| Other liabilities | **9 292** | 23 068 | -13 776 |
| **Equity** | | | |
| Share capital | **4 133** | 4 133 | - |
| General legal reserve | **827** | 827 | - |
| Other reserves | **3 415 818** | 3 185 818 | 230 000 |
| *of which share premium* | ***2 557 601*** | *2 557 601* | - |
| Disposable profit | **206 315** | 316 091 | -109 776 |
| *of which retained earnings* | ***3 439*** | - | *3 439* |
| *of which net profit* | ***202 876*** | *316 091* | *-113 215* |
| **Total liabilities and equity** | **4 084 988** | 3 974 986 | 110 002 |
| Due to Group companies | **225 000** | 225 000 | - |

# Notes

| | 31.12.2010 CHF 1000 | 31.12.2009 CHF 1000 | Change CHF 1000 |
|---|---|---|---|
| **Contingent liabilities** | | | |
| Surety and guarantee obligations and assets pledged in favour of third parties | **884 401** | 456 983 | 427 418 |

## Participations

Please see consolidated financial statements, pages 117 to 119. Participation income from subsidiaries is recorded based on an economic standpoint, i.e. at the same time that the corresponding income is recorded at the subsidiary.

## Risk management

Please see consolidated financial statements, page 61ff.

## Significant shareholders/participants

Based on notifications received by Julius Baer Group Ltd., each of the following shareholders/participants held more than 3% of the voting rights in Julius Baer Group Ltd. as at 31 December 2010: [1]

| Shareholder/participant[4] | Disclosure of purchase positions [2] | Disclosure of sale positions [3] |
|---|---|---|
| Davis Selected Advisers L.P.[5] | 8.46% | |
| MFS Investment Management[6] | 5.10% | |
| BlackRock, Inc.[7] | 5.01% | 0.05% |
| Thornburg Investment Management[8] | 3.81% | |
| Harris Associates L.P.[9] | 3.02% | |

[1] The percentage holding of voting rights as well as the other terms as used herein have to be defined and read in the context of the relevant and applicable stock exchange rules.
[2] Equity securities, conversion and share purchase rights (Art. 15 para. 1 a SESTO-FINMA), granted (written) share sale rights (Art. 15 para 1 b SESTO-FINMA) and financial instruments (Art. 15 para. 1 c and para. 2 SESTO-FINMA)
[3] Share sale rights (specifically put options) and granted (written) conversion and share purchase rights as well as financial instruments that provide for or permit cash settlement as well as other differential transactions (such as contracts for difference and financial futures)
[4] Please note that any change in the holding of voting rights between reportable thresholds does not trigger any notification duty.
[5] Davis Selected Advisers L.P., Tucson/USA, as investment advisor (reported on 6 October 2009)
[6] MFS Investment Management, Boston/USA (reported on 6 October 2009)
[7] BlackRock, Inc., 40 East 52nd Street, New York, NY 10022, USA (reported on 5 November 2010)
[8] Thornburg Investment Management, Santa Fe/USA, as investment manager on behalf of clients (reported on 1 October 2009)
[9] Harris Associates L.P., Chicago/USA (reported on 18 November 2009)

# Compensation, loans and share and option holdings of the Board of Directors and Senior Management

| | | Base salary CHF | Performance payment cash[4] CHF | Performance payment shares[4] CHF | Share-based payments[5] CHF | Pension fund contribution and varia CHF | **Total** CHF |
|---|---|---|---|---|---|---|---|
| **Compensation of the members of the Board of Directors**[1] | | | | | | | |
| Raymond J. Baer – Chairman[2] | **2010** | **1 200 000** | **1 000 000** | **300 000** | **404 244** | **112 508** | **3 016 752** |
| | 2009 | 1 430 000 | 850 000 | – | 423 360 | 112 118 | 2 815 478 |
| Peter Kuepfer – Independent Lead Director | **2010** | **162 000** | **-** | **-** | **-** | **8 616** | **170 616** |
| | 2009 | 170 000 | – | – | – | 8 585 | 178 585 |
| Leonhard H. Fischer | **2010** | **153 000** | **-** | **-** | **-** | **8 226** | **161 226** |
| | 2009 | 170 000 | – | – | 305 760 | 9 635 | 485 395 |
| Claire Giraut (joined Board in 2010) | **2010** | **108 000** | **-** | **-** | **194 636** | **6 710** | **309 346** |
| | 2009 | – | – | – | – | – | – |
| Rolf P. Jetzer (passed away in 2010)[3] | **2010** | **137 000** | **-** | **-** | **291 954** | **15 532** | **444 486** |
| | 2009 | 150 000 | – | – | – | 7 874 | 157 874 |
| Gareth Penny | **2010** | **108 000** | **-** | **-** | **291 954** | **5 744** | **405 698** |
| | 2009 | 120 000 | – | – | – | 6 359 | 126 359 |
| Monika Ribar (did not stand for re-election at the AGM 2010) | **2010** | **-** | **-** | **-** | **-** | **-** | **-** |
| | 2009 | 120 000 | – | – | – | 6 359 | 126 359 |
| Daniel J. Sauter | **2010** | **162 000** | **-** | **-** | **291 954** | **8 616** | **462 570** |
| | 2009 | 170 000 | – | – | – | 8 884 | 178 884 |
| Charles G. T. Stonehill | **2010** | **135 000** | **-** | **-** | **-** | **7 194** | **142 194** |
| | 2009 | 150 000 | – | – | – | 7 928 | 157 928 |
| **Total** | **2010** | **2 165 000** | **1 000 000** | **300 000** | **1 474 742** | **173 146** | **5 112 888** |
| Total | 2009 | 2 480 000 | 850 000 | – | 729 120 | 167 742 | 4 226 862 |

[1]The members of the Board of Directors of Julius Baer Group Ltd. assume the similar director role in the Board of Directors of Bank Julius Baer & Co. Ltd. The compensation disclosed for 2009 covered the compensation paid for the directorship in Julius Baer Holding Ltd. (January to September 2009), for Julius Baer Group Ltd. (October to December 2009 ) and for Bank Julius Baer & Co. Ltd.
For more information on the detailed compensation components of the Board of Directors please refer to the Corporate Governance section of the Annual Report 2010, page 31ff.
[2]The Chairman has a full-time employment relationship.
[3]Rolf P. Jetzer unexpectedly passed away on 19 September 2010. His compensation for 2010, however, was not cut to a pro rata payment.
[4]The performance payment made to the Chairman was split between a cash component of CHF 1 million and a share-based award in the form of unblocked shares of Julius Baer Group Ltd. in the amount of CHF 0.3 million (with fair value of the shares on 25 February 2011).
[5]Share-based payments to members of the Board of Directors (excl. the Chairman) are made in the year of election and/or re-election and for the entire term (normally three years).
In 2010, Claire Giraut has been elected to the Board of Directors for a two-year term. In addition, Rolf P. Jetzer, Gareth Penny and Daniel J. Sauter were re-elected for a three-year term each.
The share-based payments are valued at fair value at the grant date (CHF 39.20 per share of the former Julius Baer Holding Ltd. as at 1 May 2009; CHF 37.43 per share of Julius Baer Group Ltd. as at 1 May 2010).

The value of the share-based payments cannot be compared with Note 27 Share-based payments of the Financial Statements Group 2010 as the latter discloses the compensation expense for the shares and/or options that have been recognised during the reporting periods.

The members of the Board of Directors are only entitled to the granted shares and/or options provided that they fulfil the entire term for which they have been elected or re-elected (forfeiture clause). The share award made to Rolf P. Jetzer based on his re-election at the Annual General Meeting 2010 fully vested with his passing away in September 2010.

In 2010, no compensation has been granted to Board members that left the Board in 2009 or earlier.

No compensation has been granted to closely linked parties of members of the Board of Directors.

| | **31.12.2010** Loans CHF | Loans to closely linked parties CHF | 31.12.2009 Loans CHF | Loans to closely linked parties CHF |
|---|---|---|---|---|
| **Loans to the members of the Board of Directors** | | | | |
| Raymond J. Baer – Chairman | **6 458 633** | - | 5 977 979 | – |
| Peter Kuepfer – Independent Lead Director | - | - | – | – |
| Leonhard H. Fischer | - | - | – | – |
| Claire Giraut (joined Board in 2010) | - | - | n/a | n/a |
| Rolf P. Jetzer (passed away in 2010) | n/a | n/a | 1 131 572 | – |
| Gareth Penny | - | - | – | – |
| Monika Ribar (did not stand for re-election at the AGM 2010) | n/a | n/a | 1 052 077 | – |
| Daniel J. Sauter | **78 490** | **7 212 077** | 122 764 | 10 259 764 |
| Charles G. T. Stonehill | - | **12 505** | – | 175 810 |
| **Total** | **6 537 123** | **7 224 582** | 8 284 392 | 10 435 574 |

The loans granted to members of the Board of Directors consist of lombard loans on a secured basis (through pledging of securities portfolios or other marketable coverage), fixed rate mortgages (on a fixed rate basis) as well as Libor mortgages and floating rate mortgages (both on a variable rate basis).

The interest rates of the lombard loans and the mortgage loans are in line with normal market rates at the time the loans were granted (no preferential conditions).

Members of the Board of Directors benefit from preferential staff conditions for transactions (e.g. in securities) executed in-house.

No loans to former members of the Board of Directors (and their closely linked parties) are outstanding at year-end 2010 or have been granted in 2010 at conditions that were not at market rates.

| Share and option holdings of the members of the Board of Directors[1] | | Number of shares | Number of options | | | |
|---|---|---|---|---|---|---|
| | | | Exercise prices CHF | | | Maturity |
| | | | Call options 20–30 | Call options 40–50 | Put options 30–40 | |
| Raymond J. Baer – Chairman | **2010** | **1 310 800** | **-** | **-** | **-** | **-** |
| | 2009 | 1 366 530 | – | 500 000 [2] | 500 000 [3] | 19.03.10/ 19.03.10 |
| Peter Kuepfer – Independent Lead Director | **2010** | **88 920** | **-** | **-** | **-** | |
| | 2009 | 101 320 | – | – | – | |
| Leonhard H. Fischer | **2010** | **2 600** | **-** | **-** | **-** | |
| | 2009 | – | – | – | – | |
| Claire Giraut (joined Board in 2010) | **2010** | **-** | **-** | **-** | **-** | |
| | 2009 | n/a | – | – | – | |
| Rolf P. Jetzer (passed away in 2010) | **2010** | **n/a** | **-** | **-** | **-** | |
| | 2009 | 21 170 | – | – | – | |
| Gareth Penny | **2010** | **7 800** | **-** | **-** | **-** | |
| | 2009 | 5 200 | – | – | – | |
| Monika Ribar (did not stand for re-election at the AGM 2010) | **2010** | **n/a** | **-** | **-** | **-** | |
| | 2009 | 5 200 | – | – | – | |
| Daniel J. Sauter | **2010** | **31 520** | **-** | **-** | **-** | |
| | 2009 | 28 920 | – | – | – | |
| Charles G. T. Stonehill | **2010** | **10 400** | **-** | **-** | **-** | |
| | 2009 | 7 800 | – | – | – | |
| **Total** | **2010** | **1 452 040** | **-** | **-** | **-** | |
| Total | 2009 | 1 536 140 | – | 500 000 | 500 000 | |

[1] Including share and option holdings of closely linked parties
[2] OTC call option Julius Baer Group Ltd., exercise price CHF 46.25 per share, maturity 19 March 2010
[3] OTC put option Julius Baer Group Ltd., exercise price CHF 34.25 per share, maturity 19 March 2010

| | | | Variable compensation [1] | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Deferred elements | | | | | |
| **Compensation of the members of the Senior Management** | | Base salary *CHF* | Cash *CHF* | Shares *CHF* | Performance units *CHF* | Shares *CHF* | Share-based payments [4] *CHF* | Pension fund contribution and varia *CHF* | **Total** *CHF* |
| **Total** | **2010** | **2 959 053** | **5 389 559** | **3 160 441** | **3 768 310** | **-** | **-** | **639 994** | **15 917 357** |
| Total[2] | 2009 | 2 416 079 | 4 445 000 [3] | n/a | n/a | 1 800 000 [3] | 3 500 108 | 446 592 | 12 607 779 |

[1] The variable compensation for the members of the Senior Management for the 2010 financial year was composed of an unrestricted cash component and an equity-based incentive (awards of shares and performance units under the Incentive Share Plan [ISP]). For the reporting period 2010, the members of the Senior Management were granted a number of shares at fair value at grant date equal in value to the deferred amount shown under 'deferred shares', i.e. CHF 3.16 million (grant date of ISP 15 February 2011). In addition to the deferred shares, the members of the Senior Management were granted a performance unit award (shown under 'performance units'). Subject to the achievement of predefined targets and continued employment such performance units cliff vest in the form of Julius Baer Group shares at the end of the three-year period. The total number of vested performance shares at the end of the performance period can be between zero and four times the number of initially granted performance units. The two performance targets evaluated over the three-year period are described in the Corporate Governance section of the Annual Report.
For the reporting period 2010, the members of the Senior Management (except the CEO) were awarded with the same number of performance units as the number of deferred shares. The fair value of a performance unit is 1.61 times the value determined for a Julius Baer Group deferred share, i.e. amounting to a total value of CHF 3.77 million under 'performance units'.
The fair value of the performance unit was based on a valuation of (i) the economic profit component using a probabilistic model regarding the potential deviation of the future Group results from its strategic three-year plan, and of (ii) the relative share price component applying a standard option pricing model using an expected volatility of 30% for both Julius Baer Group shares and the STOXX Europe 600 Banks Index, assumed average Julius Baer Group dividend cash flows derived from the Group's strategic three-year plan, and an expected risk-free rate of 0.7% and 1.5% for CHF and EUR respectively.
The Compensation Committee decided on 25 January 2011 on the participants of the ISP and on the individual allocations as part of the variable compensation for 2010.
For the reporting period 2010, the split between the base salary and the variable compensation of the members of the Senior Management was 19.4% : 80.6%. 56.2% of the variable compensation of the members of the Senior Management in the reporting period was deferred for a period of three years.

[2] The disclosed compensation of the members of the Senior Management for 2009 referred to the Senior Management of Julius Baer Group Ltd. having taken on responsibility with the date of the separation of the private banking (Julius Baer Group Ltd.) and the asset management business (GAM Holding Ltd.), i.e. as at 1 October 2009.
In order to provide a meaningful and comprehensive overview of the compensation of the members of the Senior Management of Julius Baer Group Ltd., their compensation for 2009 was disclosed on an annual (pro forma) basis – instead of on the actual three-month basis – based on the annualised relevant last quarter of 2009 as if the separation had occurred on 1 January 2009 and as if the respective functions had been taken on as at 1 January 2009. However, the performance payments and the pension fund contribution and varia disclosed for Senior Management members for 2009 was (not pro forma and therefore) attributable not only to such persons' Senior Management function (i.e. from October to December 2009) but to all functions carried out by them in 2009 (within former Julius Baer Holding Ltd., Bank Julius Baer & Co. Ltd. and Julius Baer Group Ltd.).

[3] The performance payments made to the CEO and another member of the Senior Management for 2009 were split between a cash component and a share-based award (unblocked shares of Julius Baer Group Ltd., with fair value of the shares on 25 February 2010). In addition, the performance payment made to the CEO included an allotment of restricted shares of Julius Baer Group Ltd., grant date 25 February 2010, which is tied to a vesting period and a forfeiture clause. The respective details for the CEO are disclosed below.

[4] The value of the share-based payments cannot be compared with Note 27 Share-based payments of the Financial Statements Group 2010 as the latter discloses the compensation expense for the shares and/or options that have been recognised during the reporting periods.
The members of the Senior Management are only entitled to the granted shares provided that they fulfil the vesting conditions.
The share-based payments are valued at fair value at the grant date (CHF 41.61 per Julius Baer Group Ltd. share as at 2 November 2009).
For details of the Equity Participation Programmes please refer to the Corporate Governance section of this Annual Report.

In 2010, no compensation has been paid to former members of the Senior Management who left the Senior Management in 2010 or earlier that related to such members' prior function within the Senior Management.

No compensation has been granted to closely linked parties of members of the Senior Management or former members of the Senior Management.

Neither sign-on payments nor severance payments to members of the Senior Management were made in 2009 and 2010.

| | | | Variable compensation [1] | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Deferred elements | | | | | |
| **Details of the compensation of the highest-paid member of the Senior or former Senior Management** | | Base salary *CHF* | Cash *CHF* | Shares *CHF* | Performance units *CHF* | Shares *CHF* | Share-based payments [4] *CHF* | Pension fund contribution and varia *CHF* | **Total** *CHF* |
| **Boris F.J. Collardi, CEO** | **2010** | **955 167** | **3 000 000** | **2 000 000** | **1 900 000** | **-** | **-** | **93 138** | **7 948 305** |
| Boris F.J. Collardi, CEO[2] | 2009 | 726 000 | 2 000 000 [3] | n/a | n/a | 1 500 000 [3] | 1 400 010 | 110 127 | 5 736 137 |

[1] Analogous to the other members of the Senior Management, the variable compensation for the CEO for the 2010 financial year was composed of an unrestricted cash component and an equity-based incentive (awards of shares and performance units under the Incentive Share Plan [ISP]). For the reporting period 2010, the CEO was granted a number of shares at fair value at grant date equal in value to the deferred amount shown under 'deferred shares', i.e. CHF 2 million (grant date of ISP 15 February 2011). In addition to the deferred shares, the CEO was granted a performance unit award (shown under 'performance units'). Subject to the achievement of predefined targets and continued employment such performance units cliff vest in the form of Julius Baer Group shares at the end of the three-year period. The total number of vested performance shares at the end of the performance period can be between zero and four times the number of initially granted performance units. The two performance targets evaluated over the three-year period are described in the Corporate Governance section of the Annual Report.

For the reporting period 2010, the CEO was awarded with a number of performance units at fair value at grant date equal in value to the amount shown under 'performance units', i.e. CHF 1.9 million (grant date of ISP 15 February 2011). The fair value of a performance unit is 1.61 times the value determined for a Julius Baer Group deferred share.

The fair value of the performance unit was based on a valuation of (i) the economic profit component using a probabilistic model regarding the potential deviation of the future Group results from its strategic three-year plan, and of (ii) the relative share price component applying a standard option pricing model using an expected volatility of 30% for both Julius Baer Group shares and the STOXX Europe 600 Banks Index, assumed average Julius Baer Group dividend cash flows derived from the Group's strategic three-year plan, and an expected risk-free rate of 0.7% and 1.5% for CHF and EUR respectively.

The Compensation Committee decided on 25 January 2011 on the ISP allocation to the CEO as part of the variable compensation for 2010.

For the reporting period 2010, the split between the base salary and the variable compensation of the CEO was 12.2% : 87.8%. 56.5% of the variable compensation of the CEO for the reporting period was deferred for a period of three years.

[2] In order to provide a meaningful and comprehensive overview of the compensation of the highest-paid member of the Senior Management of Julius Baer Group Ltd., his compensation for 2009 was disclosed on an annual (pro forma) basis - instead of on the actual three-month basis - based on the annualised relevant last quarter 2009 as if the separation of the private banking and asset management businesses effective as at 1 October 2009 had occurred on 1 January 2009. However, the performance payment and the pension fund contribution and varia disclosed for the CEO for 2009 was (not pro forma and therefore) attributable not only to his Senior Management function (i.e. from October to December 2009) but to all functions carried out by him in 2009 (within Bank Julius Baer & Co. Ltd. and Julius Baer Group Ltd.).

[3] The performance payment made to the CEO for 2009 was split between a cash component of CHF 2 million (representing 57% of the entire performance payment for 2009), a share-based award in the form of unblocked shares of Julius Baer Group Ltd. in the amount of CHF 0.5 million, with fair value of the shares on 25 February 2010 (representing 14% of the entire performance payment for 2009) and a share-based award of blocked shares of Julius Baer Group Ltd. in the amount of CHF 1 million (representing 29% of the entire performance payment for 2009); such blocked shares are tied to a vesting period of three years and a forfeiture clause. Only after expiration of the vesting period is the CEO entitled to such shares, provided that he is in ongoing employment with the Company.

[4] The value of the share-based payments cannot be compared with Note 27 Share-based payments of the Financial Statements Group 2010 as the latter discloses the compensation expense for the shares and/or options that have been recognised during the reporting periods.

The members of the Senior Management are only entitled to the granted shares provided that they fulfil the vesting conditions.

The share-based payments are valued at fair value at the grant date (CHF 41.61 per Julius Baer Group Ltd. share as at 2 November 2009).

For details of the Equity Participation Programmes please refer to the Corporate Governance section of this Annual Report.

| | **31.12.2010** | | 31.12.2009 | |
|---|---|---|---|---|
| | Loans *CHF* | Loans to closely linked parties *CHF* | Loans *CHF* | Loans to closely linked parties *CHF* |
| **Loans to the members of the Senior Management** | | | | |
| **Total** | **5 876 235** | **-** | 2 301 082 | - |
| *of which the highest amount: Boris F.J. Collardi* | ***3 510 880*** | **-** | - | - |
| *of which the highest amount: Bernhard Hodler* | **-** | **-** | *1 253 649* | - |

The loans granted to the members of the Senior Management consist of lombard loans on a secured basis (through pledging of securities portfolios or other marketable coverage), fixed rate mortgages (on a fixed rate basis) as well as Libor mortgages and floating rate mortgages (both on a variable rate basis).

The interest rates of the lombard loans are in line with normal market rates at the time the loans were granted. Mortgage loans to employees and Senior Management members of the Group are granted at a discount of 1% for floating rate mortgage loans, whereas fixed rate mortgage loans are granted at refinancing rate plus 0.25% and Libor mortgage loans at refinancing rate plus 0.5%.

No loans to former members of the Senior Management (and their closely linked parties) are outstanding at year-end 2010 or have been granted in 2010 at conditions that were not at market.

Members of the Senior Management benefit from preferential staff conditions for transactions (e.g. in securities) executed in-house.

| | | Number of shares | Number of options (all option holdings are call options) [2] | |
|---|---|---|---|---|
| | | | Exercise price CHF | Maturity |
| | | | 90–100 | |
| **Share and option holdings of the members of the Senior Management** [1] | | | | |
| Boris F.J. Collardi, Chief Executive Officer | **2010** | **43 054** | - | |
| | 2009 | 11 170 | 18 500 | 15.12.2010 |
| Dieter A. Enkelmann, Chief Financial Officer | **2010** | **74 654** | - | |
| | 2009 | 68 600 | 27 412 | 15.12.2010 |
| Jan A. Bielinski, Chief Communications Officer | **2010** | **29 005** | - | |
| | 2009 | 29 198 | 3 990 | 15.12.2010 |
| Christoph Hiestand, General Counsel | **2010** | **2 404** | - | |
| | 2009 | 1 000 | 2 660 | 15.12.2010 |
| Bernhard Hodler, Chief Risk Officer | **2010** | **15 977** | - | |
| | 2009 | 9 968 | 6 915 | 15.12.2010 |
| Bernhard Keller, Private Banking Representative | **2010** | **8 830** | - | |
| | 2009 | n/a | n/a | |
| **Total** | **2010** | **173 924** | - | |
| Total | 2009 | 119 936 | 59 477 | |

[1] Including share and option holdings of closely linked parties
[2] Long-Term Incentive Plan call option (option basket GAM Holding Ltd./Julius Baer Group Ltd.), strike CHF 91.20, maturity 15 December 2010, fair value at the grant date (13 November 2007) CHF 17.32 per option

# Proposal of the Board of Directors to the Ordinary Annual General Meeting on 7 April 2011

The Board of Directors proposes to the Ordinary Annual General Meeting that the disposable profit for the 2010 financial year of CHF 206 314 978, consisting of net profit for the financial year in the amount of CHF 202 875 828 plus CHF 3 439 150 of retained earnings brought forward from the prior financial year, be distributed as follows:

- Dividend of CHF 0.60
  per share at CHF 0.02 par value
- Total dividends on the 206 630 756 shares entitled to dividends:
  CHF 123 978 454
- Allocation to other reserves:
  CHF 80 000 000
- Balance brought forward:
  CHF 2 336 524

The approval of the Swiss Federal Tax Authorities (FTA) regarding a split of Julius Baer Group Ltd.'s 'other reserves' into 'share premium' (i.e. agio) and 'other reserves' as at 31 December 2010 is still outstanding. Julius Baer expects to receive the confirmation from FTA within the next few weeks and, subject to such approval, will propose to the Ordinary Annual General Meeting to amend the above distribution of the disposable profit as follows:

- allocation of the full amount of share premium (agio) from 'other reserves' to a new balance sheet item 'share premium' (this amount is under discussion with FTA); and
- distribution of total dividends of
  CHF 123 978 454 charged to 'share premium'.

This distribution of dividends charged to 'share premium' (subject to the approval by the FTA and a respective decision of the Ordinary Annual General Meeting) would not be subject to the 35% withholding tax for the shareholders.

# Dividends

| | Gross<br>*CHF* | 35% withholding tax<br>*CHF* | Net<br>*CHF* |
|---|---|---|---|
| **On approval of this proposal, the dividends amount to:** | | | |
| per share | 0.60 | 0.21 | 0.39 |

The dividends will be paid from 14 April 2011.

On behalf of the Board of Directors

The Chairman

Raymond J. Baer

# Report of the Statutory Auditor to the Ordinary Annual General Meeting of Julius Baer Group Ltd., Zurich

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Report of the Statutory Auditor on the Financial Statements to the General Meeting of Shareholders of

**Julius Baer Group Ltd., Zurich**

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As statutory auditor, we have audited the accompanying financial statements of Julius Baer Group Ltd., which comprise the balance sheet, income statement and notes (pages 134 to 144) for the year ended 31 December 2010.

*Board of Directors' Responsibility*

The board of directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements for the year ended 31 December 2010 comply with Swiss law and the company's articles of incorporation.

KPMG

***Julius Baer Group Ltd., Zurich***
*Report of the Statutory Auditor*
*on the Financial Statements*
*to the General Meeting of Shareholders*

**Report on Other Legal Requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the board of directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

| | |
|---|---|
| Daniel Senn | Hans Stamm |
| *Licensed Audit Expert* | *Licensed Audit Expert* |
| *Auditor in Charge* | |

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