

# Julius Bär

## JULIUS BAER GROUP LTD.

(incorporated with limited liability in Switzerland)

### USD 300,000,000 Perpetual Tier 1 Subordinated Bonds

Issue Price: 100 per cent.

The USD 300,000,000 perpetual tier 1 subordinated bonds (the "**2017 Tier 1 Bonds**") will be issued by Julius Baer Group Ltd. (the "**Issuer**").

The 2017 Tier 1 Bonds will bear interest on their Prevailing Notional Amount (as defined herein) (i) in respect of the period from (and including) 12 September 2017 (the "**Issue Date**") to (but excluding) 12 September 2024 (the "**First Call Date**") at a fixed rate equal to 4.750 per cent. per annum and (ii) in respect of each successive five-year period, the first such period commencing on (and including) the First Call Date and ending on (but excluding) the fifth anniversary of that date (each such period, a "**Relevant Five-Year Period**") at the rate of interest being determined on each Interest Determination Date (as defined herein) on the basis of the aggregate of the prevailing CMT Rate (as defined herein) plus the Margin (as defined herein). Interest shall be payable semi-annually in arrear on 12 March and 12 September in each year (each an "**Interest Payment Date**").

The Issuer may, at its sole discretion, elect to cancel all or part of any payment of interest which is otherwise scheduled to be paid on an Interest Payment Date or on a date fixed for the redemption of the 2017 Tier 1 Bonds in accordance with the terms of Condition 2(b) (*Discretionary Interest*). Payments of interest in respect of the 2017 Tier 1 Bonds will also not be made in certain other circumstances as provided in Condition 2(c) (*Mandatory Interest Cancellation*). If, on any Interest Payment Date, payment of interest scheduled to be made on such date is not made in full on the Prevailing Notional Amount by reason of Condition 2(b) (*Discretionary Interest*) or Condition 2(c) (*Mandatory Interest Cancellation*), the Board of Directors of the Issuer shall not directly or indirectly recommend to the shareholders of the Issuer, that any Distribution (other than in the form of Ordinary Shares or other capital stock of the Issuer) be paid or made on any Ordinary Shares or other capital stock of the Issuer; and shall not, subject to certain exceptions, directly or indirectly, redeem, purchase or otherwise acquire any Ordinary Shares or other capital stock of the Issuer, as further described in Condition 2(d) (*Restrictions following non-payment of Interest*).

The 2017 Tier 1 Bonds constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* among themselves. In the event of an order being made, or an effective resolution being passed, for the liquidation or dissolution of the Issuer, the rights and claims of a Holder against the Issuer shall rank, subject to any obligations which are mandatorily preferred by law, (i) junior to the claims of all holders of unsubordinated obligations of the Issuer and all other subordinated obligations of the Issuer except the claims of all holders of Parity Securities (as defined herein), (ii) *pari passu* among themselves and with the claims of all holders of Parity Securities, and (iii) senior to Equity Capital (as defined herein) and any other equivalent items of capital.

The 2017 Tier 1 Bonds are perpetual securities and have no fixed final redemption date. However, subject as provided herein and to the Issuer obtaining (in the case of (i) and (ii) below), *inter alia*, the prior approval of the Swiss Financial Market Supervisory Authority FINMA (the "**FINMA**"), if then required, the Issuer may redeem the 2017 Tier 1 Bonds, in whole but not in part, at their Prevailing Notional Amount (as defined herein) together with any interest accrued thereon (i) on the First Call Date or on 12 March and 12 September of each year thereafter; (ii) upon the occurrence of a Tax Event (as defined herein); or (iii) upon the occurrence of a Regulatory Event (as defined herein).

If a Contingent Write-down (as defined herein) has not previously occurred and if a Write-down Trigger Event occurs and is continuing on the relevant Subsequent Trigger Test Date (as defined therein), a Contingent Write-down (as defined herein) will occur on the relevant Write-down Date (as defined herein) and the claims of the Holders against the Issuer to receive repayment of the Original Notional Amount (as defined herein) on the Redemption Date (if any) will be reduced by the relevant Write-down Amount (as defined in Condition 8(c) (*Write-down Amount*)). If, following a Contingent Write-down, a further Write-down Trigger Event has occurred and is continuing on the relevant Subsequent Trigger Test Date the claims of the Holders against the Issuer to receive repayment of the Prevailing Notional Amount on the Redemption Date (if any) shall be further reduced by the relevant Write-down Amount. If a Write-down Amount is equal to the Prevailing Notional Amount, the claims of the Holders will be reduced to zero and the 2017 Tier 1 Bonds shall be cancelled. A Write-down Trigger Event shall occur where the CET1 Ratio (as defined herein) is less than 7.00 per cent. (the "**Write-down Threshold Ratio**"), as more fully described in Condition 8(d) (*Write-down Trigger Event*).

If a Viability Event (as defined in Condition 9 (*Write-off upon the occurrence of a Viability Event*)) has occurred, the claims of the Holders against the Issuer to receive repayment of the Prevailing Notional Amount shall be reduced to zero with effect as of the relevant Write-down Date. In such circumstances, the Holders shall no longer have any rights whatsoever (including, but not limited to, any right to receive interest payments) against the Issuer with respect to the 2017 Tier 1 Bonds.

The 2017 Tier 1 Bonds will be issued in registered form and in the denominations of USD 200,000 and integral multiples of USD 1,000 in excess thereof. The 2017 Tier 1 Bonds will be represented by a global certificate (the "**Global Certificate**") which will be deposited with, and registered in the name of a nominee for a common depository of Euroclear Bank SA/NV and Clearstream Banking, S.A. on the Issue Date. Individual certificates (the "**Bond Certificates**") evidencing holdings of 2017 Tier 1 Bonds will be available only in certain limited circumstances described under Condition 1(b) (*Form*).

The 2017 Tier 1 Bonds have been provisionally admitted to trading on the SIX Swiss Exchange Ltd (the "**SIX Swiss Exchange**") from 12 September 2017. The last trading day is expected to be the second dealing day prior to the date on which the 2017 Tier 1 Bonds are fully redeemed or the Write-down Date, as applicable, in accordance with the Terms and Conditions of the 2017 Tier 1 Bonds. Application will be made for the 2017 Tier 1 Bonds to be listed on the SIX Swiss Exchange.

The 2017 Tier 1 Bonds are expected to be rated Baa3 by Moody's Investors Service, Inc. ("**Moody's**"). A credit rating is not a recommendation to buy, sell or hold the 2017 Tier 1 Bonds and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

**The 2017 Tier 1 Bonds are not intended to be sold and should not be sold to retail clients in the European Economic Area ("EEA"), as defined in the rules set out in the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, as amended or replaced from time to time, other than in circumstances that do not and will not give rise to a contravention of those rules by any person. Prospective investors are referred to the section headed "Restrictions on marketing and sales to retail investors" on page iv of this Offering Circular for further information.**

The 2017 Tier 1 Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"). The 2017 Tier 1 Bonds are being offered in offshore transactions outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**") and, subject to certain exceptions, may not be offered or sold within the United States or to or for the account or benefit of U.S. persons (as defined in Regulation S).

#### Joint Lead Managers

BNP PARIBAS

Citigroup  
(Global Co-ordinator)

Credit Suisse

#### Senior Co-Lead Manager

Bank Julius Baer

## IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer, which has taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is in accordance with the facts as at the date of this Offering Circular and does not omit any material information likely to affect the import of such information.

This Offering Circular has been prepared by the Issuer for use in connection with the issue and offering of the 2017 Tier 1 Bonds to non-U.S. persons outside the United States. The Issuer and the Managers (as defined herein) reserve the right to reject any offer to purchase the 2017 Tier 1 Bonds, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States. Distribution of this Offering Circular by any person outside the United States to any person within the United States is unauthorized, and without the prior written consent of the Issuer any disclosure of any of its contents to any person within the United States and to and for the account or benefit of U.S. persons is prohibited.

Neither this Offering Circular nor any other document or information (or any part thereof) delivered or supplied under or in relation to the issue and offering of the 2017 Tier 1 Bonds may be used for the purpose of, and does not constitute an offer of, or solicitation or invitation by or on behalf of the Issuer or the Managers to subscribe for or purchase the 2017 Tier 1 Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer, solicitation or invitation is unlawful, or not authorized or to any person to whom it is unlawful to make such offer, solicitation or invitation.

None of the Managers or any of their respective affiliates has separately verified the information contained in this Offering Circular. None of the Issuer, the Managers or any of their respective officers or employees is making any representation, warranty or undertaking, express or implied, as to the merits of the 2017 Tier 1 Bonds or the subscription for, purchase or acquisition thereof, the creditworthiness or financial condition or otherwise of the Issuer or its subsidiaries or associated companies (if any). Further, the Managers make no representation or warranty as to the Issuer, its subsidiaries or associated companies (if any) or as to the accuracy, reliability or completeness of the information contained in this Offering Circular or any other information supplied in connection with the 2017 Tier 1 Bonds. Each investor receiving this Offering Circular acknowledges that such investor has not relied on the Managers or on any person affiliated with the Managers in connection with its investigation of the accuracy of such information or its investment decision.

Neither this Offering Circular nor any other document or information (or any part thereof) delivered or supplied under or in relation to the issue of the 2017 Tier 1 Bonds is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer or the Managers that any recipient of this Offering Circular or such other document or information (or such part thereof) should subscribe for or purchase any of the 2017 Tier 1 Bonds. Each investor of the 2017 Tier 1 Bonds shall make its own assessment of the foregoing and other relevant matters including the financial condition and affairs and the creditworthiness of the Issuer, its subsidiaries and associated companies, and obtain its own independent legal or other advice thereon, and its investment shall be deemed to be based on its own independent investigation of the financial condition and affairs and its appraisal of the creditworthiness of the Issuer, its subsidiaries and associated companies. Accordingly, notwithstanding anything herein, none of the Issuer, the Managers or any of their respective officers, employees or agents shall be held responsible for any loss or damage suffered or incurred by the recipients of this Offering Circular or such other document or information (or such part thereof) as a result of or arising from anything expressly or implicitly contained in or referred to in this Offering Circular or such other document or information (or such part thereof) and the same shall not constitute a ground for rescission of any purchase or acquisition of any of the 2017 Tier 1 Bonds by a recipient of this Offering Circular or such other document or information (or such part thereof).

No person has been authorised to give any information or to make any representation other than those contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Managers. Save as expressly stated in this Offering Circular, nothing contained herein is, or may be relied upon as, a promise or representation as to the future performance or policies of the Issuer or any of its subsidiaries or associated companies.

Neither the delivery of this Offering Circular (or any part thereof) nor the issue, offering, purchase or sale of the 2017 Tier 1 Bonds shall, under any circumstances, constitute a representation, or give rise to any implication, that there has been no change in the prospects, results of operations or general affairs of the Issuer or any of its subsidiaries or associated companies or in the information herein since the date hereof or the date on which this Offering Circular has been most recently amended or supplemented.

The distribution of this Offering Circular and the issue, offering or sale of the 2017 Tier 1 Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Managers to inform themselves about and to observe any such restriction. The 2017 Tier 1 Bonds have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. The 2017 Tier 1 Bonds may not be offered or sold within the United States or to or for the account or benefit of U.S. persons. For a description of certain restrictions on offers and sales of the 2017 Tier 1 Bonds and on distribution of this Offering Circular, see "*Subscription and Sale*".

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Managers to subscribe for, or purchase, any 2017 Tier 1 Bonds.

To the fullest extent permitted by law, none of the Managers accepts any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Managers or on its behalf in connection with the Issuer or the issue and offering of the 2017 Tier 1 Bonds. The Managers accordingly each disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

Any purchase or acquisition of the 2017 Tier 1 Bonds is in all respects conditional on the satisfaction of certain conditions set out in the bond purchase agreement between the Issuer and the Managers (the "**Bond Purchase Agreement**") and the issue of the 2017 Tier 1 Bonds by the Issuer pursuant to the Bond Purchase Agreement. Any offer, invitation to offer or agreement made in connection with the purchase or acquisition of the 2017 Tier 1 Bonds or pursuant to this Offering Circular shall (without any liability or responsibility on the part of the Issuer or the Managers) lapse and cease to have any effect if (for any other reason whatsoever) the 2017 Tier 1 Bonds are not issued by the Issuer pursuant to the Bond Purchase Agreement.

**Any person(s) who is invited to purchase or subscribe for the 2017 Tier 1 Bonds or to whom this Offering Circular is sent shall not make any offer or sale, directly or indirectly, of any 2017 Tier 1 Bonds or distribute or cause to be distributed any document or other material in connection therewith in any country or jurisdiction except in such manner and in such circumstances as will result in compliance with any applicable laws and regulations.**

**It is recommended that persons proposing to subscribe for or purchase any of the 2017 Tier 1 Bonds consult their own legal and other advisers before purchasing or acquiring the 2017 Tier 1 Bonds.**

## **CERTAIN DEFINITIONS AND CONVENTIONS**

Rounding adjustments have been made in calculating some of the financial and operating information included in this Offering Circular. As a result, numerical figures shown as total amounts in some tables may not be exact arithmetic aggregations of the figures that make up such total amounts.

Unless otherwise specified or required by the context: references to a "**Member State**" are references to a Member State of the EEA; references to "**CHF**" are to Swiss francs; references to "\$", "**USD**" or "**U.S. dollars**" are to United States dollars; and references to "**Euro**", "**EUR**", or "**€**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended.

## **STABILISATION**

In connection with the issue of the 2017 Tier 1 Bonds, Credit Suisse Securities (Europe) Limited (the "**Stabilisation Manager**") (or persons acting on behalf of any Stabilisation Manager) may over-allot 2017 Tier 1 Bonds or effect transactions with a view to supporting the market price of the 2017 Tier 1

Bonds at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the 2017 Tier 1 Bonds is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the 2017 Tier 1 Bonds and 60 days after the date of the allotment of the 2017 Tier 1 Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager) in accordance with all applicable laws and rules.



## RESTRICTIONS ON MARKETING AND SALES TO RETAIL INVESTORS

The 2017 Tier 1 Bonds are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the 2017 Tier 1 Bonds to retail investors.

In particular, in June 2015, the U.K. Financial Conduct Authority (the "**FCA**") published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which took effect from 1 October 2015 (the "**PI Instrument**").

Under the rules set out in the PI Instrument (as amended or replaced from time to time, the "**PI Rules**"):

- (i) certain contingent write-down or convertible securities (including any beneficial interests therein), such as the 2017 Tier 1 Bonds, must not be sold to retail clients in the EEA; and
- (ii) there must not be any communication or approval of an invitation or inducement to participate in, acquire or underwrite such securities (or the beneficial interest in such securities) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case, within the meaning of the PI Rules), other than in accordance with the limited exemptions set out in the PI Rules.

To the extent applicable, the Managers are required to comply with the PI Rules. By purchasing, or making or accepting an offer to purchase, any 2017 Tier 1 Bonds (or a beneficial interest in such 2017 Tier 1 Bonds) from the Issuer and/or the Managers, each prospective investor represents, warrants, agrees with and undertakes to, the Issuer and each of the Managers that:

- 1. it is not a retail client in the EEA (as defined in the PI Rules);
- 2. whether or not it is subject to the PI Rules, it will not:
  - (A) sell or offer the 2017 Tier 1 Bonds (or any beneficial interest therein) to retail clients in the EEA; or
  - (B) communicate (including the distribution of the Offering Circular) or approve an invitation or inducement to participate in, acquire or underwrite the 2017 Tier 1 Bonds (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case within the meaning of the PI Rules),

in any such case other than (i) in relation to any sale or offer to sell 2017 Tier 1 Bonds (or any beneficial interests therein) to a retail client in or resident in the United Kingdom, in circumstances that do not and will not give rise to a contravention of the PI Rules by any person and/or (ii) in relation to any sale or offer to sell 2017 Tier 1 Bonds (or any beneficial interests therein) to a retail client in any EEA member state other than the United Kingdom, where (a) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the 2017 Tier 1 Bonds (or such beneficial interests therein) and is able to bear the potential losses involved in an investment in the 2017 Tier 1 Bonds (or such beneficial interests therein) and (b) it has at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) ("**MiFID**") to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

- 3. it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the 2017 Tier 1 Bonds (or any beneficial interests therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the 2017 Tier 1 Bonds (or any beneficial interests therein) by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any 2017 Tier 1 Bonds (or any beneficial interests therein) from the Issuer

and/or the Managers, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

### **FORWARD-LOOKING STATEMENTS**

This Offering Circular contains various forward-looking statements, including statements of future financial and operational developments and results as well as other projections and statements that are forward-looking or contain subjective assessments, regarding the intent, belief or current expectations of the Issuer or its management, that are subject to risks and uncertainties that could cause the actual results and financial position of the Issuer to differ materially from the information presented herein. When used in this Offering Circular, the words "assumes", "plans", "believes", "is of the opinion", "estimates", "projected", "intends", "anticipates", "expects", "should" and similar expressions are intended to identify such forward-looking statements and subjective assessments. Such statements are made on the basis of assumptions, estimates and expectations which, although reasonable at this time, may prove to be erroneous or unfounded in the future. The risks and uncertainties facing the Issuer that could affect the future accuracy of these forward-looking statements include, but are not limited to, the factors discussed under "Risk Factors" and elsewhere. If any of these risks or uncertainties materialises or if underlying assumptions prove to be incorrect, actual outcomes may vary materially from those indicated in the forward-looking statements. Investors in the 2017 Tier 1 Bonds are cautioned not to place undue reliance on these forward-looking statements, which speak only as at the date of this Offering Circular. The Issuer undertakes no obligation to release publicly any revisions or updates to any forward-looking statements herein to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events or reflect any change in the Issuer's expectations.

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## SUMMARY OF THE OFFERING

*The following is a general summary of the offering of the 2017 Tier 1 Bonds. This summary is derived from and should be read in conjunction with the full text of the terms of the 2017 Tier 1 Bonds (the "Terms of the Bonds") and the agency agreement (the "Agency Agreement") relating to the 2017 Tier 1 Bonds. The Terms of the Bonds and the Agency Agreement will prevail to the extent of any inconsistency with the terms set out in this summary. Capitalised terms used herein and not otherwise defined have the respective meanings given to such terms in the Terms of the Bonds.*

<b>Issuer:</b>	Julius Baer Group Ltd., Bahnhofstrasse 36, CH-8001 Zurich, Switzerland (the " <b>Issuer</b> ").
<b>Joint Lead Managers:</b>	BNP Paribas, Citigroup Global Markets Limited and Credit Suisse Securities (Europe) Limited (together, the " <b>Joint Lead Managers</b> ").
<b>Senior Co-Lead Manager:</b>	Bank Julius Baer & Co. Ltd. (together with the Joint Lead Managers, the " <b>Managers</b> ").
<b>Description:</b>	USD 300,000,000 Perpetual Tier 1 Subordinated Bonds.
<b>Issue Date:</b>	12 September 2017.
<b>Status of the 2017 Tier 1 Bonds:</b>	The 2017 Tier 1 Bonds constitute direct, unsecured and subordinated obligations of the Issuer and rank <i>pari passu</i> among themselves. The rights and claims of the Holders are subordinated in the manner described below.

In the event of an order being made, or an effective resolution being passed, for the liquidation or dissolution of the Issuer, the rights and claims of a Holder against the Issuer shall rank, subject to any obligations which are mandatorily preferred by law, (i) junior to the claims of all holders of unsubordinated obligations of the Issuer and all other subordinated obligations of the Issuer except the claims of all holders of Parity Securities, (ii) *pari passu* among themselves and with the claims of all holders of Parity Securities, and (iii) senior to Equity Capital and any other equivalent items of capital.

"**Equity Capital**" means the share capital (*Aktienkapital*) and participation capital (*Partizipationskapital*) (if any) of the Issuer.

"**FINMA**" means the Swiss Financial Market Supervisory Authority FINMA (*Eidgenössische Finanzmarktaufsicht FINMA*).

"**Issuer's Group**" means the Issuer together with such of its Subsidiaries as are subject, together with the Issuer, to capital adequacy requirements on a consolidated level under the National Regulations.

"**National Regulations**" means, as in effect from time to time, the national banking and capital adequacy laws and regulations in Switzerland applicable to the Issuer's Group (including, without limitation, the circulars of FINMA based thereon).

"**Parity Securities**" (i) all obligations of the Issuer (as issuer or guarantor) in respect of Tier 1 Instruments and (ii) any other obligations of the Issuer that rank, or are expressed to rank, *pari passu* with the 2017 Tier 1 Bonds.

"**Subsidiaries**" means the direct and indirect subsidiaries of the Issuer whose financial statements are consolidated with those of the Issuer in

accordance with applicable law or accounting principles.

**"Tier 1 Capital"** has the meaning ascribed to it under the National Regulations.

**"Tier 1 Instruments"** means any and all securities or other obligations issued by the Issuer that qualify, or are issued in respect of securities that qualify, in whole or in part as Tier 1 Capital, but excluding Equity Capital.

**Issue Price:** 100 per cent.

**Form and Denomination:** The 2017 Tier 1 Bonds will be issued in registered form in the specified denominations of USD 200,000 and integral multiples of USD 1,000 in excess thereof.

The Registrar will maintain a register in respect of the 2017 Tier 1 Bonds. The 2017 Tier 1 Bonds will, upon issue, be represented by a global certificate (the **"Global Certificate"**) which will on the Issue Date (as defined above) be deposited with, and registered in the name of Citivic Nominees Ltd as nominee for a common depositary of Euroclear Bank SA/NV (**"Euroclear"**) and Clearstream Banking, S.A. (**"Clearstream, Luxembourg"**).

The Global Certificate will be exchangeable in whole but not in part (free of charge) for duly authenticated and completed certificates in definitive form (the **"Bond Certificates"**) if Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of fourteen days (other than by reason of holidays, statutory or otherwise) or announce an intention permanently to cease business or do in fact do so.

**Interest:** Subject to, *inter alia*, *"Discretionary Interest"* and *"Mandatory Interest Cancellation"* below, the 2017 Tier 1 Bonds will bear interest on the Prevailing Notional Amount from (and including) the Issue Date, and payable semi-annually in arrear on 12 March and 12 September in each year (each an **"Interest Payment Date"**).

**"Prevailing Notional Amount"** means the principal amount of each 2017 Tier 1 Bond outstanding at any given time, accounting for any Contingent Write-down (as defined below) or Subsequent Write-down (as defined below) that may have occurred.

**Interest Rate:** The rate of interest applicable to the 2017 Tier 1 Bonds shall be:

- (i) in respect of the period from (and including) the Issue Date to (but excluding) 12 September 2024 (the **"First Call Date"**), 4.750 per cent. per annum; and
- (ii) in respect of each successive five-year period (the **"Relevant Five-Year Period"**), the first such period commencing on (and including) the First Call Date and ending on (but excluding) the fifth anniversary of that date, the aggregate of the prevailing CMT Rate and the Margin.

**"CMT Rate"** means, in relation to a Relevant Five-Year Period and the Interest Determination Date in relation to such Relevant Five-Year Period, the rate determined by the Principal Paying Agent (or, with respect to limb (iii) below, the Calculation Agent) and expressed as a percentage equal to:



- (i) the yield for U.S. Treasury Securities at "constant maturity" for a designated maturity of five years, as published in the H.15(519) under the caption "Treasury constant maturities (Nominal)", as that yield is displayed, for the particular Interest Determination Date, on the Bloomberg Screen; or
- (ii) if the yield referred to in clause (i) is not published by 4:00 p.m. (New York City time) on the Bloomberg Screen on such Interest Determination Date, the yield for U.S. Treasury Securities at "constant maturity" for a designated maturity of five years as published in the H.15(519) under the caption "Treasury constant maturities (Nominal)" for such Interest Determination Date; or
- (iii) if the yield referred to in clause (ii) is not published by 4:30 p.m. (New York City time) on such Interest Determination Date, the Reset Reference Dealer Rate on such Interest Determination Date; or
- (iv) if fewer than three Reference Dealers selected by the Calculation Agent provide bid prices for the purposes of determining the Reset Reference Dealer Rate referred to in clause (iii) as described in the definition of "Reset Reference Dealer Rate", the CMT Rate applicable to the last preceding Relevant Five-Year Period or, in the case of the Relevant Five-Year Period commencing on the First Call Date, 1.906 per cent. per annum.

"**Margin**" means 2.844 per cent. per annum.

"**Reset Reference Dealer Rate**" means, on any Interest Determination Date, the rate calculated by the Calculation Agent as being a yield-to-maturity based on the arithmetic mean of the secondary market bid prices for Reset U.S. Treasury Securities at approximately 4:30 p.m. (New York City time) on such Interest Determination Date, of leading primary U.S. government securities dealers in New York City (each, a "Reference Dealer"). The Calculation Agent will select five Reference Dealers to provide such bid prices and will eliminate the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest); provided, however, that, if fewer than five but more than two such bid prices are provided, then neither the highest nor the lowest of those quotations will be eliminated prior to calculating the arithmetic mean of such bid prices.

**Discretionary  
Interest Cancellation:**

Subject to the 2017 Tier 1 Bonds being recognised as Additional Tier 1 Capital in whole or in part, the Issuer may, at its sole discretion, elect to cancel all or part of any payment of interest which is otherwise scheduled to be paid on an Interest Payment Date or the Redemption Date (if any) in the manner specified in Condition 2(b) (*Discretionary Interest*).

**Mandatory  
Interest Cancellation:**

The Issuer shall be prohibited from making any payment of interest in respect of the 2017 Tier 1 Bonds otherwise scheduled to be paid on an Interest Payment Date or the Redemption Date (if any) if and to the extent that on such Interest Payment Date or Redemption Date:

- (i) the amount of such interest otherwise due, together with (x) any interest payments or distributions paid or made, or scheduled to be paid or made, during the Relevant Period on Parity Securities, and (y) any Distributions paid or made, or scheduled

to be paid or made, during the Relevant Period with respect to the financial year ended immediately prior to such Interest Payment Date or Redemption Date, shall exceed the amount of Distributable Items as at such Interest Payment Date or Redemption Date; or

- (ii) the Issuer is prohibited, by National Regulations or an order of the Regulator, from declaring or making any distributions or other payments, in whole or in part, on, or relating to, the 2017 Tier 1 Bonds or any Parity Securities.

In the event where (i) mandatory cancellation of interest only applies in part, and (ii) the Issuer elects to make such interest payment that is not prohibited to be made, the interest payable on the 2017 Tier 1 Bonds shall be made *pro rata* with the interest payments or distributions on Parity Securities scheduled to be paid or made during the Relevant Period.

**"Additional Tier 1 Capital"** has the meaning ascribed to it under the National Regulations.

**"Distributable Items"** means, with respect to any Interest Payment Date or Redemption Date, the aggregate of (i) net annual profit and (ii) freely available reserves, in each case, less any amounts that must be contributed to legal reserves under the laws and regulations applicable to the Issuer, all as appearing in the Relevant Accounts for the financial year ended immediately before such Interest Payment Date or Redemption Date.

**"Distributions"** means any dividends or distributions to shareholders' in respect of the Ordinary Shares or capital stock, whether of cash, assets or other property (including a spin-off), and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including any distribution or payment to shareholders in respect of Ordinary Shares or capital stock upon or in connection with a reduction of capital.

**"Ordinary Shares"** means the registered shares of the Issuer from time to time which, as at the Issue Date, are listed on the SIX Swiss Exchange (Swiss Security Number: 10.248.496 / ISIN: CH0102484968).

**"Regulator"** means the national regulator having the leading authority to supervise and regulate the Issuer's Group at the relevant time, being at the Issue Date, FINMA.

**"Relevant Accounts"** means the audited unconsolidated financial statements of the Issuer for any financial year for which a set of such financial statements has been published.

**"Relevant Period"** means the Issuer's current financial year.

**No Claim by Holders for Interest:**

No Holder shall have any claim in respect of any interest or part thereof cancelled and/or not due or payable as described under "*Discretionary Interest*" or "*Mandatory Interest Cancellation*". Accordingly, such interest shall not accumulate for the benefit of the Holders and such non-payment of interest will not constitute an event of default by the Issuer for the purpose of the Terms of the Bonds or any other purpose, and the Holders shall have no right thereto whether in a liquidation, dissolution or insolvency of the Issuer or otherwise.

**Restrictions following non-payment of Interest:**

If, on any Interest Payment Date, payment of interest scheduled to be made on such date is not made in full on the Prevailing Notional Amount by reason of Condition 2(b) (*Discretionary Interest*) or 2(c) (*Mandatory Interest Cancellation*):

- (i) the Board of Directors of the Issuer shall not directly or indirectly recommend to the shareholders of the Issuer that any Distribution (other than in the form of Ordinary Shares or other capital stock) be paid or made on any Ordinary Shares or other capital stock of the Issuer; and
- (ii) the Issuer shall not directly or indirectly redeem, purchase or otherwise acquire any Ordinary Shares or other capital stock of the Issuer other than in relation to (a) transactions in securities effected by or for the account of customers of the Issuer or any of its Subsidiaries or in connection with the distribution or trading of, or market making in respect of such securities; (b) the satisfaction by the Issuer or any of its Subsidiaries of its obligations under any employee benefit plans or similar arrangements with or for the benefit of employees, officers, directors or consultants of the Issuer or any of its Subsidiaries; (c) a reclassification of the capital stock of the Issuer or of any of its Subsidiaries or the exchange or conversion of one class or series of such capital stock for another class or series of such capital stock; or (d) the purchase of fractional interests in shares of the capital stock of the Issuer or any of its majority-owned Subsidiaries pursuant to the provisions of any security being converted into or exchanged for such capital stock,

in each case until the earliest of (i) the interest due and payable on any two consecutive subsequent Interest Payment Dates in respect of the then Prevailing Notional Amount of all outstanding 2017 Tier 1 Bonds having been paid in full to the Holders; or (ii) all the 2017 Tier 1 Bonds having been redeemed or purchased and cancelled in full in accordance with Condition 3 (*Redemption, Purchase and Cancellation*); or (iii) the Prevailing Notional Amount of the 2017 Tier 1 Bonds having been reduced to zero in accordance with Condition 8 (*Contingent and Subsequent Write-down upon the occurrence of a Write-down Trigger Event*) or Condition 9 (*Write-off upon the occurrence of a Viability Event*).

**Contingent Write-down and Subsequent Write-down:**

If a Contingent Write-down has not previously occurred and a Write-down Trigger Event has occurred and is continuing on the relevant Subsequent Trigger Test Date, the claims of the Holders against the Issuer to receive repayment of the Original Notional Amount on the Redemption Date (if any) shall be reduced by the relevant Write-down Amount (such reduction, a "**Contingent Write-down**") and the Holders shall no longer have any rights whatsoever (including, but not limited to, any right to receive interest payments) against the Issuer with respect to the relevant Write-down Amount.

If, following a Contingent Write-down, a further Write-down Trigger Event has occurred and is continuing on the relevant Subsequent Trigger Test Date the claims of the Holders against the Issuer to receive repayment of the Prevailing Notional Amount on the Redemption Date (if any) shall be further reduced by the relevant Write-down Amount and the Holders shall no longer have any rights whatsoever (including, but not limited to, any right to receive interest payments) against the Issuer with respect to the relevant Write-down Amount (each such further

reduction, a "**Subsequent Write-down**").

In either case, if the Write-down Amount is equal to the Original Notional Amount or the Prevailing Notional Amount (as applicable), the claims of the Holders are reduced to zero and the 2017 Tier 1 Bonds shall be cancelled.

"**CET1 Ratio**" means, as of the relevant Cut-off Date and expressed as a percentage, the CET1 Capital of the Issuer's Group divided by the Risk Weighted Positions, each (or their constituents) as disclosed in the Issuer's Relevant Reports.

"**Cut-off Date**" means the cut-off date for the calculation of the CET1 Ratio in the Relevant Report.

"**Original Notional Amount**" means the initial principal amount of a 2017 Tier 1 Bond as of the Issue Date, being USD 300,000,000.

"**Relevant Report**" means (i) any of the Issuer's annual reports or interim reports (*Zwischenberichte*, such interim reports currently consisting of the semi-annual reports (*Halbjahresberichte*)), excluding any press releases or other communications relating to or in connection with such reports or respective results, or (ii) any special report prepared by the Issuer for the purpose of calculating the CET1 Ratio, which report may be commissioned by the Regulator at any time.

"**Risk Weighted Positions**" means the aggregate reported amount, in CHF, of all risk weighted positions of the Issuer's Group on a consolidated basis as calculated pursuant to the National Regulations.

"**Subsequent Trigger Test Date**" means, in respect of a Write-down Trigger Event, the earlier of:

- (i) the date falling ten Business Days after the date of publication of the Relevant Report; and
- (ii) the date on which the Regulator instructs or requests the Issuer to proceed with the write-down.

"**Write-down Amount**" means the amount required to be deducted from the Prevailing Notional Amount, as determined by the Issuer in consultation with the Regulator after a Write-down Trigger Event has occurred, as will (together with any substantially concurrent conversion, write-off or write-down of holders' claims in respect of any other capital instruments of the Issuer that, pursuant to their terms or by operation of law, are capable of being converted into equity, written off or written down at that time (including capital instruments with a write-down, write-off or conversion threshold equal to or higher than the Write-down Threshold Ratio, provided that the conversion, write-off or write-down in respect of capital instruments with a write-down, write-off or conversion threshold higher than the Write-down Threshold Ratio shall for that purpose take priority over any write-down of the 2017 Tier 1 Bonds)), restore the CET1 Ratio back to a level equal to or, if required by the Regulator, higher than the Write-down Threshold Ratio, **provided that**, for the avoidance of doubt, the maximum Write-down Amount shall be equal to the Prevailing Notional Amount.

"**Write-down Date**" means the date on which the relevant Contingent Write-down or Subsequent Write-down shall become effective as specified in the relevant Write-down Trigger Event Notice, or the date

on which the Prevailing Notional Amount shall be written down to zero as specified in the Viability Event Notice.

**"Write-down Threshold Ratio"** means 7.00 per cent.

**"Write-down Trigger Event"** shall occur on the Business Day following the publication of a Relevant Report (an **"Initial Trigger Test Date"**) if, the CET1 Ratio as per the relevant Cut-off Date of such Relevant Report is less than the Write-down Threshold Ratio and the Issuer delivers to the Principal Paying Agent within five (5) Business Days from the Initial Trigger Test Date a certificate signed by two Authorised Signatories certifying that the CET1 Ratio as per the Cut-off Date of such Relevant Report is less than the Write-down Threshold Ratio.

**Viability Event:**

If a Viability Event has occurred, the claims of the Holders against the Issuer to receive repayment of the Prevailing Notional Amount on the Redemption Date (if any) shall be reduced to zero and the Holders shall no longer have any rights whatsoever (including, but not limited to, any right to receive interest payments) against the Issuer with respect to the 2017 Tier 1 Bonds (*bedingte Aufhebung einer Forderung durch Übereinkunft*) and the 2017 Tier 1 Bonds shall be cancelled.

**"Public Sector"** means the federal or central government or central bank in the Issuer's country of incorporation.

**"Viability Event"** means that either:

- (i) the Regulator has notified the Issuer that it has determined that the write-down of the 2017 Tier 1 Bonds, together with the conversion, write-down or write-off of holders' claims in respect of any other instruments that, pursuant to their terms or by operation of laws are capable of being converted into equity, written down or written off at that time, is, because customary measures to improve the Issuer's capital adequacy are at the time inadequate or unfeasible, an essential requirement to prevent the Issuer from becoming insolvent, bankrupt or unable to pay a material part of its debts as they fall due, or from ceasing to carry on its business; or
- (ii) customary measures to improve the Issuer's capital adequacy being at the time inadequate or unfeasible, the Issuer has received an irrevocable commitment of extraordinary support directly or indirectly from the Public Sector (beyond customary transactions and arrangements in the ordinary course of business) that has, or imminently will have, the effect of improving the Issuer's capital adequacy and without which, in the determination of the Regulator, the Issuer would have become insolvent, bankrupt, unable to pay a material part of its debts as they fall due or unable to carry on its business.

**Maturity Date:**

The 2017 Tier 1 Bonds are perpetual securities in respect of which there is no fixed redemption date and shall only be redeemed or purchased in the manner and subject to the conditions specified in Condition 3 (*Redemption, Purchase and Cancellation*). The 2017 Tier 1 Bonds will not be redeemable at any time at the option of the Holders.

**Redemption at the Option of the Issuer:**

Subject to *"Redemption Conditions"* below, the 2017 Tier 1 Bonds may be redeemed at the option of the Issuer in whole, but not in part, on the First Call Date or on 12 March and 12 September of each year thereafter

by giving not less than thirty days' notice to the Holders in accordance with Condition 12 (*Notices*) and notifying the date fixed for redemption at their Prevailing Notional Amount together with any accrued, but unpaid interest to (but excluding) the date fixed for such redemption.

**Redemption for Taxation Reasons:**

Subject to "*Redemption Conditions*" below and upon the occurrence of a Tax Event, the 2017 Tier 1 Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than thirty days' notice to the Holders in accordance with Condition 12 (*Notices*) and notifying the date fixed for redemption at their Prevailing Notional Amount together with any accrued, but unpaid interest to (but excluding) the date fixed for such redemption.

"**Tax Event**" means the receipt by the Issuer of an opinion of a nationally recognised law firm or other tax advisor (which may be an accounting firm) in Switzerland experienced in such matters stating that there is more than an insubstantial risk that (a) the Issuer is not, or will not be, able to any longer obtain a tax deduction for Swiss corporate income tax purposes for any payment of interest in respect of the 2017 Tier 1 Bonds, as a result of which the Issuer is, or will be, subject to more than a *de minimis* amount of additional taxes, or (b) the Issuer is, or will become, obliged to deduct or withhold taxes (other than a withholding tax caused by FATCA) in respect of any payments of interest to Holders in respect of the 2017 Tier 1 Bonds, and in each of cases (a) and (b) this cannot be avoided by the Issuer taking such reasonable measures available to it without any material adverse effect on, or material cost to, the Issuer (as determined by the Issuer in its sole discretion).

**Redemption upon a Regulatory Event:**

Upon the occurrence of a Regulatory Event, the 2017 Tier 1 Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than thirty days' notice to the Holders in accordance with Condition 12 (*Notices*) and notifying the date fixed for redemption at their Prevailing Notional Amount together with any accrued, but unpaid interest to (but excluding) the date fixed for such redemption.

A "**Regulatory Event**" is deemed to have occurred if (i) the Issuer is notified in writing by the Regulator to the effect that the 2017 Tier 1 Bonds are not eligible to be treated as Tier 1 Capital in whole or in part (ii) the National Regulations are amended with the effect that the 2017 Tier 1 Bonds are not eligible to be treated as Tier 1 Capital in whole or in part.

**Redemption Conditions:**

Any redemption or purchase of the 2017 Tier 1 Bonds (other than a redemption upon a Regulatory Event or purchases for purposes of market making) is subject to:

- (i) the prior approval of the Regulator, if then required;
- (ii) as at the date on which the notice of redemption is given and the date fixed for such redemption (or as applicable, the date of purchase), neither a Write-down Trigger Event having occurred and being continuing nor a Viability Event having occurred; and
- (iii) the Issuer's Group, both at the time of, and immediately following the redemption or purchase of the 2017 Tier 1 Bonds, being in compliance with the Capital Requirements.



**"Capital Requirements"** means the capital requirements applicable to the Issuer's Group pursuant to the National Regulations.

<b>Purchases:</b>	Subject to " <i>Redemption Conditions</i> " above, the Issuer or any of its Subsidiaries may, directly or indirectly, at any time purchase 2017 Tier 1 Bonds at any price, in the open market or otherwise subject to any prevailing limits or conditions under the National Regulations. Such 2017 Tier 1 Bonds may be held, resold or, at the option of the Issuer, surrendered for cancellation.
<b>Clearing:</b>	The 2017 Tier 1 Bonds will be cleared through Euroclear Bank SA/NV and Clearstream Banking, S.A.
<b>Taxation:</b>	The Issuer will pay such Additional Amounts as will result in the Holders receiving, after withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Switzerland or any authority thereof or therein having power to tax upon payments made by or on behalf of the Issuer under the 2017 Tier 1 Bonds, an amount equal to the amount that the Holders would have received under the 2017 Tier 1 Bonds in the absence of such withholding or deduction, except in certain limited circumstances, as more particularly described in Condition 6 ( <i>Taxation</i> ).
<b>Selling Restrictions:</b>	For a description of the selling restrictions on offer, sale and transfer of the 2017 Tier 1 Bonds, see " <i>Subscription and Sale</i> ".
<b>Further Issues:</b>	The Issuer may from time to time, without the consent of the Holders, issue further bonds and, provided that such bonds have the same terms and conditions as the 2017 Tier 1 Bonds in all respects (or in all respects except for the issue date and/or first date on which interest is paid), such further bonds will be consolidated and form a single series with the 2017 Tier 1 Bonds.
<b>Listing and Trading of the 2017 Tier 1 Bonds:</b>	The 2017 Tier 1 Bonds have been provisionally admitted to trading on the SIX Swiss Exchange from 12 September 2017. The last trading day is expected to be the second dealing day prior to the date on which the 2017 Tier 1 Bonds are fully redeemed or the Write-down Date, as applicable, in accordance with the Terms and Conditions of the 2017 Tier 1 Bonds. Application will be made for the 2017 Tier 1 Bonds to be listed on the SIX Swiss Exchange.
<b>Rating of the 2017 Tier 1 Bonds:</b>	The 2017 Tier 1 Bonds are expected to be rated Baa3 by Moody's. A credit rating is not a recommendation to buy, sell or hold the 2017 Tier 1 Bonds and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
<b>Principal Paying Agent:</b>	Citibank N.A., London Branch.
<b>Registrar:</b>	Citigroup Global Markets Deutschland, AG.
<b>Calculation Agent:</b>	Citigroup Global Markets Limited
<b>Swiss Paying Agent:</b>	Credit Suisse AG
<b>Governing Law:</b>	The 2017 Tier 1 Bonds will be governed by, and construed in accordance with, the laws of Switzerland.
<b>Jurisdiction</b>	The courts of the city of Zurich, Switzerland and, if permitted, the Commercial Court of the Canton of Zurich, Switzerland, venue being

Zurich 1, shall have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the 2017 Tier 1 Bonds.

**Use of Proceeds**

The net proceeds from the issue of the 2017 Tier 1 Bonds are intended to be used for general corporate purposes including the repayment of indebtedness. See "*Use of Proceeds*".

## RISK FACTORS

*Holders should consider carefully, among other things and in light of their financial circumstances and investment objectives, all the information contained in this Offering Circular and, in particular, the specific risk factors set out below, before making an investment decision with respect to the 2017 Tier 1 Bonds. The risks described below may not be the only risks to which the Issuer's and the legal entities of the Issuer, the financial statements of which are, in accordance with applicable law or generally accepted accounting principles, consolidated with those of the Issuer (the "**Julius Baer Group**") or the Holders are exposed. The additional risks not presently known or currently deemed immaterial may also impair the Issuer's business, results of operations, financial condition and prospects. The realisation of one or more of these risks could individually or together with other circumstances adversely affect the Issuer's business, results of operations, financial condition and prospects. In addition, each of the risks set out below could adversely affect the trading price of the 2017 Tier 1 Bonds or lead to interest not being paid on them or their principal amount being written down as a result of any of which Holders may lose part or all of their investment. This Offering Circular may also contain forward-looking statements that involve risks and uncertainties. The Issuer's actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including the risks it faces that are described below and elsewhere in this Offering Circular. The selected sequence of the risk factors mentioned below represents neither a statement about the probability of the risks' realisation nor an assessment of the extent of the economic effects or the importance of the risks. Defined terms used in this section shall have the meanings assigned to them elsewhere in this Offering Circular.*

### **Risks Related to the 2017 Tier 1 Bonds**

#### ***The 2017 Tier 1 Bonds are complex financial instruments.***

The 2017 Tier 1 Bonds are complex financial instruments. As a result, an investment in the 2017 Tier 1 Bonds will involve increased risks. Each potential investor in the 2017 Tier 1 Bonds must determine the suitability of such investment in light of its own circumstances. In particular, each potential investor should: (i) have sufficient knowledge and experience to make a meaningful evaluation of the 2017 Tier 1 Bonds, the merits and risks of investing in the 2017 Tier 1 Bonds and the information contained in this Offering Circular; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of the investor's particular financial situation, an investment in the 2017 Tier 1 Bonds and the impact the 2017 Tier 1 Bonds will have on the investor's overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the 2017 Tier 1 Bonds including a total loss of the investment; and (iv) be able to evaluate (either alone or with the help of financial, legal or tax advisors) possible scenarios for economic, interest rate and other factors that may affect the investor's investment and the investor's ability to bear the applicable risks.

Before investing in the 2017 Tier 1 Bonds, each potential investor should have understood thoroughly the Terms of the Bonds and be familiar with them and the content of this Offering Circular and any applicable supplement.

#### ***The 2017 Tier 1 Bonds are perpetual securities which have no scheduled maturity.***

The 2017 Tier 1 Bonds are perpetual securities, which means they have no scheduled maturity or redemption date. The Issuer is under no obligation to redeem the 2017 Tier 1 Bonds at any time. The 2017 Tier 1 Bonds may, subject to the conditions to redemption set out in Condition 3(b) (*Conditions to Redemption and Purchase*) of the Terms of the Bonds, be redeemed at the option of the Issuer on the First Call Date or on 12 March and 12 September of each year thereafter or, in certain circumstances as specified in the Terms of the Bonds, before that date. There can be no assurance, however, that the Issuer will opt to redeem the 2017 Tier 1 Bonds at any time. Prospective investors should be aware that they may be required to bear the financial risks of an investment in the 2017 Tier 1 Bonds for an indefinite period of time.

#### ***The likelihood of an occurrence of a write-down of the 2017 Tier 1 Bonds is material for the purpose of assessing an investment in the 2017 Tier 1 Bonds. The 2017 Tier 1 Bonds may be written down in part or to zero.***

Holders will lose the entire amount of their investment in the 2017 Tier 1 Bonds upon the occurrence of a Viability Event and may lose part or the entire amount of their investment upon the occurrence of a

Write-down Trigger Event. Upon the occurrence of a Viability Event, the full principal amount of the 2017 Tier 1 Bonds will automatically be written down to zero and the 2017 Tier 1 Bonds cancelled. Upon the occurrence of a Write-down Trigger Event, the Prevailing Notional Amount of the 2017 Tier 1 Bonds will be reduced by the relevant Write-down Amount and, where 2017 Tier 1 Bonds are written down to zero upon the occurrence of a Write-down Trigger Event, the 2017 Tier 1 Bonds will be cancelled. Any write-down will be permanent and irrevocable meaning that the 2017 Tier 1 Bonds, if written down, will not be written up subsequently.

***The circumstances that may trigger a write-down are unpredictable.***

The occurrence of a Write-down Trigger Event or Viability Event is inherently unpredictable and depends on a number of factors, any of which may be outside of the Issuer's control.

In particular, the occurrence of a Write-down Trigger Event depends, in part, on the calculation of the CET1 Ratio, which can be affected, among other things, by the growth of the Issuer's business (including by way of acquisitions, takeovers or any joint ventures which the Issuer may conduct from time to time) and its future earnings or losses, expected distribution of profits by the Issuer, regulatory changes (including possible changes in regulatory capital definitions and calculations), the Issuer's ability to manage Risk Weighted Positions across its various businesses, or otherwise. A Write-down Trigger Event shall occur on the Business Day following the publication of a Relevant Report if (among other things) the CET1 Ratio as per the relevant Cut-off Date of such Relevant Report is less than 7.00 per cent. Although the Issuer reports the Issuer's Group CET1 Ratio in its annual and half-year reports, the FINMA as part of its supervisory activity may instruct the Issuer to calculate the CET1 Ratio of the Issuer's Group of any date during such periods.

The occurrence of a Viability Event is dependent upon, among other things, the subjective determination of the FINMA regarding the viability of the Issuer. It is up to the FINMA to determine whether a write-down of the Prevailing Notional Amount of the 2017 Tier 1 Bonds to zero is an essential requirement to prevent the Issuer from becoming insolvent, bankrupt, unable to pay a material part of its debts as they fall due or unable to carry on its business because customary measures to improve the Issuer's capital adequacy are inadequate or unfeasible. The respective circumstances are beyond the control of the Issuer.

Additionally, if customary measures to improve the Issuer's capital adequacy are inadequate or infeasible and, as a result, the Issuer has received an irrevocable commitment of direct or indirect extraordinary support from the Public Sector (beyond customary transactions and arrangements in the ordinary course of business), it is up to the FINMA to determine whether the Issuer would have become insolvent, bankrupt, unable to pay a material portion of its debts as they fall due or unable to carry on its business without such extraordinary support, and the FINMA has considerable discretion in making such determination. As a result, the FINMA may require, or the Swiss federal government may take actions contributing to the occurrence of, a write-down in circumstances that are beyond the control of the Issuer and with which the Issuer does not, at the relevant time, agree.

Because of the inherent uncertainty regarding the determination of whether a Write-down Trigger Event or Viability Event has occurred, it will be difficult to predict when, if at all, a write-down of the 2017 Tier 1 Bonds will occur. Accordingly, trading behaviour in respect of the 2017 Tier 1 Bonds may not follow trading behaviour associated with other types of subordinated securities. Any indication that the Issuer is heading towards a condition that could result in the occurrence of a Write-down Trigger Event or a Viability Event can be expected to have an adverse effect on the market price of the 2017 Tier 1 Bonds.

***The rights of Holders of the 2017 Tier 1 Bonds may be adversely affected by powers of the FINMA allowing it to order protective measures, institute restructuring proceedings, exercise any other resolution powers or institute liquidation proceedings with respect to the Issuer.***

The resolution regime under Swiss banking laws and regulations applies not only to duly licensed banks in Switzerland, such as the Issuer's subsidiary Bank Julius Baer & Co Ltd., but also to a parent company of a financial group, such as the Issuer. As a consequence, the FINMA is able to exercise its broad statutory powers thereunder with respect to the Issuer, including the ordering of protective measures, the institution of restructuring proceedings (and the exercise of any resolution powers in connection therewith), and the institution of liquidation proceedings. If the FINMA were to, at any time, open restructuring proceedings with respect to the Issuer, it would be able to exercise its resolution powers to, among other things, fully or partially write-down the principal of, and cancel, the 2017 Tier 1 Bonds, if

not already written down pursuant to their terms. In such a case, Holders of the 2017 Tier 1 Bonds would lose all or some of their investment in the 2017 Tier 1 Bonds. In addition, if the FINMA were to order any restructuring protective measures that would require or result in the deferment of payment of principal and/or interest under the 2017 Tier 1 Bonds, no such payment of principal or interest, as applicable, would be due and payable under the 2017 Tier 1 Bonds until permitted by the FINMA (as set forth in the relevant order or as otherwise notified by the FINMA), and such non-payment would not constitute a default or an event of default. As a result, all payments on the 2017 Tier 1 Bonds may cease after the exercise of any resolution power with respect to the Issuer, the ordering of any restructuring protective measures or the institution of liquidation proceedings.

There can be no assurance that the taking of any actions by the FINMA under the above-described resolution regime would not adversely affect the rights of Holders of the 2017 Tier 1 Bonds, the price or value of an investment in the 2017 Tier 1 Bonds and/or the Issuer's ability to satisfy its obligations under the 2017 Tier 1 Bonds.

***FINMA has broad statutory powers to take measures in relation to banks.***

According to article 25 *et seqq.* of the Swiss Banking Act, the FINMA has broad statutory powers to take measures in relation to banks if they (i) are overindebted, (ii) have serious liquidity problems or (iii) fail to fulfil the applicable capital-adequacy provisions after expiry of a deadline set by the FINMA. If one of these prerequisites is met, the FINMA is authorised (a) to open restructuring proceedings (*Sanierungsverfahren*) or (b) to open liquidation (bankruptcy) proceedings (*Bankenkonkurs*) or (c) to impose protective measures (*Schutzmassnahmen*) even if, at that time, a Write-down Trigger Event or a Viability Event with respect to the Issuer has not occurred. The Swiss Banking Act grants significant discretion to the FINMA. In particular, protective measures that may be imposed by the FINMA include a broad variety of measures such as a bank moratorium (*Stundung*) or a maturity postponement (*Fälligkeitsaufschub*) and may be ordered by the FINMA either on a stand-alone basis or in connection with reorganisation or liquidation proceedings. In a restructuring proceeding, the resolution plan may, among other things, provide for (i) the transfer of the property of banks or parts thereof with assets and debt as well as contracts to another entity, or (ii) haircuts on obligations owed by banks.

***Other regulatory capital instruments may not be subject to a write-down.***

The terms and conditions of other regulatory capital instruments already in issue or to be issued after the date hereof by the Issuer or any of its subsidiaries may vary and accordingly such instruments may not be written down at the same time, or to the same extent, as the 2017 Tier 1 Bonds, or at all. In particular, regulatory capital instruments issued by the Issuer with terms that require such instruments to be converted into equity or written down when a capital measure falls below a threshold that is equal or higher than the Write-down Threshold Ratio, may not be converted or written down in case of the occurrence of a Write-down Trigger Event if the relevant capital measure for triggering a conversion or write-down, as the case may be, under those instruments is calculated differently from the CET1 Ratio. Furthermore, regulatory capital instruments issued by the Issuer with terms that require such instruments to be converted into equity or written down when a capital measure falls below a threshold that is lower than the Write-down Threshold Ratio may be converted or written down only after the 2017 Tier 1 Bonds have been fully written down.

***Holders will bear the risk of fluctuations in the CET1 Ratio.***

The market price of the 2017 Tier 1 Bonds is expected to be affected by fluctuations in the CET1 Ratio or the Total Capital Ratio as defined below in "*Information regarding the CET1 Ratio and Swiss capital ratios*". Fluctuations in the CET1 Ratio may be caused by changes in the amount of CET1 Capital or the amount of Risk Weighted Positions (each of which shall be calculated by the Issuer's Group on a consolidated basis), as well as changes to their respective definitions under relevant capital adequacy standards and guidelines. Any indication or expectation that the CET1 Ratio is trending towards a Write-down Trigger Event can be expected to have a material adverse effect on the market price of the 2017 Tier 1 Bonds. Changes in the Total Capital Ratio may be caused by changes in total capital or the respective amount of Risk Weighted Positions (each of which shall be calculated by the Issuer's Group on a consolidated basis).

***Interest payments may be cancelled.***

Payment of interest, if any, on any Interest Payment Date is at the sole discretion of the Issuer. The Issuer may elect not to pay interest, in whole or in part, on any Interest Payment Date or Redemption Date (if any).

In addition, payments of interest on any Interest Payment Date or Redemption Date (if any) will mandatorily be limited and will not be paid, or not paid fully to the extent:

- (i) the amount of such interest otherwise due, together with (x) any interest payments or distributions paid or made, or scheduled to be paid or made, during the Relevant Period on Parity Securities, and (y) any Distributions paid or made, or scheduled to be paid or made, during the Relevant Period with respect to the financial year ended immediately prior to such Interest Payment Date or Redemption Date, shall exceed the amount of Distributable Items as at such Interest Payment Date or Redemption Date; or
- (ii) the Issuer is prohibited, by National Regulations or an order of the Regulator, from declaring or making any distributions or other payments, in whole or in part, on, or relating to, the 2017 Tier 1 Bonds or any Parity Securities.

In the event where (x) mandatory cancellation of interest only applies in part, and (y) the Issuer elects to make such interest payment that is not prohibited to be made, the interest payable on the 2017 Tier 1 Bonds shall be made partially only and *pro rata* with the interest payments or distributions on Parity Securities scheduled to be paid or made during the Relevant Period.

Any interest which is not paid, in accordance with Condition 2(b) (*Discretionary Interest*) or Condition 2(c) (*Mandatory Interest Cancellation*) of the Terms of the Bonds, shall not accumulate or be payable at any time thereafter, and such non-payment will not constitute an event of default by the Issuer, and the Holders shall have no right thereto whether in a liquidation, dissolution or insolvency of the Issuer or otherwise.

***The interest rate on the 2017 Tier 1 Bonds will be reset on the First Call Date, which can be expected to affect the interest payment on an investment in the 2017 Tier 1 Bonds and the market value of the 2017 Tier 1 Bonds.***

The 2017 Tier 1 Bonds will initially earn interest at a fixed rate of 4.750 per cent. per annum until the First Call Date. From the First Call Date, however, the fixed interest rate in respect of the 2017 Tier 1 Bonds will be reset periodically every five years a rate which will be equal to the sum of the prevailing CMT Rate plus the Margin on the Interest Determination Date. Such reset rate could be less than the original interest and could affect the market value of an investment in the 2017 Tier 1 Bonds. A Holder of the 2017 Tier 1 Bonds is thus exposed to the risk that the market price of such security falls as a result of changes in the current interest rate on the capital markets.

***Holders are subject to interest rate risks.***

Interest rate risk is defined as the impact of potential changes in interest rates on the market value of the respective assets and liabilities, in general, and of the 2017 Tier 1 Bonds, specifically.

Because the 2017 Tier 1 Bonds bear a fixed rate of interest (reset periodically), an investment in the 2017 Tier 1 Bonds involves the risk that if market interest rates subsequently increase above the prevailing rate paid on the 2017 Tier 1 Bonds, this will adversely affect the market value of the 2017 Tier 1 Bonds.

***Credit ratings may not reflect all risks. Changes to the credit ratings could affect the value of the Bonds.***

One or more independent credit rating agencies may assign credit ratings to the 2017 Tier 1 Bonds. The 2017 Tier 1 Bonds are expected to be rated Baa3 by Moody's. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the 2017 Tier 1 Bonds. There can be no assurance that the methodology of a rating agency will not evolve or that such rating will not be suspended, reduced or withdrawn at any time by such rating agency. Further, such credit rating may be revised downwards in the event of a deterioration in the capital position or viability of the Issuer. A rating is not a recommendation to buy, sell



or hold the 2017 Tier 1 Bonds and may be subject to suspension, revision or withdrawal at any time by the assigning rating agency.

***There are no restrictions from issuing further securities, debt or guarantees which rank senior to or pari passu with the 2017 Tier 1 Bonds.***

There is no restriction on the amount or type of securities or indebtedness or liabilities which the Issuer may issue, guarantee or otherwise incur. In particular, such other securities or indebtedness or liabilities may rank senior to the 2017 Tier 1 Bonds or *pari passu* with the 2017 Tier 1 Bonds. The issue of any such securities or debt or guarantees may reduce the amount, if any, recoverable by the Holders in a liquidation, dissolution, insolvency, composition or other proceeding for the avoidance of insolvency of, or against the Issuer, or may increase the likelihood that the Issuer may elect to cancel or be obliged to cancel payments of interest under the 2017 Tier 1 Bonds. Consequently, the Holders could suffer direct and materially adverse consequences, including the loss of all interest and principal.

***The Issuer may redeem the 2017 Tier 1 Bonds under certain circumstances.***

The 2017 Tier 1 Bonds may (subject to the satisfaction of certain conditions, as set out in Condition 3 (*Redemption, Purchase and Cancellation*)) be redeemed at the option of the Issuer (i) on the First Call Date or on any Interest Payment Date following the First Call Date; or (ii) following the occurrence of a Regulatory Event or a Tax Event (see Condition 3 (*Redemption, Purchase and Cancellation*)).

For instance, the Issuer may exercise its option to redeem the 2017 Tier 1 Bonds when its cost of borrowing is lower than the interest rate payable by the Issuer on the 2017 Tier 1 Bonds. There can be no assurance that, at the relevant time, Holders will be able to reinvest the amounts received upon redemption, if any, at a rate that will provide the same return as their investment in the 2017 Tier 1 Bonds. Prospective investors should consider reinvestment risk in light of other investments available at that time.

In addition, the optional redemption feature of the 2017 Tier 1 Bonds is likely to limit their market value. During any period when the Issuer has the right to elect to redeem the 2017 Tier 1 Bonds, the market value of the 2017 Tier 1 Bonds generally will not rise substantially above the price at which they can be redeemed. There is no requirement to redeem the 2017 Tier 1 Bonds or any other capital instruments of the Issuer on a *pro rata* basis or otherwise upon the occurrence of any event giving the Issuer the right to redeem the 2017 Tier 1 Bonds prior to maturity. Also, upon the occurrence of any event giving the Issuer the right to redeem the 2017 Tier 1 Bonds prior to maturity, the Issuer, may, instead of redeeming the 2017 Tier 1 Bonds, choose to redeem other outstanding capital instruments if the terms of those capital instruments so provide, leaving the Holders of the 2017 Tier 1 Bonds subject to the risk of a Contingent Write-down, Subsequent Write-down or write-off upon the occurrence of a Viability Event while other investors are redeemed at par or other advantageous prices.

Any redemption of the 2017 Tier 1 Bonds on the First Call Date or on any later date thereafter, or following a Tax Event at any time will be subject to the consent of the FINMA, which pursuant to applicable Swiss regulations requires, among other things, that at the time of the redemption the Issuer (i) in the case of a replacement of capital, issues at least equivalent capital in the same amount, or (ii) without a replacement of capital, has capital in an amount that is materially above the minimum capital requirements. This requirement may result in the Issuer not being able to redeem the 2017 Tier 1 Bonds even when it would appear likely to do so, which would leave the Holders of the 2017 Tier 1 Bonds at risk of a Contingent Write-down, Subsequent Write-down or write-off upon the occurrence of a Viability Event notwithstanding the occurrence of an event that would otherwise give rise to redemption at the Prevailing Notional Amount.

***The Issuer's obligations under the 2017 Tier 1 Bonds are deeply subordinated.***

In the event of an order being made, or an effective resolution being passed, for the liquidation or winding-up of the Issuer, but no Write-down Trigger Event or a Viability Event has occurred, the rights and claims of the Holders against the Issuer (including any damages awarded for breach of any obligation) in respect of or arising under the 2017 Tier 1 Bonds will rank, subject to any obligations which are mandatorily preferred by law, (i) junior to the claims of all holders of unsubordinated obligations of the Issuer and all other subordinated obligations of the Issuer except the claims of all holders of Parity Securities (the "**Senior Obligations**"), (ii) *pari passu* among themselves and with the

claims of all holders of Parity Securities, and (iii) senior to Equity Capital and any other equivalent items of capital.

Therefore, even if no Write-down Trigger Event or a Viability Event has occurred, if the Issuer were liquidated or dissolved, the liquidator of the Issuer would first apply assets of the Issuer to satisfy all rights and claims of holders of Senior Obligations. If the Issuer does not have sufficient assets to settle claims of holders of Senior Obligations in full, the claims of the Holders under the 2017 Tier 1 Bonds will not be settled and, as a result, the Holders will lose the entire amount of their investment in the 2017 Tier 1 Bonds.

In addition, Holders should be aware that, upon the occurrence of a Write-down Trigger Event, parts of the principal amount or the full principal amount of the 2017 Tier 1 Bonds may automatically be written down. Upon the occurrence of a Write-down Trigger Event leading to a full write-down of the principal amount or upon the occurrence of a Viability Event, the full principal amount of the 2017 Tier 1 Bonds will automatically be written down to zero and the 2017 Tier 1 Bonds will be cancelled, and, as a result, the Holders will lose the entire amount of their investment in the 2017 Tier 1 Bonds irrespective of whether the Issuer has sufficient assets available to settle the claims of the Holders under the 2017 Tier 1 Bonds or other securities subordinated to the same or greater extent than the 2017 Tier 1 Bonds, in bankruptcy proceedings or otherwise. As a result, even if other bonds or other securities that rank *pari passu* with or junior to the 2017 Tier 1 Bonds are paid in full, following a write-down, the Holders of the 2017 Tier 1 Bonds will have no rights whatsoever (including, but not limited to, any right to receive interest payments) against the Issuer with respect to the relevant Write-down Amount.

***There are limited remedies available under the 2017 Tier 1 Bonds. There are no events of default or acceleration rights.***

In accordance with the requirements for tier 1 instruments, the 2017 Tier 1 Bonds contain no events of default. Holders have no acceleration rights in respect of the 2017 Tier 1 Bonds. Holders are only entitled to claim redemption of the Prevailing Notional Amount, if any, of the 2017 Tier 1 Bonds in case of the Issuer's bankruptcy, dissolution or liquidation. Even if, at that time, a Write-down Trigger Event or a Viability Event with respect to the Issuer has not occurred, rights of the Holders in bankruptcy proceedings (*Konkursverfahren*) or any form of restructuring proceedings (*Sanierungsverfahren*) in relation to the Issuer are also limited.

#### ***Changes in law.***

The Terms of the Bonds are based on Swiss law (including tax law) in effect as at the date of this Offering Circular and the description of the effects thereof. Such laws and the interpretation thereof have been and are subject to change. No assurance can be given as to the impact of any possible judicial decision or change to Swiss law (including changes in tax legislation, rulings and interpretations of existing tax laws that may affect the tax situation of the Julius Baer Group) or administrative practice in Switzerland after the date of this Offering Circular nor can any assurance be given as to whether any such change would adversely affect the ability of the Issuer to make payments under the 2017 Tier 1 Bonds.

In particular, any amendment or replacement of the Swiss Banking Act or any amendment, replacement or implementation of an implementing ordinance or other implementing regulation and any change in their application in respect of the applicable provisions of the Swiss Banking Act or other regulation in respect of the Issuer, systemically relevant banks or generally could impact the calculation of the CET1 Ratio, the CET1 Capital and the Risk Weighted Positions. Furthermore, because the occurrence of a Write-down Trigger Event depends, in part, on the calculation of the CET1 Ratio, any change in Swiss law that affects the calculation of the CET1 Ratio would also affect the determination of whether a Write-down Trigger Event Notice must be given (*i.e.*, whether a Write-down Trigger Event will occur). Any such amendment which impacts the calculation of any of the aforementioned ratios can be expected to have an adverse effect on the market value of the 2017 Tier 1 Bonds.

***The 2017 Tier 1 Bonds are not deposit liabilities of the Issuer and will not be insured by any depositor protection scheme or any other government guarantee or compensation or insurance scheme.***

The 2017 Tier 1 Bonds are not deposit liabilities of the Bank and will not be covered by the Swiss Banks and Securities Dealers' Depositor Protection Association (*Einlagensicherung*) or by any other government

compensation or insurance scheme. In the event of the insolvency of the Issuer, a Holder may lose all or some of its investment in the 2017 Tier 1 Bonds.

***No voting rights.***

The 2017 Tier 1 Bonds do not carry voting rights at shareholders' meetings. Consequently, the Holders cannot influence, *inter alia*, any decisions by the Issuer's shareholders concerning the capital structure of the Issuer.

**Risks relating to the Market Generally**

***Legal investment considerations may restrict certain investments.***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to assess the Terms of the Bonds (including those provisions relating to the Write-down of the 2017 Tier 1 Bonds) and to determine whether and to what extent (1) 2017 Tier 1 Bonds are legal investments for it, (2) 2017 Tier 1 Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any 2017 Tier 1 Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of 2017 Tier 1 Bonds under any applicable risk-based capital or similar rules.

***A trading market may not develop for the 2017 Tier 1 Bonds.***

The 2017 Tier 1 Bonds are complex financial instruments and, notwithstanding the fact that the 2017 Tier 1 Bonds are expected to be listed and traded on the SIX Swiss Exchange, a trading market may never develop. The Issuer does not intend to apply for the 2017 Tier 1 Bonds to be traded on any other exchange. The Issuer cannot assure investors that an active trading market in the 2017 Tier 1 Bonds will develop on the SIX Swiss Exchange or, if a market does develop, of the nature of such trading market. Even if an active trading market does develop, no one, including the Managers, is required to maintain its liquidity, if any. Holders may not be able to sell their 2017 Tier 1 Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market or at all.

***The market value of the 2017 Tier 1 Bonds may be influenced by a variety of factors.***

Many factors, most of which are beyond the Issuer's control, will influence the value of the 2017 Tier 1 Bonds and the price, if any, at which securities dealers may be willing to purchase or sell the 2017 Tier 1 Bonds in the secondary market, including:

- (i) the creditworthiness of the Issuer and, in particular, the level of the Issuer's capital ratios from time to time;
- (ii) supply and demand for the 2017 Tier 1 Bonds, including inventory with any securities dealer; and
- (iii) economic, financial, political or regulatory events or judicial decisions that affect the Issuer or the financial markets generally.

Accordingly, if a Holder sells its 2017 Tier 1 Bonds in the secondary market, it may not be able to obtain a price equal to the principal amount of the 2017 Tier 1 Bonds or a price equal to the price that it paid for the 2017 Tier 1 Bonds.

***The USD exchange rate may have an effect on the value of the 2017 Tier 1 Bonds.***

The Issuer will pay principal and interest on the 2017 Tier 1 Bonds in USD. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than USD. These include the risk that exchange rates may significantly change (including changes due to devaluation of USD or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to USD would decrease (1) the Investor's Currency-equivalent yield on the 2017 Tier 1 Bonds, (2) the

Investor's Currency-equivalent value of any principal payable on the 2017 Tier 1 Bonds and (3) the Investor's Currency-equivalent market value of the 2017 Tier 1 Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal. Any of the foregoing events could adversely affect the price of the 2017 Tier 1 Bonds.

***Payments on or with respect to the 2017 Tier 1 Bonds may be subject to US withholding under FATCA.***

The Issuer and other financial institutions through which payments on the 2017 Tier 1 Bonds are made may be required to withhold at a rate of up to 30 per cent. on all, or a portion of, payments made after 31 December 2018 pursuant to Sections 1471 through 1474 of the US Internal Revenue Code (commonly referred to as "**FATCA**").

The Issuer is a foreign financial institution ("**FFI**") for the purposes of FATCA. If the Issuer is required, or agrees, to provide certain information about its account holders pursuant to a FATCA agreement with the US Internal Revenue Service (i.e. the Issuer is a "**Participating FFI**") then withholding may be triggered if: (i) payments on the 2017 Tier 1 Bonds are classified as "foreign passthru payments" for purposes of FATCA and (ii) (a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is a US person or should otherwise be treated as holding a "United States Account" of the Issuer, (b) an investor does not consent, where necessary, to have its information disclosed to the IRS or (c) any FFI that is an investor, or through which payment on the 2017 Tier 1 Bonds is made, is not a Participating FFI or otherwise exempt from being withheld upon under FATCA.

The United States and Switzerland entered into an intergovernmental agreement to facilitate the implementation of FATCA (an "**IGA**"). Under the US-Switzerland IGA, financial institutions acting out of Switzerland generally are directed to become Participating FFIs. The agreement ensures that accounts held by U.S. persons with Swiss financial institutions are disclosed to the U.S. tax authorities either with the consent of the account holder or by means of group requests within the scope of administrative assistance. Information will not be transferred automatically in the absence of consent, and instead will be exchanged only within the scope of administrative assistance on the basis of the double taxation agreement between the U.S. and Switzerland. The United States has entered into IGAs with a number of jurisdictions besides Switzerland and is in the process of negotiating or in dialogue regarding IGAs with other jurisdictions.

If an amount in respect of FATCA were to be deducted or withheld from interest, principal or other payments on or with respect to the 2017 Tier 1 Bonds, the Issuer would have no obligation to pay additional amounts or otherwise indemnify a holder for any such withholding or deduction by the Issuer, a paying agent or any other party as a result of the deduction or withholding of such amount. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected.

An FFI investor that is not a Participating FFI and that is withheld upon generally will be able to obtain a refund only to the extent an applicable income tax treaty with the United States entitles the investor to a reduced rate of tax on the payment that was subject to withholding under FATCA, provided the required information is furnished in a timely manner to the IRS.

There is a grandfathering rule that generally exempts payments made with respect to obligations that are classified as indebtedness for US federal income purposes that are issued before the date that is six months after the publication of regulations defining the term foreign passthru payment. However, the terms of the 2017 Tier 1 Bonds make it uncertain that they will be classified as indebtedness for these purposes.

Significant aspects of the application of FATCA are not currently clear. Investors should consult their own advisors about the application of FATCA, in particular if they may be classified as financial institutions under the FATCA rules.

### ***Risk-hedging transactions.***

The ability to eliminate or to restrict the risks of the 2017 Tier 1 Bonds arising from their purchase by concluding any hedging transactions depends mainly on the market conditions and the terms and conditions of the specific security. As a consequence, such transactions – if at all possible – may be concluded at unfavourable market prices to the effect that corresponding losses may arise. Prospective investors should therefore not rely on the ability to conclude transactions at any time that will allow them to offset or limit relevant risks.

### ***Inflation risk.***

Inflation risk is the risk of future money depreciation. The real yield from an investment is reduced by inflation. The higher the rate of inflation, the lower the real yield on a 2017 Tier 1 Bond. If the inflation rate is equal to or higher than the nominal yield, the real yield is zero or negative.

### ***In certain instances the Terms of the Bonds may be amended without the consent of a Holder.***

Certain statutory provisions of Swiss law may apply to the 2017 Tier 1 Bonds, which allow for the calling of meetings of the Holders to consider matters affecting their interests. These provisions permit defined majorities to bind all Holders, including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority. See "General Information" for a brief description of the Swiss law provisions relating to meetings of the Holders of the 2017 Tier 1 Bonds.

### ***The 2017 Tier 1 Bonds are held in the clearing system Euroclear and Clearstream, Luxembourg, or in any other relevant clearing system and Holders will have to rely on their procedures for transfer, payment and communication with the Issuer.***

The 2017 Tier 1 Bonds will, upon issue, be deposited with, and registered in the name of a nominee for, a common depository for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"). Except in the circumstances described in the Global Certificate, investors will not be entitled to receive individual certificates. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the 2017 Tier 1 Bonds represented by the global certificate. While the 2017 Tier 1 Bonds are in global form, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg, as the case may be.

While the 2017 Tier 1 Bonds are in global form, the Issuer will discharge its payment obligations under the 2017 Tier 1 Bonds by making payments to or to the order of the common depository. A holder of a beneficial interest in a Bond must rely on the procedures of Euroclear and/or Clearstream, Luxembourg, as the case may be, to receive payments under the 2017 Tier 1 Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made by Euroclear and Clearstream, Luxembourg in respect of, beneficial interests in such 2017 Tier 1 Bonds represented by the global certificate.

### **Risks Related to the Issuer**

*Unless indicated otherwise, all references to the Issuer in the risk factors set out under this section are describing the consolidated businesses carried on by the Issuer and its subsidiaries.*

### ***The Issuer is affected by global economic and financial market conditions and politics.***

As a private banking group operating internationally and with a global client base, the Issuer's business is affected by changing conditions in the global financial markets and economic conditions generally and perceptions of those conditions and future economic prospects. The outlook for the global economy over the near to medium-term remains challenging and many forecasts predict only stagnant or modest levels of gross domestic product growth across certain of the Issuer's key markets.

Further, unpredictable events (including, but not limited to wars or civil wars, terrorism and/or natural disasters) or changes in world and regional politics may have a negative impact. Any such events or changes may affect the Issuer's customers or directly its business. For instance, certain high net worth individuals might become subject to political sanctions.



***Changes in foreign exchange rates could have an adverse effect on the Issuer's assets under management and results of operations.***

The Issuer is exposed to risk from fluctuations in foreign exchange rates for currencies, particularly the U.S. dollar, euro and pounds sterling. The Issuer prepares its consolidated financial statements in Swiss francs. However, a substantial portion of the Issuer's assets, liabilities, invested assets, revenues and expenses are denominated in other currencies, particularly the U.S. dollar and the euro. Accordingly, changes in foreign exchange rates, particularly between the Swiss franc and the U.S. dollar and between the Swiss franc and the euro, and exchange rate volatility in general, have an effect on the Issuer's reported income and expenses, and on other reported figures such as assets under management, risk-weighted assets and regulatory capital. Since exchange rates are subject to constant change, the Issuer's results are subject to risks associated with changes in the relative values of currencies. The Issuer's capital is also stated in Swiss francs and it might not hedge its capital position against changes in currency exchange rates.

***The Issuer may generate lower income from commissions and fees due to changes to regulations and fluctuations in the financial markets, which have led or may lead to lower client activity and clients experiencing weaker than expected returns on their investments.***

The Issuer's results of operations depend, to a significant extent, on factors that are difficult to control such as the returns enjoyed by the Issuer's clients on their investments as well as the ability to attract net new money inflows. For instance, a substantial portion of its revenues is directly related to the value of assets under management. Therefore, the Issuer's results of operations depend to a significant extent on factors such as investment returns and risk management, as well as its ability to attract net new money inflows. Because the fees that the Issuer charges for managing its clients' portfolios are in many cases based on the value of those portfolios, a market downturn that reduces the value of its clients' portfolios or increases the amount of withdrawals of assets would reduce its revenues. In addition, clients experiencing weaker than expected returns on investments the Issuer offers or recommends relative to investment solutions offered or recommended by the Issuer's competitors could trigger substantial redemptions and outflows from its clients' accounts. A market downturn is also likely to lead to a decline in the volume of transactions that the Issuer executes for its clients and hence to reduced commission income.

***The Issuer's regulatory capital position is subject to change and its business could be adversely affected as a result of changes to capital adequacy and liquidity requirements.***

The Issuer's regulatory capital position, as measured by Basel III and Swiss regulation, is determined by (i) risk-weighted assets and (ii) eligible capital. Both risk-weighted assets and eligible capital are subject to change. Eligible capital would be reduced if the Issuer experiences net losses, as determined for purposes of the regulatory capital calculation. Eligible capital can also be reduced for a number of other reasons, including adverse currency movements directly affecting the value of equity and prudential adjustments that may be required due to the valuation uncertainty associated with certain types of positions, or through dividends, share repurchases or similar distributions to shareholders. Risk-weighted assets, on the other hand, are driven by the Issuer's business activities and by changes in the risk profile of its exposures. For instance, substantial market volatility, a widening of credit spreads, a change in regulatory treatment of certain positions, adverse currency movements, increased counterparty risk or deterioration in the economic environment could result in an increase in risk-weighted assets. Any unanticipated reduction in eligible capital or increase in risk-weighted assets could materially impact the Issuer's capital ratios.

The required levels and calculation of the Issuer's regulatory capital and the calculation of its risk-weighted assets are also subject to changes in regulatory requirements or their interpretation.

In addition to risk-based capital requirements, a minimum leverage ratio is expected to enter into force on 1 January 2018 following an observation period. The leverage ratio operates separately from the risk-based capital requirements, and, accordingly, under certain circumstances could constrain the Issuer's business activities even if it is able to satisfy the risk-based capital requirements.

In December 2010, the Basel Committee on Banking Supervision introduced certain liquidity requirements when it published the "International framework for liquidity risk measurement, standards and monitoring" ("**Basel III**"). The framework comprises two liquidity ratios: the liquidity coverage ratio



("LCR") and the net stable funding ratio ("NSFR"). From the date of the first reporting period after 1 January 2015, banks are required to make LCR-related disclosures. The NSFR will become a minimum standard with effect as of 1 January 2018.

Future changes in the Swiss requirements for risk-based capital, leverage ratios or liquidity ratios, whether pertaining to the minimum levels required for Swiss banks or to the calculation thereof, or changes in liquidity requirements could have a material adverse effect on the Issuer's business and could affect its competitive position internationally compared with institutions that are regulated under different regimes. In addition, forthcoming changes to the capital adequacy rules of the European Union (the "EU") member states implementing Basel III could, subject to the implementation of according regulations in Switzerland, also have a material adverse effect on the Issuer's capital requirements.

***The Issuer operates in an industry that is highly regulated in Switzerland, the EU, Singapore and each of the other markets in which it operates. Increased regulation of the Julius Baer Group's business or greater governmental enforcement actions and investigations in the private banking industry could decrease its revenues and profitability.***

The Issuer's operations are regulated and supervised by the regulatory authorities in each of the jurisdictions in which it conducts its business. Laws and regulations applied at the national, state, provincial or local level generally grant governmental agencies and industry self-regulatory authorities broad administrative discretion over its activities and the activities of its business units, including the power to limit or restrict business activities. It is possible that laws and regulations governing the Issuer's operations or particular investment products could be amended or interpreted in a manner that is adverse to it. To the extent that amendments to existing regulations or new regulations reduce the sale, or increase the redemptions, of the products and services it offers, or negatively affect the investment performance of the products it offers, the Julius Baer Group's assets under management and revenues could be adversely affected.

In particular, after the global financial crisis of 2007/08, there has been a substantially enhanced level of government and regulatory supervision, intervention and scrutiny, and there have been changes to regulations applying to financial institutions. Further, there is an ongoing substantial increase in government regulation and supervision of the financial services industry in order to seek to prevent future crises and otherwise ensure the stability of institutions under their supervision, including the imposition of higher capital and liquidity requirements, heightened disclosure standards, further development of corporate governance and employee compensation regimes and restrictions on certain types of transaction structures. Future changes in laws, regulations and fiscal or other policies can be difficult to predict and are beyond the control of the Julius Baer Group.

Governmental policies and regulatory changes – which are beyond the Issuer's control and difficult to predict – that could adversely impact the Julius Baer Group's business include, but are not limited to:

- the monetary, interest rate and other policies of central banks and regulatory authorities;
- general changes in government or regulatory policy, or changes in regulatory regimes that may significantly influence investor decisions in particular markets in which the Issuer operates, may change the structure of those markets and the products offered, or may increase the costs of doing business in those markets;
- changes to other regulatory requirements such as rules on consumer protection and prudential rules relating to capital adequacy or liquidity, charging special levies to fund governmental intervention in response to crises (which may not be tax deductible for the Julius Baer Group), separation of certain businesses from deposit-taking and the breaking up of financial institutions that are perceived to be too large for regulators to take the risk of their failure;
- further developments in relation to financial reporting including changes in accounting and auditing standards, corporate governance, conduct of business and employee compensation;
- expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; and

- other unfavourable political, military or diplomatic developments, producing social instability or legal uncertainty which, in turn, may affect demand for the Issuer's products and services.

Such new requirements could, to differing extents, significantly impact the profitability and results of operations of firms operating within the financial services industry, including entities within the Julius Baer Group, or could require those affected to alter their current strategies, prevent the continuation of current lines of operations, restrict the type or volume of transactions which may be entered into or set limits on, or require the modification of, rates or fees that may be charged.

The Issuer's costs, profitability and available regulatory capital could be adversely affected due to an increase in the cost of compliance following an increase in the scope of regulation to which the Issuer and its operations are subject. In addition, the Issuer may be subject to certain laws and regulations applicable where its clients reside. Due to the complexity of the regulatory environment in which the Issuer operates, it expects that any increases in the volume of regulation to which it is subject will result in a corresponding increase in the cost of compliance.

For instance, in Switzerland new regulation providing for new rules regarding financial market infrastructures and derivatives trading similar to the EU's European Market Infrastructure Regulation rules entered into force as of 1 January 2016 and further legislative proposals are expected to implement new prudential rules similar to the EU's Markets in Financial Instruments Directive ("MiFID II") rules.

Whilst there is growing international regulatory cooperation on supervision and regulation of international and EU banking groups, the Issuer is, and will continue to be, subject to the complexity of complying with existing and new regulatory requirements in each of the jurisdictions in which it operates. Where changes in regulation are made they may not be co-ordinated, potentially resulting in the Julius Baer Group having to comply with varying and possibly conflicting requirements. The foregoing matters may adversely impact any number of areas of the Julius Baer Group's operations and activities.

Additionally, the Issuer is subject to various rules and regulations regarding money laundering prevention. Monitoring compliance with increasingly stringent anti-money laundering rules will place a significant financial burden on the Issuer and pose a significant challenge in ensuring that its anti-money laundering standards are up-to-date and consistently applied in all circumstances by its employees across all branches and subsidiaries. Any violation of anti-money laundering rules or even the suggestion of such violations may have severe legal, regulatory, financial and reputational consequences for the Issuer.

The Issuer is experiencing increased regulation of its activities as a result of anti-money laundering initiatives in a number of jurisdictions. Furthermore, Switzerland and other jurisdictions in which the Issuer operates have proposed or adopted regulations to strengthen prohibitions on money laundering and terrorist financing.

***Changes in Swiss law and politics in general might have a negative impact.***

Changes in law (including the law on accounting and financial reporting) and politics in general might have a negative impact on the Issuer. For instance, in February 2014, Swiss voters adopted a constitutional amendment requiring the Federal government to implement quotas on immigration which in turn might entail a termination of the bilateral treaties between Switzerland and the EU. The effects of such termination on the Swiss economy are unpredictable. The implementation of such quotas may affect the Issuer's ability to hire qualified personnel from countries other than Switzerland.

***The Issuer's operating performance could be adversely affected by sudden and substantial changes in interest rates.***

Unexpected and erratic changes in interest rates can affect the level of the Issuer's net interest income. Since funding costs and interest earnings do not necessarily correlate in all interest rate environments, movements in overall interest rate levels as well as in the yield curve can influence the Issuer's net interest income. Interest rate fluctuations may also influence the value of its fixed-income trading portfolio and the amount of income the Issuer derives from its sales and trading businesses. Moreover, interest rate movements may have an impact on market prices for various classes of financial assets, including its assets under management. Despite its best efforts to manage this interest rate risk, the Issuer's business, financial condition and results of operations could be adversely affected by sudden and substantial changes in interest rates.

***Inability to preserve a stable funding and liquidity position could adversely affect the Issuer's operating performance and financial condition.***

Despite actively managing its funding and liquidity position and ensuring sufficient liquidity at a specific point in time, the Issuer faces liquidity risk. Liquidity risk, i.e. the risk of being unable to meet (re)payment obligations when they become due, is inherent in any banking operation and could adversely affect the Issuer's business, financial condition and results of operations.

***Negative changes in market prices could adversely affect the value of the Issuer's treasury and trading portfolio.***

The value of the Issuer's treasury and trading portfolio is affected by changes in market prices, such as interest rates, equities, currencies, certain commodities and derivatives. The Issuer takes various actions to address risks from such market price fluctuations, including entering into hedging transactions to address the market risks relating to its treasury and trading activities, however significant negative changes in market prices could adversely affect its business, financial condition and results of operations.

***As a result of the cross-border nature of its business, the Issuer is exposed to the risk of compliance with different regulatory regimes.***

As a result of the cross-border nature of its business, the Issuer is exposed to the risk that its relationships with its clients may be deemed to be governed by more than one regulatory regime. For example, even if the Issuer is providing advice to a client in Switzerland, if clients are domiciled in a foreign country, they may bring an action against the Issuer predicated upon the laws of their country of domicile. As a result, the Issuer is subject to the risk that it could be deemed to have provided non-compliant advice to the extent that it does not comply with legislation such as the Markets in Financial Instruments Directive ("MiFID"), which applies in EU member states. Even if any such actions are not successful, the Issuer may nonetheless incur legal expenses in defending them.

In addition, the ongoing implementation in the United States of the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**"), including the "Volcker Rule", derivatives regulation and other regulatory developments, have imposed, and will continue to impose, new regulatory burdens on certain of the Issuer's operations. These requirements have contributed to the Issuer's decision to exit certain businesses and may lead it to exit other businesses. Because the scope of the Volcker Rule remains subject to final implementation and its impact on the Issuer's market-making and risk mitigation activities is unclear, it is still uncertain whether the Issuer may be required to curtail or discontinue some of these activities or if its operations may otherwise be adversely affected. Under the Dodd-Frank Act, the Issuer also became and further expects to become subject to new Commodity Futures Trading Commission and U.S. Securities and Exchange Commission ("**SEC**") rules that could materially increase the operating costs, including compliance, information technology and related costs, associated with its derivatives businesses with U.S. persons.

***Cross-border risks may increase market and credit risks that the Issuer faces.***

Country, regional and political risks are components of market and credit risk. Financial markets and economic conditions generally have been and may be materially affected by such risks. Economic or political pressures in a country or region, including those arising from local market disruptions, currency crises, monetary controls or other factors, may adversely affect the ability of the Issuer's clients or counterparties located in that country or region to obtain foreign currency or credit and, therefore, to perform their obligations to the Issuer, which in turn may have an adverse impact on its results of operations.

***The Issuer may face significant losses in emerging markets.***

As a global financial services company doing business in emerging markets, the Issuer is exposed to economic instability in emerging market countries. The Issuer monitors these risks, seeks diversity in the sectors in which it invests and emphasises client-driven business. Its efforts at limiting emerging market risk, however, may not always succeed.

***The Issuer could become subject to reimbursement claims by its clients and its compliance costs could increase in the event that fees received by it for the distribution of financial products issued by third parties are considered to be "retrocessions".***

Case law arising from litigation in Swiss courts has established that fees received by a bank for the distribution of financial products may be considered to be "retrocessions" unless they are received for genuine distribution services. If a fee is deemed to be a retrocession, the bank must disclose to the affected client that it has received a retrocession and must provide the client with sufficient information to calculate the amount of the retrocession in order for the client to validly renounce a claim to the retrocession. If fees received by the Issuer for the distribution of financial products are deemed to be retrocessions, absent a waiver, the Issuer could become subject to reimbursement claims by its clients.

***The EU Commission's proposals in connection with MiFID II may adversely affect the Issuer's ability to generate fee and commission income.***

Pursuant to MiFID II which was passed by the European Parliament on 15 April 2014, independent investment advisers and portfolio managers will (subject to certain exceptions) be required to pass on (and not retain) all fees, commissions or any monetary benefits paid or provided by a third party to such independent investment advisers and portfolio managers to the client who should be accurately informed about all such commissions. This law could impact the Issuer's ability to generate income from commissions.

Separately to MiFID II, in the United Kingdom, the FCA introduced rules (effective from 31 December 2012) which impact the distribution of retail investment products and services to clients within the United Kingdom (known as the "**Retail Distribution Review**"). Other EU member states may implement rules similar to the Retail Distribution Review adopted in the United Kingdom which will impact the distribution of retail investment products.

***Non-compliance with regulatory requirements may result in enforcement measures or subject the Issuer to significant penalties or increased costs and could adversely affect its reputation, all of which could result in a significant decline in assets under management and hence, revenue and profitability.***

Non-compliance with regulatory requirements may result in regulatory authorities taking enforcement action against the Issuer. Possible sanctions could include the revocation of licences to operate certain businesses, the suspension or expulsion from a particular jurisdiction or market of any of the Issuer's business organisations or their key personnel, the imposition of fines and censures on the Issuer's employees or the Issuer, the enforcement of payment obligations to clients or market participants and the imposition of additional capital requirements. The Issuer cannot give any assurance that it will not be subject to future regulatory scrutiny, which could give rise to adverse publicity, damage its reputation or have a material adverse effect on its business. For example, regulators in certain markets around the world may determine that industry practices generally, and the Issuer's practices in particular, regarding the provision of services to clients are inconsistent with their interpretations of existing local laws and regulations (such as in relation to licensing, product distribution and consumer protection requirements). Increased costs of compliance with applicable laws and regulations following any such determination could negatively affect the Issuer's profitability. In addition, private litigation regarding such issues also could result in liability for the Issuer, such as a determination that affected contracts are void or unenforceable. Any material loss of investor or client confidence as a result of non-compliance or alleged non-compliance with regulatory requirements could result in a significant decline in assets under management.

***Because of changes in the laws regarding automatic exchange of financial account information and bank client confidentiality, the Issuer could experience outflows of assets under management and its business could otherwise be adversely affected.***

Swiss banking legislation protecting bank client confidentiality has historically been an important factor influencing high net worth individuals' choice to hold their assets in Switzerland. The ongoing changes in law and in interpretation of the laws by authorities or courts that affect bank client confidentiality and the automatic exchange of financial account information that effectively terminates bank client confidentiality in relation to international clients may make Switzerland a less attractive location for clients to hold their assets in Switzerland. In particular, Switzerland has concluded a multilateral agreement with the EU on the international automatic exchange of information ("**AEOI**") in tax matters

(the "AEOI Agreement"). The AEOI Agreement became effective as of 1 January 2017, and applies to all 28 member states of the EU and also Gibraltar. In addition, on 1 January 2017 the multilateral competent authority agreement on the automatic exchange of financial account information ("MCAA"), and based on the MCAA, a number of bilateral AEOI agreements of Switzerland with other countries, became effective. Based on the AEOI Agreement and the bilateral AEOI agreements and the implementing laws of Switzerland, Switzerland began to collect data in respect of financial assets, such as the 2017 Tier 1 Bonds, held in, and income derived thereon and credited to, accounts or deposits with a paying agent in Switzerland for the benefit of residents in an EU member state or a treaty state from 2017, and will begin to exchange it from 2018. On 16 June 2017, the Swiss Federal Council submitted draft legislation to the Swiss Federal Parliament on the automatic exchange of financial account information with another 41 states and territories. Upon parliamentary approval, the Swiss Federal Council will be authorized to implement the AEOI with these additional states and territories. If implemented in 2018, as currently intended, the first set of data with regards to these additional states and territories would be exchanged in late 2019. Before the first data is exchanged, the legislation requires the Swiss Federal Council to verify and issue a report, assessing whether these states and territories meet certain standards, in particular, concerning confidentiality and data security. A list of the AEOI agreements of Switzerland in effect or signed and becoming effective can be found on the website of the State Secretariat for International Financial Matters (SIF).

Further, certain countries seek actively to encourage repatriation of wealth of their citizens held offshore in Switzerland as a means of combating tax evasion.

***The Julius Baer Group is and may become subject to investigations or enforcement actions by authorities in Switzerland and in countries other than Switzerland resulting in costs and potentially fines.***

The Julius Baer Group is and may become subject to further investigations or enforcement actions by authorities in Switzerland and in countries other than Switzerland, which could result in the Julius Baer Group being required to incur significant defence costs and pay fines and could also harm its reputation. These investigations and enforcement actions may also give rise to claims by affected clients, counterparties or the Julius Baer Group's employees.

***The Issuer is subject to the risk that changes in tax and regulatory regimes could cause clients to transfer their assets out of the Julius Baer Group or reduce the demand for the Issuer's services.***

The Issuer is subject to the risk that governments in the jurisdictions in which it does business will introduce changes in their tax or regulatory regimes that could adversely affect the Issuer's ability to offer certain of its products or the favourable tax treatment for those products. The Issuer is also exposed to the risk that one or more jurisdictions in which it holds client assets may become a less attractive location for its clients to hold their assets. In particular, legal, regulatory or tax changes in such jurisdictions might cause clients to move their assets to other jurisdictions. Clients may also have an incentive, through beneficial tax treatments due to changes in tax laws or tax amnesties, to move their assets into jurisdictions, including the clients' home jurisdictions, where the Issuer does not have banking operations, thereby negatively impacting its assets under management. Because a significant portion of the Issuer's assets under management are held in a location other than the clients' home jurisdictions, it is particularly exposed to regulatory and tax changes that make Switzerland and the Issuer's other booking centres less attractive locations for clients to hold their assets.

***Systemic risk resulting from failures by banks, other financial institutions and corporates could adversely affect the Julius Baer Group.***

Within the financial services industry, the default of any one institution could lead to defaults by other institutions. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms, other financial institutions and exchanges in the markets in which the Julius Baer Group operates and cause market declines or volatility. Such a failure could lead to a chain of defaults that could adversely affect the Issuer and its contract counterparties and, for instance, prevent the Issuer from raising new funding. In addition, the failure of a sufficiently large and influential institution could impact future product sales as a potential result of reduced confidence in the financial services industry.



***The Julius Baer Group may incur significant losses on its trading and investment activities.***

The Issuer maintains large trading and investment positions and hedges in the debt, currency and equity markets, and in private equity, hedge funds, real estate and other assets. These positions could be adversely affected by volatility in financial and other markets. Further, these positions are exposed to the risk that the counterparties of those positions will not perform their obligations. These counterparties may default on their obligations to the Issuer due to lack of liquidity, operational failure, bankruptcy or other reasons, which could result in a loss of those positions and this could have a material adverse effect on the Issuer's operational results and financial condition.

***The Issuer's reputation is one of the most important assets it has and if that reputation is harmed, the Issuer may not be able to retain and attract clients and the Issuer's business, results of operations and financial condition may suffer.***

Negative publicity could arise, for example, from misconduct by an existing or newly acquired client, which could have a negative impact on the Issuer as a result of allegations that it does not fully comply with regulatory requirements or anti-money laundering rules, publicity about politically exposed persons in its client base or allegations that a regulator or prosecutor is conducting investigations involving it. The Issuer could also suffer harm to its reputation if investments or financial products it recommends do not perform as expected. It could also experience negative publicity or become subject to legal proceedings in the event that it is not successful in protecting its clients' data or confidential information or in the event of fraud or misconduct committed by one of its employees, agents or third-party distributors or by external asset managers. Furthermore, any resulting damage to the Issuer's reputation could cause material damage to its business even if legal proceedings are not commenced or are determined in its favour.

Any damage to its reputation could cause existing clients to withdraw their assets and potential clients to be reluctant to do business with the Issuer. Furthermore, negative publicity or potential or actual legal proceedings may result in greater regulatory scrutiny and influence the Julius Baer Group's perception in the market.

***The Issuer faces an increase in the intensity of competition both on a domestic and on an international level.***

The Issuer competes with a number of large banks and other broad-based financial institutions both domestically and internationally that have the ability to offer a wide range of products, including loans, deposit taking, securities, investment banking and asset management services, and may benefit from government guarantees, all of which may enhance their competitive position. Generally, they also have substantial financial resources and, accordingly, have the ability to support securities, investment banking and asset management services in an effort to gain market share, which could result in pricing and other competitive pressures on the Issuer's business. The ability of clients to withdraw assets on short notice requires careful monitoring of, and quick responses to, the activities of the Issuer's competitors. If the Issuer is not able to respond to these activities rapidly enough, it could lose assets under management or clients.

***The Issuer's revenue may decline due to competition from alternative trading systems.***

Securities and futures transactions are now being conducted through the internet and other alternative, non-traditional trading systems, and it appears that this trend toward the use of alternative trading systems will continue and may accelerate. A dramatic increase in electronic trading may adversely affect the Issuer's commission and trading income and could reduce its market share. The Julius Baer Group has made, and may continue to be required to make, significant additional expenditures to develop and support new trading systems or otherwise invest in technology to maintain its competitive position.

***The Issuer may face increased competition with respect to attracting and retaining key management and personnel, and in particular its client relationship managers.***

The Julius Baer Group faces the risk of losing key employees due to employees joining competitors, pursuing other interests, retirement and other reasons. It is important to retain key management personnel. The employment agreements the Issuer has with key management do not contain non-competition restrictions in the event they leave the Issuer, and therefore, there is nothing that legally prevents them

from leaving the Issuer to engage in competing business activities. In addition, losing the services of one or more members of its management team could adversely affect the Issuer's business. The Issuer may not be able to retain key personnel unless it increases retention payments and otherwise increases the compensation it pays to its key personnel.

In February 2014, Swiss voters adopted a constitutional amendment requiring the Federal government to implement quotas on immigration including on persons from the EU. On the date of this Offering Circular, it is unclear how such quotas will be implemented and what their effect will be. Depending on the actual implementation, the new rules may negatively affect the Issuer's ability to recruit and retain qualified employees who originate from outside of Switzerland.

***The Issuer uses third parties for certain services, and if these third parties do not perform as contractually required or expected, the Issuer may be subject to the risk of client attrition, its reputation may suffer and its businesses may not perform as expected.***

In providing private banking services to its clients, the Issuer depends also on third parties for certain services. Although the Issuer engages in due diligence and closely scrutinises the third parties it procures services from, ultimately it does not control these third parties and is subject to risk if these third parties do not perform as expected, including as contractually or legally required.

***If the Issuer fails or is unable to adequately protect its intellectual property rights, its competitive position could be adversely affected.***

The protection of the Issuer's brand name is extremely important to its business. Even though the Issuer has registered its brand name in the countries in which it operates, it may become necessary for the Issuer to defend its intellectual property rights in order to prevent others from misappropriating or infringing the Julius Baer Group's brand names. Should the Issuer be unable to adequately protect these brand names, its competitive position could be adversely affected. The Issuer's brand and reputation might furthermore be adversely affected if a third party, using its brand under a licence agreement, is exposed to negative or adverse publicity, press speculation and threatened or actual legal proceedings. Any misuse of or other adverse impact on the Issuer's brand could adversely affect its reputation, competitive position and results of operations.

***The Issuer may become subject to external fraud.***

External fraud refers to unauthorized or illegal activity, theft or fraud carried out by a third party outside the Julius Baer Group. External fraud includes, but is not limited to, theft or robbery, forgery (including check forgery), computer hacking or theft of information. In particular, in the area of computer hacking, the Issuer could become subject to cyber-attacks, security breaches, unauthorised access, loss or destruction of data, unavailability of services, computer viruses or other events that could have an adverse impact. As a result of such external fraud, the Julius Baer Group could become subject to litigation or suffer financial loss, a disruption of its businesses, liability to its clients, regulatory intervention or reputational damage.

***The Issuer is involved in, and may become involved in, legal or other regulatory proceedings that may be costly and time consuming.***

In the ordinary course of its business, the Issuer (and its legal entities) is involved in, and may become involved in, legal or regulatory proceedings, including those related to tax, bribery and anti-trust matters and other regulatory and legal matters, that may be costly to defend and could result in large monetary losses, including punitive damage awards and fines, and cause significant harm to the Issuer's reputation. In particular, the Issuer is involved in a number of regulatory enforcement activities and third-party claims made against it, its affiliates or agents. In certain of these claims, the Issuer is unable to make a meaningful estimate of the amount or range of any loss that could result from an unfavourable outcome. Even if the Issuer is successful defending the allegations and claims against it or in arguing its claims against third parties, such proceedings may result in expenditures of sums which prove to be irrecoverable and may divert management's attention and resources. Consistent with applicable accounting standards, the Issuer from time to time makes provisions against any losses which it is more likely than not to incur but there can be no assurance that the losses actually suffered from such proceedings will not exceed the provisions made. For information on current legal or other regulatory proceedings, see also Note 10 "Provisions" in the Julius Baer Group Half-Year Report 2017 as attached hereto in Annex C.



***The Issuer may incur losses from its market making and proprietary trading activities due to market fluctuations.***

The Issuer engages in certain limited market making activities principally in respect of its own structured products and proprietary trading activities in foreign exchange, fixed-income and equity markets, including derivatives markets, and are therefore exposed to losses in the event of adverse market movements (whether up or down) in specific equities, fixed-income or other products, baskets of securities, indices, foreign exchange rates and the markets generally. The Issuer's trading positions can also be adversely affected by the level of volatility in the financial markets (that is, the degree to which prices fluctuate over a particular period) regardless of market levels. There can be no assurance that future results from market making and proprietary trading will not be materially and adversely different from those experienced in recent periods.

In connection with the Issuer's market making and proprietary trading activities, it attempts to mitigate related market risks by entering into hedging transactions, which may include over-the-counter derivative contracts or the purchase or sale of securities, financial futures, options or forward contracts. If any of the variety of instruments and strategies the Issuer uses to hedge its exposure to market risks are not effective, it may incur losses. Many of the Issuer's strategies are based on historical trading patterns and correlations. However, these strategies may not be effective in mitigating its risk exposure in all market environments or against all types of risk. Unexpected market developments may affect a number of hedging strategies.

***The Issuer may incur losses from its investment of surplus liquidity from clients' deposits in securities.***

The Issuer invests a majority of its surplus liquidity from clients' deposits in interest-bearing securities. These investments are intended to be longer-term investments and are not held for trading purposes. The Issuer cannot provide assurances that its investments will perform as they have in the past. It may also be forced to sell these investments earlier than anticipated and may incur losses. In addition, there is a risk that interest due under these investments or amortization payments will not be paid or that the investments default. These investments are susceptible to market volatility, in particular, but not limited to interest rate levels, and the effects of the current and any future financial crisis could lead to lower credit quality and increased credit spreads, which could significantly decrease their value. If any of these risks materialise, this could have a material adverse effect on the Issuer's operational results and financial condition.

***The Issuer's risk management policies and procedures may leave it exposed to unidentified or unanticipated risk.***

The Issuer has risk management policies and procedures in place to cover strategic and business risk, credit risk, market risk, liquidity and financing risk, operational risk and reputational risk. If these policies and procedures prove to be inadequate in addressing all the risks the Issuer faces or are not properly adhered to, the Issuer may experience material losses.

Strategic and business risks are risks arising from the business environment. Credit or counterparty risk is the risk of non-compliance with an obligation a counterparty has incurred with the Issuer. Market risk measures the potential loss to which the Issuer is exposed through changes in market prices in interest rate, equity, foreign exchange and commodity markets. Financing risk is the risk that the Issuer is unable to finance its existing or planned activities on an on-going basis at acceptable terms. Liquidity risk, conversely, is the risk that the Issuer is unable to meet its payment obligations when they fall due. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Issuer is exposed to reputational risk which means the risk that negative publicity, press speculation and threatened or actual legal proceedings concerning the Issuer's business, employees or clients may harm its reputation.

The Issuer takes various actions to address risks that arise in its businesses, including entering into hedging transactions to address the market risks relating to its limited market making and proprietary trading activities, prescribing limits on the amount and type of credit risk per counterparty that the Issuer may incur in its margin lending activities and prescribing acceptance and monitoring procedures relating to legal and regulatory risks that could arise in connection with its relationships with independent asset managers. Some of these and other methods of managing risks that the Issuer employs are based upon its use of observed historical market behaviour. The Issuer applies statistical and other methods to these

observations to arrive at quantifications of its risk exposures. The Issuer's policies and procedures to identify, monitor and manage risks may not be effective in mitigating its risk exposure in all economic market environments or against all types of risk, including risks which it fails to identify or anticipate. These methods may not be effective in predicting future risk exposures, which could be significantly greater than historical measures indicate. This is particularly true during times of extreme market conditions when, for instance, historically observed patterns of correlation and volatility of asset values break down, market-wide liquidity constraints materialise and counterparty risk increases to dramatic levels. Other risk management methods depend upon the evaluation of information regarding markets, customers or other matters that is publicly available or otherwise accessible. This information may not in all cases be accurate, up-to-date or properly evaluated.

For information on the Issuer's risk management, see the chapter "Comment on Risk and Capital Management" of the "Financial Statements Julius Baer Group 2016" in the Julius Baer Group Annual Report 2016 as attached hereto in Annex B.

***The Issuer is exposed to third-party credit risk, and financial or other problems experienced by third parties.***

The Issuer is exposed to the risk that third parties that owe it money, securities or other assets will not perform their obligations. These parties include the Issuer's clients, trading counterparties, clearing agents, exchanges, clearing houses and other financial institutions. These parties may default on their obligations to the Issuer due to lack of liquidity, operational failure, bankruptcy or other reasons. Market conditions in the global financial crisis of 2007/08 led to the failure or merger under distressed conditions of a number of prominent financial institutions. Financial institution failures or near-failures have resulted in losses, including to the Julius Baer Group's principal operating entity (Bank Julius Baer & Co. Ltd.), as a consequence of defaults on securities issued by such institutions and defaults under bilateral derivatives and other contracts entered into with such entities as counterparties.

The large majority of the Issuer's private banking related exposure to credit risk is attributable to secured and margin lending activities, which are collateralised primarily by pledges of marketable securities. As a result, the Issuer's risk management procedures focus strongly on the value of the collateral securing its margin loans in addition to the creditworthiness of the borrower. The Issuer may encounter situations where its exposure has become under-collateralised, for example, as a result of sudden declines in market values that reduce the value of the collateral. The Issuer may incur losses up to the amount by which the obligation owed to it exceeds the value of the collateral securing such obligation.

For information on the Issuer's management of credit risk, see the chapter "Comment on Risk and Capital Management — Credit Risk" of the "Financial Statements Julius Baer Group 2016" in the Julius Baer Group Annual Report 2016 as attached hereto in Annex B.

***The information that the Issuer uses to manage its credit risk may be inaccurate or incomplete.***

Although the Issuer regularly reviews its credit exposure to specific clients and counterparties and to specific industries, countries and regions that it believes may present credit concerns, default risk may arise from events or circumstances that are difficult to foresee or detect, such as, for instance, fraud. The Issuer may also fail to receive full information with respect to the credit or trading risks of a counterparty.

***The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements and estimates which may change over time.***

In order to establish the value of financial instruments which the Julius Baer Group, under IFRS, recognises at fair value, the Issuer relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instrument utilised by such valuation models may not be available, or may become unavailable, due to changes in market conditions, as has been the case at times since the commencement of the recent financial crisis. In such circumstances, the Issuer's internal valuation models require it to make assumptions, judgements and estimates in order to establish fair value. In common with other financial institutions, these internal valuation models are complex, and the assumptions, judgements and estimates the Issuer is required to make often relate to matters that are inherently uncertain, such as expected cash flows, the ability of borrowers to service debt, asset price appreciation and depreciation, and relative levels of defaults and

deficiencies. Such assumptions, judgements and estimates may need to be updated to reflect new information, changing trends and market conditions. The resulting change in the fair values of financial instruments could have a material adverse effect on the Issuer's financial condition, results of operations and prospects.

For information on these estimates and valuations see the chapters "Summary of significant accounting policies — Use of estimates in preparing the consolidated financial statements" and "Summary of significant accounting policies — Changes in accounting policies" and Note 25B "Financial instruments – Fair value determination" each of the "Financial Statements Julius Baer Group 2016" in the Julius Baer Group Annual Report 2016 as attached hereto in Annex B.

***Risks relating to off-balance sheet entities.***

The Issuer enters into transactions with special purpose entities ("SPEs") in the normal course of business, and certain SPEs with which it transacts business are not consolidated and their assets and liabilities are off-balance sheet. The accounting requirements for consolidation, initially and if certain events occur that require the Issuer to reassess whether consolidation is required, can require the exercise of significant management judgement. Accounting standards relating to consolidation, or their interpretation, have changed and may continue to change. If the Issuer is required to consolidate an SPE, its assets and liabilities would be recorded on its consolidated balance sheet and the Issuer would recognise related gains and losses in its consolidated statements of operations, and this could have an adverse impact on its results of operations and capital and leverage ratios.

For information on the Issuer's transactions with and commitments to SPEs, refer to the chapter "Comment on Risk and Capital Management — Credit Risk — Reconciliation of credit risk totals" of the "Financial Statements Julius Baer Group 2016" in the Julius Baer Group Annual Report 2016 as attached hereto in Annex B.

***The Issuer has a certain degree of client concentration, and to the extent that it is unable to retain these clients or sufficiently diversify its client base, its results of operations may suffer.***

As an institution engaged primarily in private banking, the Issuer is exposed to client concentration risk. A significant portion of its customers are high net worth individuals. Those individuals and their households have, to a certain degree, similar socio-economic characteristics and they are likewise exposed to comparable macroeconomic and regulatory risks. Also, the geographical mix of the Issuer's client base may not be sufficiently diversified. In addition, a limited number of ultra high net worth individuals will continue to be significant to the Issuer in terms of assets under management. If the Issuer is unable to retain these clients or sufficiently diversify its client base, its results of operations and financial condition may be adversely affected.

***The Issuer is a holding company and relies on its subsidiaries for all funds necessary to meet its financial obligations.***

The Issuer is a holding company and its subsidiaries conduct all of its operations and own all of its assets. The Issuer has no significant assets other than the partnership interests, stock and other equity interests in its subsidiaries. The Issuer's subsidiaries are separate and distinct legal entities and, under certain circumstances, legal and contractual restrictions may limit the ability of these subsidiaries to provide the Issuer with funds for the Issuer's payment obligations, whether by dividends, distributions, loans, interest and/or principal payments (including those under the 2017 Tier 1 Bonds) or other payments, including but not limited to payments in connection with regulatory capital instruments issued by the Issuer's subsidiaries to the Issuer. Any distribution of earnings to the Issuer from its subsidiaries, or advances or other distributions of funds by these subsidiaries to the Issuer, all of which are subject to statutory or contractual restrictions, are contingent upon the subsidiaries' earnings and are subject to various business considerations.

***A deterioration of the Issuer's credit ratings could result in increased funding costs, may damage client perceptions and may have a material adverse impact on its liquidity.***

The Issuer's credit ratings affect both the terms on which creditors are willing to transact with it and the willingness of clients to do business with it. Because the interest rate and other terms of the Issuer's debt agreements depend in part on its credit rating, any deterioration in its credit ratings or a negative outlook

given by a rating agency could result in increased funding costs and may limit its funding sources or impact its liquidity. In addition, rating downgrades may limit the Issuer's ability to conduct certain businesses or may cause clients to be reluctant to do business with the Issuer. The negative consequences of any downgrade of its credit rating could negatively impact its funding costs and liquidity.

***Operational risks, including information technology risk, may disrupt the Issuer's businesses, result in regulatory action against it or limit its growth.***

The issuer faces a wide variety of operational risks, including technology risk that stems from dependencies on information technology, third-party suppliers and the telecommunications infrastructure.

In particular, the Issuer faces operational risk arising from mistakes made in the confirmation or settlement of transactions or from transactions not being properly recorded, evaluated or accounted. The Issuer's businesses are highly dependent on its ability to process, on a rapid basis, a large number of transactions across several and diverse markets in many currencies, and the transactions the Issuer processes have become increasingly complex. Consequently, the Issuer relies heavily on its financial, accounting and other data processing systems. In the future, if any of these systems does not operate properly, is disabled, not replaced or not newly implemented, the Issuer could suffer financial loss, a disruption of its businesses, liability to clients, regulatory intervention or reputational damage. In addition, the inability of the Issuer's systems to accommodate an increasing volume of transactions could constrain its ability to expand its businesses. The Issuer also faces such information technology risks in connection with the global renewal of its IT platforms. The Issuer selected Temenos to initiate planning of its core banking platform replacement, while retaining flexibility to select the optimal providers for additional components and applications. This project was announced together with the presentation of the 2014 full year results in February 2015 and has been launched first in Asia. After the completion of the project in Asia, the renewal of the IT platforms will also be implemented in other regions.

Information security, data confidentiality and integrity are of critical importance to the Issuer's business. Despite the Issuer's vast array of security measures to protect confidentiality, integrity and availability of its systems and information, it is not always possible to anticipate the evolving risk landscape and mitigate all risks to its systems. The Issuer could also be affected by risks to the systems and information of clients, vendors, service providers, counterparties and other third parties.

***The Issuer is exposed to legal and compliance risk.***

The Issuer faces significant legal risks in its businesses, and the volume and amount of damages claimed in litigation, regulatory proceedings and other adversarial proceedings against financial services firms are increasing.

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 company of the Julius Baer Group being unable to enforce existing or anticipated rights, most commonly contractual rights, against third parties. Liability risk, on the other hand, arises when a company of the Julius Baer Group, 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.

***The Issuer is exposed to the risk of losses as a result of employee fraud, misconduct or improper practice.***

Fraud, misconduct or improper practice by any of the Issuer's employees could expose the Issuer to the risk of direct or indirect financial loss and damage to its reputation. Such fraud, misconduct and improper practice could involve, for example, fraudulent transactions entered into for a client's account, the intentional or inadvertent release of confidential customer information or failure to follow internal procedures. Such actions by employees may, again by way of example only, expose the Issuer to financial losses resulting from the need to reimburse customers or as a result of fines or other regulatory sanctions

and may lead to damage the Issuer's reputation. Such financial losses and reputational damages may adversely affect the Issuer's business, results of operations and financial condition.

***Risks relating to mergers and acquisitions ("M&A"), integration and realisation of expected synergies.***

The Issuer has been acquiring other financial services businesses of various sizes from time to time and may continue to do so in the future. In connection with one or more M&A transactions of any kind, the Issuer may, in particular, not be able to:

- achieve its targets and the benefits and synergies expected in connection with an M&A transaction;
- achieve its key commercial objectives following an M&A transaction;
- achieve its earnings accretion targeted in relation to an M&A transaction;
- avoid writing down the carrying value of its investment in any business acquired by way of an M&A transaction;
- ensure that the services that a counterparty in an M&A transaction or its affiliates provide pursuant to transitional service agreements will be timely or will adequately meet the needs of the Julius Baer Group;
- close and complete an M&A transaction timely or at all;
- recover pre-payments that it has made to the extent that a particular business or company is not transferred to it;
- adequately protect itself from contingent or unknown liabilities; and
- eliminate all currency risk in respect of the consideration payable in connection with an M&A transaction, in the event that the hedging strategy is not fully effective.

If any of these risks materialise, this could have a material adverse effect on the Issuer's financial condition, results of operations and prospects.

## TERMS OF THE BONDS

The terms and conditions of the Perpetual Tier 1 Subordinated Bonds (the "**2017 Tier 1 Bonds**") (each a "**Condition**", and together the "**Terms of the Bonds**"), issued by Julius Baer Group Ltd. (the "**Issuer**"), are as follows:

### 1. **Amount and Reopening, Form, Title and Transfer**

#### (a) ***Amount and reopening***

The initial aggregate principal amount of the 2017 Tier 1 Bonds of USD 300,000,000 (Three Hundred Million United States Dollars) is divided into bonds (each a "**2017 Tier 1 Bond**" and, collectively, the "**2017 Tier 1 Bonds**"), each with a minimum denomination of USD 200,000 and integral multiples of USD 1,000 in excess thereof.

The Issuer may from time to time, without the consent of the Holders, issue further bonds and, **provided that** such bonds have the same terms and conditions as the 2017 Tier 1 Bonds in all respects (or in all respects except for the issue date and/or first date on which interest is paid), such further bonds will be consolidated and form a single series with the 2017 Tier 1 Bonds. If the Issuer issues any such further bonds, references in these Terms and Conditions to "**2017 Tier 1 Bonds**" include such further bonds, unless the context otherwise requires.

#### (b) ***Form***

The 2017 Tier 1 Bonds are issued in registered form. The Registrar will maintain a register (the "**Register**") in respect of the 2017 Tier 1 Bonds.

The 2017 Tier 1 Bonds will, upon issue, be represented by a global certificate (the "**Global Certificate**") which will on the Issue Date be deposited with, and registered in the name of Citivic Nominees Ltd (the "**Registered Holder**") as nominee for a common depositary of Euroclear and Clearstream, Luxembourg.

The Global Certificate will be exchanged in whole but not in part (free of charge) for duly authenticated and completed certificates in definitive form (each a "**Bond Certificate**") if Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announce an intention permanently to cease business or do in fact do so. Otherwise the printing and delivery of Bond Certificates is excluded and no person has the right to request the printing or delivery of Bond Certificates.

Whenever the Global Certificate is to be exchanged for Bond Certificates, such Bond Certificates shall be issued within 20 Business Days of the delivery to the Registrar of such information as is required to complete and deliver such Bond Certificates (including, without limitation, the names and addresses of the persons in whose names the Bond Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the Specified Office of the Registrar. Such exchange shall be effected without charge to any Holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Each Bond Certificate will be numbered serially with an identifying number which will be recorded in the Register. Each Bond Certificate will identify the principal amount of the 2017 Tier 1 Bonds represented thereby.

For so long as any of the 2017 Tier 1 Bonds is represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear and/or Clearstream, Luxembourg as the holder of a particular principal amount of Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Bonds standing to the account of any person shall be conclusive and binding for all



purposes) shall be treated as the holder of that principal amount for all purposes (including but not limited to for the purposes of any quorum requirements of meetings of the holders) other than with respect to the payment of principal, interest and any other amounts on or in respect of the 2017 Tier 1 Bonds, the right to which shall be vested, as against the Issuer, solely in the Registered Holder. Subject to the preceding sentence, the Holder of a 2017 Tier 1 Bond shall (except as otherwise required by law) be treated as the absolute owner of such 2017 Tier 1 Bond for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Bond Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Bond Certificate) and no person shall be liable for so treating such Holder.

If any Bond Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the Specified Office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bond Certificates must be surrendered before replacements will be issued.

(c) ***Transfers***

Whilst represented by the Global Certificate, transfers of book-entry interests in the 2017 Tier 1 Bonds will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants in accordance with their respective rules and procedures.

Subject as provided under Condition 1(f) below, a 2017 Tier 1 Bond in definitive form may be transferred upon surrender of the relevant Bond Certificate, with the endorsed form of transfer duly completed (including any certificates as to compliance with restrictions on transfer included therein), at the Specified Office of the Registrar or any Paying and Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Paying and Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. Where not all the 2017 Tier 1 Bonds represented by the surrendered Bond Certificate are the subject of the transfer, a new Bond Certificate in respect of the balance of the 2017 Tier 1 Bonds will be issued to the transferor.

(d) ***Registration and delivery of Bond Certificates***

Within five Business Days of the surrender of a Bond Certificate, the Registrar will register the transfer in question and deliver at the Specified Office of the Registrar new Bond Certificate(s) of a like principal amount to the Bonds transferred to each relevant Holder or (as the case may be) the Specified Office of any Paying and Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first-class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder.

(e) ***No charge***

The transfer of any 2017 Tier 1 Bonds will be effected without charge by or on behalf of the Issuer, the Registrar or any Paying and Transfer Agent but upon payment by the Holder of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Paying and Transfer Agent may require).

(f) ***Closed period***

Holders may not require transfers of 2017 Tier 1 Bonds in definitive form to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the 2017 Tier 1 Bonds.



## 2. **Interest**

### (a) ***Interest Rate***

#### (i) ***Initial Fixed Interest Rate***

The 2017 Tier 1 Bonds will bear interest from (and including) 12 September 2017 (the "**Issue Date**") to (but excluding) 12 September 2024 (the "**First Call Date**") at a fixed rate equal to 4.750 per cent. per annum (the "**Fixed Rate of Interest**"), payable semi-annually in arrear on 12 March and 12 September of each year (each an "**Interest Payment Date**") on the Prevailing Notional Amount.

#### (ii) ***Subsequent Fixed Interest Rate***

As from (and including) the First Call Date, in respect of each successive five-year period (the "**Relevant Five-Year Period**"), the first such period commencing on (and including) the First Call Date and ending on (but excluding) the fifth (5th) anniversary of that date, the 2017 Tier 1 Bonds will bear interest on the Prevailing Notional Amount payable semi-annually in arrear on each Interest Payment Date with the rate of interest being determined on each Interest Determination Date on the basis of the aggregate of the prevailing CMT Rate and the Margin (the "**Reset Rate of Interest**", and each of the Fixed Rate of Interest and the Reset Rate of Interest, a "**Rate of Interest**").

#### (iii) ***Day Count Fraction***

Subject to Conditions 2(b), 2(c), 8 and 9 below, if interest is required to be paid on any date, it shall be calculated by applying the relevant Rate of Interest to the Prevailing Notional Amount, multiplying the product by the Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

### (b) ***Discretionary Interest***

The Issuer may, at its sole discretion but subject to Condition 2(c) below, elect to cancel all or part of any payment of interest which is otherwise scheduled to be paid on an Interest Payment Date or the Redemption Date (if any) by giving notice of such election to the Holders in accordance with Condition 12, and to the Principal Paying Agent, (i) in the case of interest otherwise due on an Interest Payment Date, not more than thirty (30) nor less than ten (10) Business Days prior to the relevant Interest Payment Date, or (ii) in the case of interest otherwise due on the Redemption Date, on the relevant Redemption Notice Date.

Any interest which is not paid in accordance with this Condition 2(b), shall not accumulate or be payable at any time thereafter, and such non-payment will not constitute an event of default by the Issuer for the purpose of these Terms of the Bonds or any other purpose, and the Holders shall have no right thereto whether in a liquidation, dissolution, insolvency or bankruptcy of the Issuer or otherwise.

If the Issuer determines, after consultation with the Regulator, that the full Prevailing Notional Amount of the 2017 Tier 1 Bonds does not qualify or no longer qualifies - even partially - as Additional Tier 1 Capital, (A), the Issuer shall not, to the extent permitted under National Regulations and subject to mandatory interest cancellation events, exercise its discretion pursuant to this Condition 2(b) to cancel any interest payments due on the Bonds on any Interest Payment Date following the occurrence of such determination, and (B) the Issuer shall give notice to the Holders in accordance with Condition 12 as soon as practicable after such determination stating that the Issuer may no longer exercise its discretion pursuant to this Condition 2(b) to cancel any interest payments as from the date of such notice.

(c) ***Mandatory Interest Cancellation***

The Issuer shall be prohibited from making any payment of interest on the 2017 Tier 1 Bonds otherwise scheduled to be paid on the relevant Interest Payment Date or the Redemption Date (if any) to the extent that on such Interest Payment Date or Redemption Date:

- (i) the amount of such interest otherwise due, together with (x) any interest payments or distributions paid or made, or scheduled to be paid or made, during the Relevant Period on Parity Securities, and (y) any Distributions paid or made, or scheduled to be paid or made, during the Relevant Period with respect to the financial year ended immediately prior to such Interest Payment Date or Redemption Date, shall exceed the amount of Distributable Items as at such Interest Payment Date or Redemption Date; or
- (ii) the Issuer is prohibited, by National Regulations or an order of the Regulator, from declaring or making any distributions or other payments, in whole or in part, on, or relating to, the 2017 Tier 1 Bonds or any Parity Securities.

In the event where (x) mandatory cancellation of interest only applies in part, and (y) the Issuer elects to make such interest payment that is not prohibited to be made, the interest payable on the 2017 Tier 1 Bonds shall be made *pro rata* with the interest payments or distributions on Parity Securities scheduled to be paid or made during the Relevant Period.

Any interest which is not paid in accordance with this Condition 2(c), shall not accumulate or be payable at any time thereafter, and such non-payment will not constitute an event of default by the Issuer for the purpose of these Terms of the Bonds or any other purpose, and the Holders shall have no right thereto whether in a liquidation, dissolution or insolvency of the Issuer or otherwise.

(d) ***Restrictions following non-payment of Interest***

If, on any Interest Payment Date, payment of interest scheduled to be made on such date is not made in full on the Prevailing Notional Amount by reason of Condition 2(b) or 2(c):

- (i) The Board of Directors of the Issuer shall not directly or indirectly recommend to the shareholders of the Issuer that any Distribution (other than in the form of Ordinary Shares or other capital stock) be paid or made on any Ordinary Shares or other capital stock of the Issuer; and
- (ii) The Issuer shall not directly or indirectly redeem, purchase or otherwise acquire any Ordinary Shares or other capital stock of the Issuer other than in relation to (a) transactions in securities effected by or for the account of customers of the Issuer or any of its Subsidiaries or in connection with the distribution or trading of, or market making in respect of such securities; (b) the satisfaction by the Issuer or any of its Subsidiaries of its obligations under any employee benefit plans or similar arrangements with or for the benefit of employees, officers, directors or consultants of the Issuer or any of its Subsidiaries; (c) a reclassification of the capital stock of the Issuer or of any of its Subsidiaries or the exchange or conversion of one class or series of such capital stock for another class or series of such capital stock; or (d) the purchase of fractional interests in shares of the capital stock of the Issuer or any of its majority-owned Subsidiaries pursuant to the provisions of any security being converted into or exchanged for such capital stock,

in each case until the earliest of (x) the interest due and payable on any two consecutive subsequent Interest Payment Dates in respect of the then Prevailing Notional Amount of all outstanding 2017 Tier 1 Bonds having been paid in full to the Holders; or (y) all the 2017 Tier 1 Bonds having been redeemed or purchased and cancelled in full in

accordance with Condition 3; or (z) the Prevailing Notional Amount of the 2017 Tier 1 Bonds having been reduced to zero in accordance with Condition 8 or Condition 9.

3. **Redemption, Purchase and Cancellation**

(a) ***No Fixed Redemption Date***

The 2017 Tier 1 Bonds are perpetual securities in respect of which there is no fixed redemption date. Unless previously redeemed or purchased and cancelled as provided in these Terms of the Bonds, each 2017 Tier 1 Bond is perpetual and shall only be redeemed or purchased as specified in this Condition 3.

The 2017 Tier 1 Bonds will not be redeemable at any time at the option of the Holders.

(b) ***Conditions to Redemption and Purchase***

Any redemption or purchase of the 2017 Tier 1 Bonds under these Conditions, other than a redemption following a Regulatory Event or purchases for purposes of market making, is subject to:

- (i) the prior approval of the Regulator, if then required;
- (ii) as at the Redemption Notice Date and the Redemption Date (or as applicable, the date of purchase), neither a Write-down Trigger Event having occurred and being continuing nor a Viability Event having occurred; and
- (iii) the Issuer's Group, both at the time of, and immediately following the redemption or purchase of the 2017 Tier 1 Bonds, being in compliance with the Capital Requirements.

(c) ***Redemption at the Option of the Issuer***

Subject to Condition 3(b), the Issuer may elect, in its sole discretion, to redeem the 2017 Tier 1 Bonds, in whole but not in part, on the First Call Date or on 12 March and 12 September of each year thereafter, by giving not less than thirty (30) days' notice (the date on which such notice has been given, the "**Optional Redemption Notice Date**") to the Holders in accordance with Condition 12 and notifying the date fixed for redemption (the "**Optional Redemption Date**"), at their Prevailing Notional Amount together with any accrued, but unpaid interest to (but excluding) the Optional Redemption Date.

(d) ***Redemption upon a Tax Event***

Upon the occurrence of a Tax Event, but subject to Condition 3(b), the Issuer may, at any time, redeem the 2017 Tier 1 Bonds, in whole but not in part, by giving not less than thirty (30) days' notice (the date on which such notice has been given, the "**Tax Event Redemption Notice Date**") to the Holders in accordance with Condition 12 and notifying the date fixed for redemption (the "**Tax Event Redemption Date**"), at their Prevailing Notional Amount together with any accrued, but unpaid interest to (but excluding) the Tax Event Redemption Date.

Notwithstanding the foregoing, the Issuer shall deliver to the Principal Paying Agent a certificate signed by two Authorised Signatories stating that the relevant requirement or circumstance giving rise to the right to redeem in accordance with this Condition 3(d) is satisfied and the reasons therefor, and such certificate shall be conclusive and binding on the Holders. Prior to the publication of any notice of redemption pursuant to this Condition 3(d), the Issuer shall deliver an opinion of a nationally recognised law firm or independent tax advisers of recognised standing to the Principal Paying Agent to the effect that the circumstances entitling the Issuer to exercise its rights of redemption under this Condition 3(d) have arisen.

A "**Tax Event**" means the receipt by the Issuer of an opinion of a nationally recognised law firm or other tax advisor (which may be an accounting firm) in Switzerland

experienced in such matters stating that there is more than an insubstantial risk that (a) the Issuer is not, or will not be, able to any longer obtain a tax deduction for Swiss corporate income tax purposes for any payment of interest in respect of the 2017 Tier 1 Bonds, as a result of which the Issuer is, or will be, subject to more than a *de minimis* amount of additional taxes, or (b) the Issuer is, or will become, obliged to deduct or withhold taxes (other than a withholding tax caused by sections 1471 to 1474 inclusive of the U.S. Internal Revenue Code of 1986 ("**FATCA**")) in respect of any payments of interest to Holders in respect of the 2017 Tier 1 Bonds, and in each of cases (a) and (b) this cannot be avoided by the Issuer taking such reasonable measures available to it without any material adverse effect on, or material cost to, the Issuer (as determined by the Issuer in its sole discretion).

(e) ***Redemption upon a Regulatory Event***

Upon the occurrence of a Regulatory Event, the Issuer may, at any time, redeem the 2017 Tier 1 Bonds, in whole but not in part, by giving not less than thirty (30) days' notice (the date on which such notice has been given, the "**Regulatory Event Redemption Notice Date**") to the Holders in accordance with Condition 12 and notifying the date fixed for redemption (the "**Regulatory Event Redemption Date**"), at their Prevailing Notional Amount together with any accrued, but unpaid interest to (but excluding) the Regulatory Event Redemption Date.

Notwithstanding the foregoing, the Issuer shall deliver to the Principal Paying Agent a certificate signed by two Authorised Signatories stating that the relevant requirement or circumstance giving rise to the right to redeem in accordance with this Condition 3(e) is satisfied and the reasons therefor, and such certificate shall be conclusive and binding on the Holders.

A "**Regulatory Event**" is deemed to have occurred if (i) the Issuer is notified in writing by the Regulator to the effect that the 2017 Tier 1 Bonds are not eligible to be treated as Tier 1 Capital in whole or in part or (ii) the National Regulations are amended with the effect that the 2017 Tier 1 Bonds are not eligible to be treated as Tier 1 Capital in whole or in part.

(f) ***Purchases***

Subject to Condition 3(b), the Issuer or any of its Subsidiaries may, directly or indirectly, at any time purchase 2017 Tier 1 Bonds at any price, in the open market or otherwise subject to any prevailing limits or conditions under the National Regulations. Any purchase shall be made in accordance with applicable laws and regulations, including applicable stock exchange regulations. Such 2017 Tier 1 Bonds may be held, resold or, at the option of the Issuer, surrendered to the Registrar for cancellation as set out in Condition 3(g).

(g) ***Cancellation***

All 2017 Tier 1 Bonds which are redeemed or purchased and surrendered in accordance with this Condition 3 shall forthwith be cancelled. All 2017 Tier 1 Bonds so cancelled cannot be reissued or resold.

4. **Payments**

(a) ***Method of payment***

Payments in respect of 2017 Tier 1 Bonds represented by the Global Certificate will be made to or to the order of the Registered Holder. The Registered Holder shall be the only person entitled to receive payments in respect of the 2017 Tier 1 Bonds whilst represented by the Global Certificate and the Issuer's obligations in respect of any payment on or in respect of the 2017 Tier 1 Bonds will be discharged by payment to, or to the order of, the Registered Holder in respect of each amount so paid.

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular principal amount of 2017 Tier 1 Bonds represented by the Global Certificate must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment so made by the Issuer to, or to the order of, the Registered Holder.

Payments shall be made by credit or transfer to an account in USD maintained by the payee with, or, at the option of the payee, by a cheque in USD. Payments of principal and interest payable on redemption shall be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Bond Certificate(s) at the Specified Office of any Paying and Transfer Agent.

(b) ***Payments on payment days***

If the due date for payment of any amount in respect of any 2017 Tier 1 Bond is not a Payment Day, the Holder shall not be entitled to payment of the amount due until the next succeeding Payment Day in the relevant place and shall not be entitled to any further interest or other payment in respect of any such delay.

Where payment is to be made by cheque, the cheque will be mailed not later than the Payment Day on which the relevant payment is otherwise due to be made in accordance with this Condition 4(b) (or, if presentation or surrender of a Bond Certificate is required, not later than the Payment Day following presentation or surrender (as the case may be) of such Bond Certificate at the Specified Office of a Paying and Transfer Agent).

Holders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Day, if the Holder is late in presenting or surrendering its Bond Certificate (if required to do so) or if a cheque mailed in accordance with this Condition 4(b) arrives after the due date for payment.

(c) ***Record Date***

With respect to payments of any amount in respect of any 2017 Tier 1 Bonds represented by the Global Certificate held on behalf of Euroclear and Clearstream, Luxembourg, the Record Date shall be the day on which Euroclear and Clearstream, Luxembourg are open for business preceding the due date for payment.

Each payment in respect of a 2017 Tier 1 Bond in definitive form will be made to the person shown as the holder in the Register at the opening of business (in the place of the Specified Office of the Registrar) on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a 2017 Tier 1 Bond is to be made by cheque, the cheque will be mailed to the address shown as the address of the holder in the Register at the opening of business on the relevant Record Date.

5. **Statute of Limitations**

In accordance with Swiss law, claims for interest payments shall become time-barred after a period of five (5) years and claims for the repayment or redemption of 2017 Tier 1 Bonds after a period of ten (10) years, calculated from their respective due dates.

6. **Taxation**

All payments of principal and interest in respect of the 2017 Tier 1 Bonds by the Issuer to Holders will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf Switzerland or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer will pay such additional amounts (the "**Additional Amounts**") as shall be necessary in order that the net amounts received by the Holders after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable from the Issuer in respect of

the 2017 Tier 1 Bonds in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable with respect to any 2017 Tier 1 Bond:

- (i) held by or on behalf of a Holder who is liable for such taxes, duties, assessments or governmental charges in respect of such 2017 Tier 1 Bond by reason of his having some connection with Switzerland other than the mere holding of such 2017 Tier 1 Bond; or
- (ii) presented for payment more than 30 days after the due date except to the extent that the Holder would have been entitled to an Additional Amount on presenting the same for payment on such thirtieth day (assuming that day to have been a Business Day); or
- (iii) where such withholding or deduction is imposed on any payment by reason of FATCA; or
- (iv) any combination of two or more of the items set out at (i) to (iii) above.

7. **Status and Subordination of the 2017 Tier 1 Bonds**

(a) ***Status***

The 2017 Tier 1 Bonds constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* among themselves. The rights and claims of the Holders are subordinated as described in Condition 7(b).

(b) ***Subordination***

In the event of an order being made, or an effective resolution being passed, for the liquidation or dissolution of the Issuer, the rights and claims of a Holder against the Issuer shall rank, subject to any obligations which are mandatorily preferred by law, (i) junior to the claims of all holders of unsubordinated obligations of the Issuer and all other subordinated obligations of the Issuer except the claims of all holders of Parity Securities, (ii) *pari passu* among themselves and with the claims of all holders of Parity Securities, and (iii) senior to Equity Capital and any other equivalent items of capital.

8. **Contingent and Subsequent Write-down upon the occurrence of a Write-down Trigger Event**

(a) ***Contingent Write-down***

If a Contingent Write-down has not previously occurred and a Write-down Trigger Event has occurred and is continuing on the relevant Subsequent Trigger Test Date, the claims of the Holders against the Issuer to receive repayment of the Original Notional Amount on the Redemption Date (if any) shall be reduced by the relevant Write-down Amount (as set out in Condition 8(c)) with effect as of the relevant Write-down Date, and the Holders shall no longer have any rights whatsoever (including, but not limited to, any right to receive interest payments) against the Issuer with respect to the relevant Write-down Amount (such reduction, a "**Contingent Write-down**") (*bedingte Aufhebung einer Forderung durch Übereinkunft*). If the Write-down Amount is equal to the Original Notional Amount, the claims of the Holders are reduced to zero and the 2017 Tier 1 Bonds shall be cancelled.

(b) ***Subsequent Write-down***

If, following a Contingent Write-down, a further Write-down Trigger Event has occurred and is continuing on the relevant Subsequent Trigger Test Date the claims of the Holders against the Issuer to receive repayment of the Prevailing Notional Amount on the Redemption Date (if any) shall be further reduced by the relevant Write-down Amount (as set out in Condition 8(c)) with effect as of the relevant Write-down Date, and the Holders shall no longer have any rights whatsoever (including, but not limited to, any right to receive interest payments) against the Issuer with respect to the relevant Write-down Amount (each such further reduction, a "**Subsequent Write-down**") (*bedingte*



*Aufhebung einer Forderung durch Übereinkunft*). If the Write-down Amount is equal to the Prevailing Notional Amount, the claims of the Holders are reduced to zero and the 2017 Tier 1 Bonds shall be cancelled.

(c) **Write-down Amount**

**"Write-down Amount"** means the amount required to be deducted from the Prevailing Notional Amount, as determined by the Issuer in consultation with the Regulator after a Write-down Trigger Event has occurred, as will (together with any substantially concurrent conversion, write-off or write-down of holders' claims in respect of any other capital instruments of the Issuer that, pursuant to their terms or by operation of law, are capable of being converted into equity, written off or written down at that time (including capital instruments with a write-down, write-off or conversion threshold equal to or higher than the Write-down Threshold Ratio, provided that the conversion, write-off or write-down in respect of capital instruments with a write-down, write-off or conversion threshold higher than the Write-down Threshold Ratio shall for that purpose take priority over any write-down of the 2017 Tier 1 Bonds)) restore the CET1 Ratio back to a level equal to or, if required by the Regulator, higher than the Write-down Threshold Ratio, **provided that**, for the avoidance of doubt, the maximum Write-down Amount shall be equal to the Prevailing Notional Amount.

(d) **Write-down Trigger Event**

A **"Write-down Trigger Event"** shall occur on the Business Day following the publication of a Relevant Report (an **"Initial Trigger Test Date"**) if the CET1 Ratio as per the relevant Cut-off Date of such Relevant Report is less than the Write-down Threshold Ratio and the Issuer delivers to the Principal Paying Agent within five (5) Business Days from the Initial Trigger Test Date a certificate signed by two Authorised Signatories certifying that the CET1 Ratio as per the Cut-off Date of such Relevant Report is less than the Write-down Threshold Ratio.

Such Write-down Trigger Event shall be continuing on the Subsequent Trigger Test Date unless the Regulator, at the request of the Issuer, has agreed on or prior to the Subsequent Trigger Test Date but after the Initial Trigger Test Date, that a write-down of the Prevailing Notional Amount is not required as a result of actions taken by the Issuer or circumstances or events which have had, or imminently will have, the effect of restoring the CET1 Ratio as per the Subsequent Trigger Test Date to a level above the Write-down Threshold Ratio.

If the Write-down Trigger Event is continuing on the Subsequent Trigger Test Date, the Issuer shall deliver to the Principal Paying Agent, on the Business Day following the Subsequent Trigger Test Date (the **"Write-down Trigger Event Notice Date"**), a certificate signed by two Authorised Signatories designating the Write-down Amount and the Write-down Date (the **"Write-down Trigger Event Notice"**), **provided, however, that** the Write-down Date shall be no later than twenty (20) Business Days after the Write-down Trigger Event Notice Date.

If the Write-down Trigger Event is not continuing on the Subsequent Trigger Test Date, the Issuer shall deliver to the Principal Paying Agent, on the Business Day following the Subsequent Trigger Test Date, a certificate signed by two Authorised Signatories confirming that the Write-down Trigger Event is not continuing on the Subsequent Trigger Test Date and, therefore, a write-down of the 2017 Tier 1 Bonds shall not occur at that time.

**"Subsequent Trigger Test Date"** means, in respect of a Write-down Trigger Event, the earlier of:

- (i) the date falling ten (10) Business Days after the date of publication of the Relevant Report; and



- (ii) the date on which the Regulator instructs or requests the Issuer to proceed with the write-down.

**"Write-down Threshold Ratio"** means 7.00 per cent.

(e) ***No interest on Write-down Amount, no Event of Default***

Following a Contingent Write-down or a Subsequent Write-down, the 2017 Tier 1 Bonds shall not carry any interest on any Write-down Amount and interest will only accrue on the resulting Prevailing Notional Amount. For the avoidance of doubt, neither a Contingent Write-down nor any Subsequent Write-down shall constitute an event of default by the Issuer for any purpose.

(f) ***No Contingent Write-down or Subsequent Write-down***

In accordance with Condition 8(d), no Contingent Write-down or Subsequent Write-down shall occur if, notwithstanding the CET1 Ratio being below the Write-down Threshold Ratio, the Regulator, at the request of the Issuer, has agreed, on or prior to the publication of the Relevant Report, that a Contingent Write-down or Subsequent Write-down, as the case may be, shall not occur because it is satisfied that actions, circumstances or events have had, or imminently will have, the effect of restoring the CET1 Ratio to a level above the Write-down Threshold Ratio.

9. **Write-off upon the occurrence of a Viability Event**

If a Viability Event has occurred, the claims of the Holders against the Issuer to receive repayment of the Prevailing Notional Amount on the Redemption Date (if any) shall be reduced to zero with effect as of the relevant Write-down Date. The Holders shall no longer have any rights whatsoever (including, but not limited to, any right to receive interest payments) against the Issuer with respect to the 2017 Tier 1 Bonds (such reduction, a contingent write-down) (*bedingte Aufhebung einer Forderung durch Übereinkunft*) and the 2017 Tier 1 Bonds shall be cancelled. For the avoidance of doubt, a Viability Event shall not constitute an event of default by the Issuer for any purpose.

A **"Viability Event"** means that either:

- (i) the Regulator has notified the Issuer that it has determined that the write-down of the 2017 Tier 1 Bonds, together with the conversion, write-down or write-off of holders' claims in respect of any other instruments that, pursuant to their terms or by operation of laws are capable of being converted into equity, written down or written off at that time, is, because customary measures to improve the Issuer's capital adequacy are at the time inadequate or unfeasible, an essential requirement to prevent the Issuer from becoming insolvent, bankrupt or unable to pay a material part of its debts as they fall due, or from ceasing to carry on its business; or
- (ii) customary measures to improve the Issuer's capital adequacy being at the time inadequate or unfeasible, the Issuer has received an irrevocable commitment of extraordinary support directly or indirectly from the Public Sector (beyond customary transactions and arrangements in the ordinary course of business) that has, or imminently will have, the effect of improving the Issuer's capital adequacy and without which, in the determination of the Regulator, the Issuer would have become insolvent, bankrupt, unable to pay a material part of its debts as they fall due or unable to carry on its business.

**"Public Sector"** means the federal or central government or central bank in the Issuer's country of incorporation.

No later than three (3) Business Days after the occurrence of a Viability Event, the Issuer shall deliver to the Holders a notice signed by two Authorised Signatories, stating that a Viability Event has occurred and designating the Write-down Date (the **"Viability Event Notice"** and, the date on which such notice is given, the **"Viability Event Notice Date"**), **provided, however,**

**that** the Write-down Date shall be no later than ten (10) Business Days after the Viability Event Notice Date.

In the event of the implementation of any new, or amendment to or change in the interpretation of any existing, laws or components of National Regulations, in each case occurring after the Issue Date, that alone or together with any other law(s) or regulation(s) has the effect that a Viability Event could cease to apply to the 2017 Tier 1 Bonds without giving rise to a Regulatory Event, then the Issuer shall give notice to the Holders no later than five (5) Business Days after such joint determination stating that such provisions shall cease to apply from the date of such notice, and from the date of such notice, such provisions shall cease to apply to the 2017 Tier 1 Bonds.

10. **Substitution of the Issuer**

The Issuer may without the consent of the Holders, at any time substitute for itself in respect of all rights and obligations arising under or in connection with the 2017 Tier 1 Bonds any legal entity of which all shares carrying voting rights are directly or indirectly held by the Issuer (the "**New Issuer**"), **provided that:**

- (a) the Regulator has approved the substitution of the Issuer;
- (b) the Issuer is not in default in respect of any amount payable under the 2017 Tier 1 Bonds at the time of such substitution;
- (c) such substitution does not give rise to a Tax Event, Regulatory Event or Write-down Trigger Event;
- (d) the Issuer and the New Issuer have entered into such documents (the "**Substitution Documents**") as are necessary to give effect to such substitution and pursuant to which the New Issuer has undertaken in favour of each Holder to be bound by these Terms of the Bonds in place of the Issuer and procure that all action, conditions and things required to be taken, fulfilled and done (including, without limitation, the obtaining of any necessary consents) to ensure that the Substitution Documents represent valid, legally binding and enforceable obligations of the New Issuer have been taken, fulfilled and done and are in full force and effect;
- (e) if the New Issuer is resident for tax purposes in a jurisdiction (the "**New Residence**") other than that in which the Issuer prior to such substitution was resident for tax purposes (the "**Former Residence**"), the Substitution Documents contain an undertaking by the New Issuer and/or such other provisions as may be necessary to ensure that each Holder has the benefit of an undertaking in terms corresponding to the provisions of Condition 6 in relation to the payment of all amounts due and payable under, or in respect of, the 2017 Tier 1 Bonds but with the substitution of references to the Former Residence with references to the New Residence, and an undertaking by the New Issuer to indemnify each Holder against any taxes, duties, assessments or other government charges of any nature that is imposed on it by (or by any authority in or of) the New Residence and, if different, the jurisdiction of the New Issuer's organisation with respect to any 2017 Tier 1 Bond and that would not have been so imposed had the substitution not been made, as well as against any taxes, duties, assessments or other government charges of any nature, and any cost or expense, relating to such substitution;
- (f) if the New Issuer is not organised under the laws of Switzerland, the New Issuer has appointed a process agent as its agent in Switzerland to receive service of process on its behalf in relation to any legal proceedings arising out of or in connection with the 2017 Tier 1 Bonds;
- (g) the Issuer and the New Issuer have obtained all necessary governmental authorisations of the country of its domicile or its deemed residence for tax purposes; and
- (h) the Issuer has issued an irrevocable, subordinated guarantee as per article 111 of the Swiss Code of Obligations subordinated to the same level as the Issuer's payment

obligations under the 2017 Tier 1 Bonds in respect of the obligations of the New Issuer under the 2017 Tier 1 Bonds.

Notice of any substitution shall be published in accordance with Condition 12.

In the event of such substitution, any reference to the Issuer shall be deemed to refer to the New Issuer.

11. **No Set-Off**

No Holder may set-off claims under the 2017 Tier 1 Bonds against obligations the Issuer has against the Holder.

12. **Notices**

All notices regarding the 2017 Tier 1 Bonds shall be given (i) for so long as the 2017 Tier 1 Bonds are listed on the SIX Swiss Exchange on the website of the SIX Swiss Exchange (where notices are currently published under the address [www.six-swiss-exchange.com/news/official\\_notices/search\\_en.html](http://www.six-swiss-exchange.com/news/official_notices/search_en.html)) or (ii) in case the 2017 Tier 1 Bonds were no longer listed on the SIX Swiss Exchange in a daily newspaper with general circulation in Switzerland (which is expected to be the Neue Zürcher Zeitung).

13. **Listing**

The Issuer will use reasonable endeavours to have the 2017 Tier 1 Bonds listed on the SIX Swiss Exchange and to maintain such listing up to (i) the Redemption Date, if any, pursuant to Condition 3, or (ii) to a Write-down Date, if any, on which the Prevailing Notional Amount of the 2017 Tier 1 Bonds is reduced to zero, pursuant to Condition 8 or 9, as the case may be.

14. **Agents**

The Issuer is entitled to appoint, vary or terminate the appointment of any Agent and the Calculation Agent and/or approve any change in the Specified Office through which any Agent acts, **provided that**:

- (a) so long as the 2017 Tier 1 Bonds are listed on any stock exchange or admitted to listing by any other relevant authority there will at all times be a paying and transfer agent, with a specified office in such place as may be required by the rules and regulations of such stock exchange or other relevant authority; and
- (b) there will at all times be a Registrar, a Calculation Agent and a Principal Paying Agent.

The Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency with, any Holders.

15. **Governing Law and Jurisdiction**

The Terms of the Bonds and the 2017 Tier 1 Bonds shall be governed by and construed in accordance with the laws of Switzerland.

Any dispute which might arise based on the Terms of the Bonds and the 2017 Tier 1 Bonds shall fall within the exclusive jurisdiction of the courts of the City of Zurich and, if permitted, the Commercial Court of the Canton of Zurich, Switzerland, venue being Zurich 1.

The above mentioned jurisdiction is also exclusively valid for the declaration of the cancellation of the 2017 Tier 1 Bonds.

16. **Severability**

If at any time one or more of the provisions of the Terms of the Bonds is or becomes unlawful, invalid, illegal or unenforceable in any respect under any law, the validity, legality and enforceability of the remaining provisions shall not be in any way affected or impaired thereby.

17. **Definitions**

"**2017 Tier 1 Bond**" and "**2017 Tier 1 Bonds**" have the meaning set out in Condition 1(a).

"**Additional Amounts**" has the meaning set out in Condition 6.

"**Additional Tier 1 Capital**" has the meaning ascribed to it under the National Regulations.

"**Agents**" means the Registrar and any Paying and Transfer Agent and "Agent" means any one of the Agents.

"**Authorised Signatories**" means any two signatories of the Issuer with joint signatory power according to the Issuer's entry in the commercial register of the Canton of Zurich.

"**Bloomberg Screen**" means page NDX7 on the Bloomberg L.P. service or any successor service or such other page as may replace that page on that service for the purpose of displaying "Treasury constant maturities" as reported in the H.15(519).

"**Bond Certificate**" has the meaning set out in Condition 1(b).

"**Business Day**" means any day (other than Saturday or Sunday) on which banks are open the whole day for business in New York, London and Zurich.

"**Calculation Agent**" means Citigroup Global Markets Limited, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom, in its function as calculation agent or any person appointed as its replacement from time to time.

"**Calculation Period**" means the relevant period for which interest is to be calculated from (and including) the first day in such period to (but excluding) the last day in such period.

"**Capital Requirements**" means the capital requirements applicable to the Issuer's Group pursuant to the National Regulations.

"**CET1 Capital**" means the aggregate reported amount, in CHF, of all items constituting common equity tier 1 capital of the Issuer's Group on a consolidated basis, less any deductions from such common equity tier 1 capital, in each case within the meaning ascribed to these terms under the National Regulations.

"**CET1 Ratio**" means, as of the relevant Cut-off Date and expressed as a percentage, the CET1 Capital of the Issuer's Group divided by the Risk Weighted Positions, each (or their constituents) as disclosed in the Issuer's Relevant Reports.

"**CHF**" means Swiss francs, the lawful currency of Switzerland.

"**Clearstream, Luxembourg**" means Clearstream Banking S.A.

"**CMT Rate**" means, in relation to a Relevant Five-Year Period and the Interest Determination Date in relation to such Relevant Five-Year Period, the rate determined by the Principal Paying Agent (or, with respect to limb (iii) below, the Calculation Agent) and expressed as a percentage equal to:

- (i) the yield for U.S. Treasury Securities at "constant maturity" for a designated maturity of five years, as published in the H.15(519) under the caption "Treasury constant maturities (Nominal)", as that yield is displayed, for the particular Interest Determination Date, on the Bloomberg Screen; or
- (ii) if the yield referred to in clause (i) is not published by 4:00 p.m. (New York City time) on the Bloomberg Screen on such Interest Determination Date, the yield for U.S. Treasury Securities at "constant maturity" for a designated maturity of five years as published in the H.15(519) under the caption "Treasury constant maturities (Nominal)" for such Interest Determination Date; or

- (iii) if the yield referred to in clause (ii) is not published by 4:30 p.m. (New York City time) on such Interest Determination Date, the Reset Reference Dealer Rate on such Interest Determination Date; or
- (iv) if fewer than three Reference Dealers selected by the Calculation Agent provide bid prices for the purposes of determining the Reset Reference Dealer Rate referred to in clause (iii) as described in the definition of "Reset Reference Dealer Rate", the CMT Rate applicable to the last preceding Relevant Five-Year Period or, in the case of the Relevant Five-Year Period commencing on the First Call Date 1.906 per cent. per annum.

"**Condition**" means each Condition of these Terms of the Bonds.

"**Contingent Write-down**" has the meaning set out in Condition 8(a).

"**Cut-off Date**" means the cut-off date for the calculation of the CET1 Ratio in the Relevant Report.

"**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30.

"**Distributable Items**" means, with respect to any Interest Payment Date or Redemption Date, the aggregate of (i) net annual profit, and (ii) freely available reserves, in each case, less any amounts that must be contributed to legal reserves under the laws and regulations applicable to the Issuer, all as appearing in the Relevant Accounts for the financial year ended immediately before such Interest Payment Date or Redemption Date.

"**Distributions**" means any dividends or distributions to shareholders in respect of the Ordinary Shares or capital stock, whether of cash, assets or other property (including a spin-off), and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including any distribution or payment to shareholders in respect of Ordinary Shares or capital stock upon or in connection with a reduction of capital.

"**Equity Capital**" means the share capital (*Aktienkapital*) and participation capital (*Partizipationskapital*) (if any) of the Issuer.

"**Euroclear**" means Euroclear Bank SA/NV.

"**FATCA**" has the meaning set out in Condition 3(d).

"**FINMA**" means the Swiss Financial Market Supervisory Authority FINMA (*Eidgenössische Finanzmarktaufsicht FINMA*).

"**First Call Date**" has the meaning set out in Condition 2(a)(i).

"**Fixed Rate of Interest**" has the meaning set out in Condition 2(a)(i).

"**Former Residence**" has the meaning set out in Condition 10.

"**Global Certificate**" has the meaning set out in Condition 1(b).

"**H.15(519)**" means the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/H15/> or any successor site or publication.

"**Holder**" means each person in whose name a 2017 Tier 1 Bond is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Holder**" and "**Holders**" shall be construed accordingly.

"**Initial Trigger Test Date**" has the meaning set out in Condition 8(d).

"**Interest Determination Date**" means, in respect of a Relevant Five-Year Period, the day falling five (5) U.S. Government Securities Business Days prior to the first (1st) day of such Relevant Five-Year Period.

"**Interest Payment Date**" has the meaning set out in Condition 2(a)(i).

"**Issue Date**" has the meaning set out in Condition 2(a)(i).

"**Issuer**" means Julius Baer Group Ltd., Bahnhofstrasse 36, CH-8001 Zurich, Switzerland.

"**Issuer's Group**" means the Issuer together with such of its Subsidiaries as are subject, together with the Issuer, to capital adequacy requirements on a consolidated level under the National Regulations.

"**Margin**" means 2.844 per cent. per annum.

"**National Regulations**" means, as in effect from time to time, the national banking and capital adequacy laws and regulations in Switzerland applicable to the Issuer's Group (including, without limitation, the circulars of FINMA based thereon).

"**New Issuer**" has the meaning set out in Condition 10.

"**New Residence**" has the meaning set out in Condition 10.

"**Optional Redemption Date**" has the meaning set out in Condition 3(c).

"**Optional Redemption Notice Date**" has the meaning set out in Condition 3(c).

"**Ordinary Shares**" means the registered shares of the Issuer from time to time which, as at the Issue Date, are listed on the SIX Swiss Exchange (Swiss Security Number: 010248496/ISIN: CH0102484968).

"**Original Notional Amount**" means the initial principal amount of a 2017 Tier 1 Bond as of the Issue Date, being USD 300,000,000.

"**Parity Securities**" means (i) all obligations of the Issuer (as issuer or guarantor) in respect of Tier 1 Instruments and (ii) any other obligations of the Issuer that rank, or are expressed to rank, *pari passu* with the 2017 Tier 1 Bonds.



**"Paying and Transfer Agent"** means the Principal Paying Agent, the Swiss Paying Agent, any other paying and transfer agent appointed as such by the Issuer in connection with the 2017 Tier 1 Bonds and any person appointed as a replacement for any of them in accordance with Condition 14.

**"Payment Day"** means any day which is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in (i) New York, London and Zurich and (ii) (where presentation is required) the relevant place of presentation of the relevant Bond Certificate.

**"Prevailing Notional Amount"** means the principal amount of each 2017 Tier 1 Bond outstanding at any given time, accounting for any Contingent Write-down or Subsequent Write-down that may have occurred.

**"Principal Paying Agent"** means Citibank N.A., London Branch in its function as principal paying agent or any person appointed as its replacement in accordance with Condition 14.

**"Public Sector"** has the meaning set out in Condition 9.

**"Rate of Interest"** has the meaning set out in Condition 2(a)(ii).

**"Record Date"** has the meaning set out in Condition 4(c).

**"Redemption Date"** means the Optional Redemption Date, the Tax Event Redemption Date or the Regulatory Event Redemption Date.

**"Redemption Notice Date"** means the Optional Redemption Notice Date, the Tax Event Redemption Notice Date or the Regulatory Event Redemption Notice Date.

**"Register"** has the meaning set out in Condition 1(b).

**"Registered Holder"** has the meaning set out in Condition 1(b).

**"Registrar"** means Citigroup Global Markets Deutschland AG in its function as registrar or any person appointed as its replacement in accordance with Condition 14.

**"Regulator"** means the national regulator having the leading authority to supervise and regulate the Issuer's Group at the relevant time, being at the Issue Date, FINMA.

**"Regulatory Event"** has the meaning set out in Condition 3(e).

**"Regulatory Event Redemption Date"** has the meaning set out in Condition 3(e).

**"Regulatory Event Redemption Notice Date"** has the meaning set out in Condition 3(e).

**"Relevant Accounts"** means the audited unconsolidated financial statements of the Issuer for any financial year for which a set of such financial statements has been published.

**"Relevant Five-Year Period"** has the meaning set out in Condition 2(a)(ii).

**"Relevant Period"** means the Issuer's current financial year.

**"Relevant Report"** means (i) any of the Issuer's annual reports or interim reports (*Zwischenberichte*, such interim reports currently consisting of the semi-annual reports (*Halbjahresberichte*)), excluding any press releases or other communications relating to or in connection with such reports or respective results, or (ii) any special report prepared by the Issuer for the purpose of calculating the CET1 Ratio, which report may be commissioned by the Regulator at any time.

**"Reset Rate of Interest"** has the meaning set out in Condition 2(a)(ii).

**"Reset Reference Dealer Rate"** means, on any Interest Determination Date, the rate calculated by the Calculation Agent as being a yield-to-maturity based on the arithmetic mean of the

secondary market bid prices for Reset U.S. Treasury Securities at approximately 4:30 p.m. (New York City time) on such Interest Determination Date, of leading primary U.S. government securities dealers in New York City (each, a "**Reference Dealer**"). The Calculation Agent will select five Reference Dealers to provide such bid prices and will eliminate the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest); provided, however, that, if fewer than five but more than two such bid prices are provided, then neither the highest nor the lowest of those quotations will be eliminated prior to calculating the arithmetic mean of such bid prices.

**"Reset U.S. Treasury Securities"** means, on any Interest Determination Date, U.S. Treasury Securities with an original maturity equal to five years, a remaining term to maturity of no more than one year shorter than five years and in a principal amount equal to an amount that is representative for a single transaction in such U.S. Treasury Securities in the New York City market. If two U.S. Treasury Securities have remaining terms to maturity equally close to five years, the U.S. Treasury Security with the shorter remaining term to maturity will be used.

**"Risk Weighted Positions"** means the aggregate reported amount, in CHF, of all risk weighted positions of the Issuer's Group on a consolidated basis as calculated pursuant to the National Regulations.

**"Specified Office"** means (i) in respect of the Principal Paying Agent, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB; (ii) in respect of the Registrar, Reuterweg 16, 60323 Frankfurt am Main, Germany; (iii) in respect of the Swiss Paying Agent, Paradeplatz 8, 8001 Zurich, Switzerland; or (iv) such other office as is notified to the Holders in accordance with Condition 12 from time to time.

**"Subsequent Trigger Test Date"** has the meaning set out in Condition 8(d).

**"Subsequent Write-down"** has the meaning set out in Condition 8(b).

**"Subsidiaries"** means the direct and indirect subsidiaries of the Issuer whose financial statements are consolidated with those of the Issuer in accordance with applicable law or accounting principles.

**"Swiss Paying Agent"** means Credit Suisse AG in its function as Swiss paying agent or any person appointed as its replacement in accordance with Condition 14.

**"Tax Event"** has the meaning set out in Condition 3(d).

**"Tax Event Redemption Date"** has the meaning set out in Condition 3(d).

**"Tax Event Redemption Notice Date"** has the meaning set out in Condition 3(d).

**"Terms of the Bonds"** means these Terms of the Bonds.

**"Tier 1 Capital"** has the meaning ascribed to it under the National Regulations.

**"Tier 1 Instruments"** means any and all securities or other obligations issued by the Issuer that qualify, or are issued in respect of securities that qualify, in whole or in part as Tier 1 Capital, but excluding Equity Capital.

**"U.S. Government Securities Business Day"** means any day except for a Saturday, Sunday or a day on which the Securities Industry and Financial Markets Association or its successor recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

**"U.S. Treasury Securities"** means securities that are direct obligations of the United States Treasury, issued other than on a discount rate basis.

**"USD"** means United States Dollars.

**"Viability Event"** has the meaning set out in Condition 9.

**"Viability Event Notice"** has the meaning set out in Condition 9.

**"Viability Event Notice Date"** has the meaning set out in Condition 9.

**"Write-down Amount"** has the meaning set out in Condition 8(c).

**"Write-down Date"** means the date on which the relevant Contingent Write-down or Subsequent Write-down shall become effective as specified in the relevant Write-down Trigger Event Notice, or the date on which the Prevailing Notional Amount shall be written down to zero as specified in the Viability Event Notice.

**"Write-down Threshold Ratio"** has the meaning set out in Condition 8(d).

**"Write-down Trigger Event"** has the meaning set out in Condition 8(d).

**"Write-down Trigger Event Notice"** has the meaning set out in Condition 8(d).

**"Write-down Trigger Event Notice Date"** has the meaning set out in Condition 8(d).

## **SUMMARY OF PROVISIONS RELATING TO 2017 TIER 1 BONDS WHILE IN GLOBAL FORM**

The 2017 Tier 1 Bonds will, upon issue, be represented by a global certificate (the "**Global Certificate**") which will be deposited with, and registered in the name of a nominee for a common depositary of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**").

The Global Certificate will become exchangeable in whole, but not in part, for duly authenticated and completed certificates in definitive form (each a "**Bond Certificate**"), if Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of fourteen days (other than by reason of holidays, statutory or otherwise) or announce an intention permanently to cease business or do in fact do so in accordance with the provisions of Condition 1(b) (*Form*).

The Global Certificate contains provisions which apply to the 2017 Tier 1 Bonds while they are in global form, some of which modify the effect of the terms of the 2017 Tier 1 Bonds set out in this Offering Circular. The following is a summary of certain of those provisions:

### **Cancellation**

Cancellation of any 2017 Tier 1 Bond by the Issuer following its redemption or purchase will be effected by a reduction in the principal amount of the 2017 Tier 1 Bonds in the register of Holders.

### **Payment**

Payments of principal and interest in respect of the 2017 Tier 1 Bonds represented by the Global Certificate will be made without presentation or, if no further payment is to be made in respect of the 2017 Tier 1 Bonds, against presentation and surrender of the Global Certificate to or to the order of the Principal Paying Agent or such other Paying and Transfer Agent (as defined in the Agency Agreement) as shall have been notified to the Holders for such purpose.

### **Notices**

Notwithstanding Condition 12 (*Notices*), so long as the Global Certificate is held on behalf of Euroclear and Clearstream, Luxembourg, notices to Holders represented by the Global Certificate may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and such notices shall be deemed to have been given to Holders in accordance with Condition 12 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg, except that, for so long as the 2017 Tier 1 Bonds are listed on the SIX Swiss Exchange and the rules of the SIX Swiss Exchange so require, such notices shall also be published on the internet website of the SIX Swiss Exchange ([www.six-swiss-exchange.com](http://www.six-swiss-exchange.com)), where notices are currently published under the address [www.six-swiss-exchange.com/news/official\\_notices/search\\_en.html](http://www.six-swiss-exchange.com/news/official_notices/search_en.html).

### **Write-down**

For so long as all of the 2017 Tier 1 Bonds are represented by the Global Certificate and registered with the nominee for, and deposited with, the common depositary for Euroclear and Clearstream, Luxembourg, any Contingent Write-down, subsequent Write-down or write-off upon the occurrence of a Viability Event of the 2017 Tier 1 Bonds will be effected in Euroclear and Clearstream, Luxembourg in accordance with their operating procedures by way of a reduction in the pool factor.

### **USE OF PROCEEDS**

The net proceeds from the issue of 2017 Tier 1 Bonds (after deduction of commissions, selling concessions, fees, and estimated expenses) of USD 297,300,000 will be used for general corporate purposes including the repayment of indebtedness.

## JULIUS BAER GROUP LTD.

### History and Structure

The Julius Baer Group's principal operating entity's origins date back to 1890. Since that time, the Issuer ("**Julius Baer Group Ltd.**") has expanded its business and developed an international presence. In 1974, Julius Baer Holding Ltd. was formed and Bank Julius Baer & Co. Ltd. was incorporated in Zurich, Switzerland. Julius Baer Holding Ltd. became a publicly traded company in Switzerland in 1980, being the first specialised Swiss private banking group to do so. In 1995 and 1997, Julius Baer Holding Ltd. increased its stake in Bank Julius Baer (Geneva) Ltd. (formerly Société Bancaire Julius Baer SA, Genève) which it had acquired in 1986, from 51 per cent. to 75 per cent. and 100 per cent., respectively. Also in 1997, Julius Baer Holding Ltd. bought Lucerne-based Bank Falck & Co. Both acquisitions were subsequently integrated into the branch network. In 2003, Julius Baer Holding Ltd. sold its brokerage business, Julius Baer Brokerage SA, in order to refocus on wealth management for private clients and institutional investors. In 2005, Julius Baer Holding Ltd. purchased from UBS AG three independent private banks — Ferrier, Lullin & Cie SA, the oldest Geneva private bank dating back to 1795, Ehinger & Armand von Ernst AG with a strong presence in the German-speaking markets, and BDL Banco di Lugano with its sizeable Italian-speaking franchise — as well as Swiss & Global Asset Management AG ("**GAM**"), a specialised asset manager.

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

- the Issuer, 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 (including Swiss & Global Asset Management meanwhile renamed GAM as well) the former Julius Baer Asset Management, the exclusive manager of Julius Baer-branded investment funds, which includes the private label funds business that was formerly part of Julius Baer Holding Ltd.'s "Bank Julius Baer" reporting segment, and its stake in Artio (having become part of the Aberdeen Group), whose initial public offering was completed in 2009.

In 2009, the Issuer was established as a subsidiary of Julius Baer Holding Ltd. In order to facilitate the separation of the former Issuer's private banking and asset management businesses, the private banking business was transferred to the Issuer and the shares of the Issuer were subsequently distributed as a dividend in kind to holders of Julius Baer Holding Ltd.'s registered shares and were listed according to the Main Standard of and traded on the SIX Swiss Exchange. Following this transaction, the Issuer became the leading Swiss pure private banking group. In connection with the separation transaction, the Issuer entered into an arm's length royalty generating brand licence with GAM Holding Ltd. pursuant to which, until the end of August 2017, GAM Holding Ltd. has the exclusive right to produce and manage Julius Baer branded investment fund products worldwide, including private label funds for customised and complex structures. The brand licence was terminated by the parties on 1 March 2017 with effect as of 31 August 2017, with the private labelling fund service co-operation ending in 2019 and a related fee floor agreement at the end of 2018.

On 15 January 2010, the Issuer completed the acquisition of the private bank, ING Bank (Switzerland) Ltd. This transaction doubled the Issuer's presence in Geneva and added booking centre capability in Monaco, and also contributed to an increase in the business volume in Central and Eastern Europe, Russia and other growth markets. Also in 2010, the Issuer completed the acquisition of Milan-based Alpha SIM, a specialised investment manager focused on serving high net worth individuals, which at the time managed assets of approximately CHF 0.6 billion. In the same year, the Issuer upgraded its operations in Hong Kong by opening a branch in Hong Kong following the receipt of a banking licence from the Hong Kong Monetary Authority.

In May 2011, the Issuer acquired 30 per cent. of GPS Investimentos Financeiros e Participações S.A. ("**GPS**"), which includes GPS Planejamento Financeiro Ltda and CFO Administração de Recursos Ltda.

In October 2011, the Issuer announced that it had entered into a strategic collaboration agreement with Macquarie Group Ltd. pursuant to which it refers clients' investment banking transactions to Macquarie



and Macquarie will refer clients who require private banking services to the Issuer. Additionally, the Issuer agreed that Macquarie's Asian Private Wealth business would be transferred to the Issuer.

In July 2012, the Issuer entered into a strategic partnership with Bank of China Limited. Under the terms of the partnership, Bank of China refers clients with international private banking needs outside the Chinese Mainland to the Issuer; and the Issuer refers clients requiring banking services on the Chinese Mainland to Bank of China. The Issuer will also cooperate with Bank of China in the distribution of certain products and the research of financial markets as well as in other areas. In addition, Bank of China (Suisse) SA has been integrated into Bank Julius Baer & Co. Ltd.

On 13 August 2012, the Issuer announced its agreement to acquire the International Wealth Management business of Bank of America Merrill Lynch outside the United States and Japan (the "**IWM**"), consisting (at that time) in particular of USD 84 billion (CHF 81 billion) of assets under management and approximately 2,100 employees, including approximately 525 financial advisers.

On 3 June 2013, the Issuer announced that the Issuer and Milan-based Kairos Investment Management SpA, a leading independent Italian wealth manager ("**Kairos**"), with approximately Euro 4.5 billion of assets under management, have achieved the completion on 31 May 2013 of the transaction initially announced on 12 November 2012. The transaction comprises the contribution by the Issuer to Kairos of Milan-based Julius Baer SIM and the acquisition of a 19.9 per cent. stake in Kairos by the Issuer. The combined business in Italy operated under the name 'Kairos Julius Baer SIM SpA' as of 1 June 2013.

On 19 November 2013, the Issuer announced the merger of Zurich-based independent wealth management companies Infidar Investment Advisory Ltd. ("**Infidar**") and WMPartners Wealth Management Ltd. The merger was completed on 1 April 2014 and has resulted in the creation of one of the largest independent wealth management companies in Switzerland, with 50 employees and over CHF 4 billion in client assets held at around 30 different custodian banks. The consolidated company trades under the name of WMPartners Vermögensverwaltungs AG ("**WMPartners**").

Also in November 2015, the Issuer agreed to exercise its option and to increase its stake in Kairos by acquiring an additional 60.1 per cent. interest of the Milan-based company, following its initial purchase of 19.9 per cent. in 2013, bringing the Julius Baer Group's total ownership of Kairos to 80 per cent.

On 25 March 2014, the Issuer announced the acquisition of an additional 50 per cent. of São-Paulo-based GPS. This increased the Issuer's participation in GPS to 80 per cent from the 30 per cent. acquired in May 2011. This increase follows a highly successful cooperation and underscores the Issuer's strategic goal of building a leading wealth management business in Brazil.

On 23 March 2015, the Issuer announced its strategic cooperation with Bank Leumi Private Bank AG ("**Bank Leumi**"), which included the acquisition of Bank Leumi's private banking business in Switzerland. Clients with assets under management of more than CHF 4.2 billion and more than 30 employees, including 20 relationship managers, were transferred from Bank Leumi in Geneva and Zurich to the Julius Baer platform in March 2015.

On 20 July 2015, the Issuer announced that it was to acquire a 40 per cent. participation in the leading independent financial advisory firm in Mexico, NSC Asesores, S.A. de C.V., Asesor en Inversiones Independiente, for an undisclosed amount. The transaction marked the Issuer's entry in the second largest wealth management market in Latin America and underlined its commitment to further extend its footprint in this important growth region.

On 21 September 2015, the Issuer announced that it completed the transfer of IWM in India to the Issuer. The volume of the asset transfer in India corresponded to more than CHF 6 billion. With that step, the overall client assets transferred as part of the IWM transaction reached the target range of CHF 57 to 72 billion, albeit at the lower end.

On 3 November 2015, the Issuer acquired the Geneva based Swiss independent wealth manager Fransad Gestion SA ("**Fransad**") with a staff of 19 people and managed assets of CHF 1.3 billion. Fransad complements the Julius Baer Group's existing independent wealth management business and strengthens the Julius Baer Group's position in French-speaking Switzerland. Fransad continues to operate under its brand.

In December 2015, the Issuer agreed to acquire Commerzbank International S.A. Luxembourg, a fully licensed private bank. The acquisition of the bank, now operating under the name Bank Julius Baer Luxembourg S.A. and adding approximately EUR 2.5 billion in assets under management and 150 employees, took place on 4 July 2016.

On 1 March 2016, the Julius Baer Group exercised the forward contract to acquire the remaining 20 per cent. interest of its Brazilian subsidiary GPS being specialised in discretionary portfolio management and advisory services. GPS continues to operate under its brand.

On 1 April 2016, the Julius Baer Group exercised its call option to acquire the outstanding 40 per cent. interest in its Japanese-market-focused subsidiary Julius Bär Wealth Management AG ("JBWM"), formerly called TFM Asset Management AG. JBWM, a Swiss-registered independent asset management company, specialised in discretionary asset management services for high net worth Japanese and Swiss private clients and holding an investment advisory and investment management licence granted by the Japanese FSA.

On 1 February 2017, the Issuer acquired Wergen & Partner Vermögensverwaltungs AG, a Swiss independent asset management company, which was established in 2010 and managed assets totalling more than CHF 600 million focusing on the core markets of Switzerland, Germany and Austria.

On 23 June 2017, Julius Baer announced its plans to merge WMPartners into Bank Julius Baer & Co. Ltd. to create a multi-custody platform within the bank whilst the Group is continuing to operate the two asset managers Fransad and Wergen & Partner Vermögensverwaltungs AG under their respective own names.

## **Business**

The Julius Baer Group is the leading Swiss pure private banking group, focusing primarily on the demands of sophisticated private clients, family offices and independent asset managers from around the world. The Issuer has the largest international presence of all Swiss private banks with over 50 locations in more than 25 countries, including a comprehensive pan-Swiss network. Switzerland and Asia are the Issuer's two home markets, with its head office being located in Zurich, Switzerland. The Julius Baer Group employs a staff (FTE) of 6,205 worldwide (as of 30 June 2017).

## **Private Banking Product Offering**

Private banking products and services such as those of the Julius Baer Group's principal operating entity are often, but not exclusively, aimed at achieving capital protection and long-term investment performance. Other strategic aims that high net worth individuals look for when utilising these products and services include regular incomes or dividends from portfolio management, as well as performance stability. Private banks such as the Julius Baer Group's principal operating entity provide clients with advice and tailored solutions aimed at addressing their current and future financial situation and needs with respect to wealth management. These solutions include a broad range of services, such as investment advice, financial, tax and succession planning, family office services, asset consolidation, estate planning, trust services, and transaction execution, as well as more traditional banking services, such as accepting deposits, granting Lombard loans (loans extended against pledged collateral, which is typically in the form of liquid assets such as stocks and bonds) and other types of loans, executing foreign exchange transactions and providing custody services. Private banks such as the Julius Baer Group's principal operating entity may also provide support in other areas, such as the achievement of philanthropic goals or the protection of specific assets, such as artwork.

Clients' financial needs are often complex and specific in nature and thus require professional services and long-term relationships with specialised service providers. Moreover, clients are diverse and have different requirements and expectations. Clients are becoming increasingly sophisticated and self-directed, making use of alternative channels to access information and execute simple transactions. Private banks such as the Julius Baer Group's principal operating entity increasingly need to provide customised solutions in order to differentiate themselves from the offerings of other competitors. Investment strategies for private banking clients have become highly sophisticated through the use of well diversified portfolios, which can include investments in bonds, equities and alternative financial products, such as private equity, single hedge funds, funds of hedge funds and structured products. These alternative products generally aim to improve capital protection and absolute returns under different and

often volatile capital markets scenarios. Due to the range of products with different risk profiles, return potential, correlations and liquidity characteristics, a private bank such as the Julius Baer Group's principal operating entity may have the ability to add significant value for its clients.

Private banks such as the Julius Baer Group's principal operating entity can provide in-house services or can acquire services from third party providers or using a mix of the two approaches. The in-house product offering is driven by a bank's relative strength in developing and distributing competitive products. Private banks such as the Julius Baer Group's principal operating entity also tend to offer a range of third-party products to their clients designed to provide a "best in class" combined product offering. Outsourcing has also come to be seen as helpful in improving the efficiency of private banks. Private banking clients can generally choose between discretionary and non-discretionary services, depending on whether the private bank or the client makes the investment decision. In a discretionary portfolio, the responsibility for the investment decision is delegated to the bank, which chooses investments based on a pre-determined mandate. Non-discretionary clients make their own decisions regarding individual investments. These clients may use the banks' investment advice and decision support services or may simply rely on the private banks to provide administrative services. When using the banks' investment advice clients receive solutions tailored to their investment needs and goals and are continually updated on new developments, opportunities and risks and have access to a variety of investment ideas.

Private banks' fees from discretionary accounts are usually based on a fixed percentage of the clients' assets under management. Non-discretionary services generate commissions that are often based on the volume and the nature of the transaction being executed. Margins earned on discretionary mandates tend to be higher than margins earned on non-discretionary mandates, reflecting the additional service provided and risks taken with respect to discretionary accounts. Private banks earn additional fees from services such as custody and advisory fees. To a lesser extent, private banks earn interest income on deposits and loans granted to clients and trading income stemming from the execution of clients' transactions and, to differing degrees, asset and liability management and proprietary activities.

## Management of the Issuer

### *Board of Directors of Julius Baer Group Ltd.*

The following table sets forth, as at the date of this Offering Circular, the name, age and title of each member of the Issuer's Board of Directors (current) followed by a brief description of each director's business experience and education, including the names of all companies and partnerships of which such person has been a member of the administrative, management or supervisory bodies or partner at any time in the previous five years (other than at other Julius Baer Group companies).

Name	Born	Title	Elected until
Daniel J. Sauter <sup>(1)(4)</sup>	1957	Non-executive Chairman	2018
Ann Almeida <sup>(3)</sup>	1956	Non-executive Director	2018
Gilbert Achermann <sup>(3)(4)</sup>	1964	Non-executive Director	2018
Andreas Amschwand <sup>(1)</sup>	1960	Non-executive Director	2018
Heinrich Baumann <sup>(2)(3)</sup>	1951	Non-executive Director	2018
Paul Man-Yiu Chow <sup>(2)</sup>	1946	Non-executive Director	2018
Ivo Furrer <sup>(1)</sup>	1957	Non-executive Director	2018
Claire Giraut <sup>(2)(4)</sup>	1956	Non-executive Director	2018
Gareth Penny <sup>(3)</sup>	1962	Non-executive Director	2018
Charles G.T. Stonehill <sup>(1)(2)(4)</sup>	1958	Non-executive Director	2018

<sup>(1)</sup> Member of the Chairman's and Risk Committee.

<sup>(2)</sup> Member of the Audit Committee.

<sup>(3)</sup> Member of the Compensation Committee.

<sup>(4)</sup> Member of the Nomination Committee.

**Daniel J. Sauter** (born 1957, Swiss citizen) has been a member of the Board of Directors of Julius Baer Group Ltd. and Bank Julius Baer & Co. Ltd. since 2009 and 2007, respectively. He was elected Chairman of the Board of Directors of both Julius Baer Group Ltd. and Bank Julius Baer & Co. Ltd. in 2012. Daniel Sauter is currently Chairman of the Board of Directors of Trinsic AG, Zug, Tabulum AG, Zug, Hadimec AG, Maegenwil, member of the Board of Directors of Sika AG, Baar and ARAS Holding AG, Lenzburg and member of the Foundation Board of Avenir Suisse, Zurich, Switzerland. He is a Swiss-certified banking specialist with the Swiss Banking School.

**Ann Almeida** (born 1956, British and Irish citizen), has been a member of the Board of Directors of Julius Baer Group Ltd. and of Bank Julius Baer & Co. Ltd. since 1 June 2016. She holds a Master of Arts in Economics from the Cambridge University, UK, and a Master of Business Administration from the Imperial College, UK. Mrs. Almeida has spent more than 20 years with HSBC, lastly as Group Managing Director of Human Resources & Corporate Sustainability and Member of the Executive Board (2010 – 2015). In addition to her mandates with Julius Baer, Mrs. Almeida is Advisor and Chairperson of the HR/Remuneration Committee of Fajr Capital, Dubai, UAE, Advisor and Chairperson of the Nomination & Remuneration Committee of Jadwa Investment, Riyadh, Kingdom of Saudi Arabia, as well as member of the Board of Trustees of 88 Foundation, London, UK. She was an independent Non-Executive Director of Axiata Group Berhad, Kuala Lumpur, Malaysia until 2017.

**Gilbert Achermann** (born 1964, Swiss citizen) has been a member of the Board of Directors of Julius Baer Group Ltd. and of Bank Julius Baer & Co. Ltd. since 2012. In addition to his appointment with Julius Baer Group Ltd., he is also Chairman of the Board of Directors of the Straumann Group, Basle. He has been Chairman of the Board of Directors of Vitra Holding AG (from 2012 to 2015), Chairman of the Board of Directors of Siegfried Holding AG, Zofingen (2010 to March 2014) member of the Board of Medical Cluster Schweiz, Bern (2012-2015), member of the Board of the ITI Association and ITI Foundation, Basle, Switzerland and Vorstandsmitglied at "Groove Now! Basel", Basle, Switzerland. Since 29 June 2017, he is also Chairman of the Board of Directors of Switzerland Innovation Park Basel Area AG, Allschwil, Switzerland. Mr. Achermann holds an Executive Masters in Business Administration from IMD, Lausanne.

**Andreas Amschwand** (born 1960, Swiss citizen) has been a member of the Board of Directors of Julius Baer Group Ltd. and of Bank Julius Baer & Co. Ltd. since 2012. Prior to his appointment to the Board of Directors, he spent more than 20 years at UBS AG (formerly Swiss Bank Corporation), Zurich, where he served as Global Head of Investment Products and Services. He holds a B.Sc. in Business and Accounting from the School of Economics and Business. Mr. Amschwand is in addition Chairman of the Board of Directors, EMFA Holding AG, Kerns, Switzerland, Chairman of the Board of Directors of Alois Amschwand AG, Kerns, Switzerland, Chairman of the "Verein Standortpromotion Kanton Obwalden", Sarnen, Switzerland, and Administrator of a few family owned agriculture/farming companies in Romania.

**Heinrich Baumann** (born 1951, Swiss citizen) has been a member of the Board of Directors of Julius Baer Group Ltd. and of Bank Julius Baer & Co. Ltd. since 2011. He is a self-employed management consultant, and previously served as Chairman of the Board of Directors of HSBC Guyerzeller Trust Issuer from 2006 to 2009. He holds a Ph.D. in Management, Technology and Economics from the Swiss Federal Institute of Technology (ETH), Zurich. Mr. Baumann in addition is Vice President of the Board of Directors of Atlis AG, Biberist, Switzerland, Vice President of the Board of Directors of Completo AG, Biberist, Switzerland and Member of the Foundation Board of the International Foundation for Research in Paraplegia, Chêne-Bourg, Switzerland.

**Paul Man-Yiu Chow** (born 1946, Chinese (Hong Kong SAR) citizen) has been a member of the Board of Directors of Julius Baer Group Ltd. and of Bank Julius Baer & Co. Ltd. since 2015. He previously served as Chief Executive Officer and Executive Director at the Hong Kong Exchanges & Clearing Limited. Mr. Chow is Independent Non-Executive Director and Chairman of the Nomination Committee as well as member of the Audit Committee and the Remuneration Committee of China Mobile Limited, Hong Kong, and independent Non Executive Director of CITIC Limited, Hong Kong (since March 2016). Mr. Chow was a member of the Advisory Committee on Innovation and Technology, The Government of the Hong Kong Special Administration Region until March 2017, as well as a member of the Asian Advisory Council of AustralianSuper, Melbourne, Australia until February 2017. Mr Chow holds a Bachelor of Science in Mechanical Engineering, a Diploma in Management Studies, a Master of Business Administration (MBA) and a Diploma of Finance from the University of Hong Kong.

**Ivo Furrer** (born 1957, Swiss citizen) has been a member of the Board of Directors of Julius Baer Group Ltd. and of Bank Julius Baer & Co. Ltd. since 2017. His previous roles include acting as CEO Switzerland and member of the Corporate Executive Board at Swiss Life Group, CEO Life Switzerland and member of the Global Life Executive Committee at Zurich Financial Services, member of the Executive Committee e-Investment Services Europe at Credit Suisse Group and Chief Underwriting Officer Global Corporate at Winterthur Insurance. Mr Furrer holds a Ph.D. in law from the University of Zurich. In addition to his mandates with Julius Baer, Mr Furrer acts as Vice Chairman of Sanitas Krankenversicherung, member of the Board of Directors at the Financial Market Authority Liechtenstein,



member of the Board of Directors of Sobrado AG, Chairman of the Steering Committee of Digital Switzerland, member of the Foundation Board of the Stiftung für Kinder in der Schweiz and as member of Swiss Economic Forum/Powerpreneurs. Since 2017, he has also been a member of the Board of Directors of Helvetia Insurance, member of the Board of Directors of inventix and member of the Board of Directors of responsAbility Investments AG.

Claire Giraut (born 1956, French citizen) has been a member of the Board of Directors of Julius Baer Group Ltd. and Bank Julius Baer & Co. Ltd. since 2010. She previously served as Chief Financial Officer at Europcar Groupe, S.A. and Ipsen Pharma S.A. She was a member of the Board of Directors and of the Audit Committee of Heurtey-Petrochem S.A., Vincennes, France (until March 2016) and Chief Financial Officer at bioMérieux, France. Since June 2016 she is member of the Board of Directors of DBV Technologies, Montrouge, France. Mrs. Giratu holds a Master in Biotech Engineering from the Institut Nationale Agronomique, Paris.

**Gareth Penny** (born 1962, South African and Irish citizen) has been a member of the Board of Directors of Julius Baer Group Ltd. and Bank Julius Baer & Co. Ltd. since 2009 and 2007, respectively. He served as Executive Chairman of the Board of Directors of New World Resources, plc in London (from October 2012 – May 2016) and as deputy Chairman of the Botswana Advisory Council to the President, Gabarone, Republic of Botswana, until 2015. Currently, he serves as non-executive Chairman at Norilsk Nickel, Moscow (since April 2013), as non-executive Chairman of the Board of Directors of Pangolin Diamonds Corp., Toronto, Canada (since August 2016) and of Edcon, Johannesburg, South Africa (since February 2017). He holds an M.A. in Philosophy, Politics and Economics from Oxford University.

**Charles G.T. Stonehill** (born 1958, British and American citizen) has been a member of the Board of Directors of Julius Baer Group Ltd. and Bank Julius Baer & Co. Ltd. since 2009 and 2006, respectively. He is a member of the Advisory Board of Rubicon Technology Partners L.P., Menlo Park, CA, USA, and non-executive Board member of CommonBond Inc., New York, USA, Governor, Harrow School, Harrow on the Hill, London, UK, member of the Board of Directors of PlayMagnus, Oslo, Norway, and member of the Foundation Board of the "Fondation Georg Solti Accademia", Geneva, Switzerland. Mr. Stonehill is Managing Partner at TGG Group, New York, co-founder and Partner of Green & Blue Advisors LLC, New York, USA. Furthermore, Mr. Stonehill served as Trustee at International House, New York, USA until 2015. He holds an M.A. in Modern History from Oxford University.

The business address of all members of the Board of Directors of Julius Baer Group Ltd. is Julius Baer Group Ltd., Bahnhofstrasse 36, P.O. Box, CH-8010 Zurich, Switzerland.

#### ***Executive Board of Julius Baer Group Ltd. (the "Executive Board")***

The Executive Board is responsible for the day-to-day operational management of Julius Baer Group Ltd. It develops and implements the strategic business plans for the Julius Baer Group overall as well as for the principal businesses subject to approval by the Board of Directors. It further reviews and co-ordinates significant initiatives, projects and business developments and establishes Julius Baer Group-wide policies.

The following table sets forth the name, age and title of each member of the Executive Board, followed by a brief description of each member's business experience and education, including the names of all companies and partnerships of which such person has been a member of the administrative, management or supervisory bodies or partner at any time in the previous five years (other than at other Julius Baer Group companies).

<b>Name</b>	<b>Born</b>	<b>Title</b>
Boris F.J. Collardi .....	1974	Chief Executive Officer
Dieter A. Enkelmann.....	1959	Chief Financial Officer
Nic Dreckmann .....	1974	Chief Operating Officer
Bernhard Hodler.....	1960	Chief Risk Officer
Larissa Alghisi Rubner.....	1970	Chief Communications Officer
Christoph Hiestand.....	1969	General Counsel

**Boris F.J. Collardi** (born 1974, Swiss and Italian citizen) has been the Chief Executive Officer of Julius Baer Group Ltd. and a member of the Executive Board since October 2009. He is also currently the Chief Executive Officer of Bank Julius Baer & Co. Ltd., a position he has held since May 2009. Before joining Bank Julius Baer & Co. Ltd., Mr. Collardi spent more than ten years at Credit Suisse, where he served as

Chief Operations Officer Europe, Middle East & North Africa and Head of Special Projects until 2006. Mr. Collardi is also a member of the Board and the Committee of the Governing Board of the Board of Directors of the Swiss Bankers Association, the Chairman of the Executive Committee of the Association of Swiss Commercial and Investment Banks, and a member of the Advisory Board of the Lee Kong Chian School of Business – Singapore Management University. Mr. Collardi is a graduate of the Executive Programme at IMD Lausanne and completed a Major in Accounting at Cessouest School, Nyon.

**Dieter A. Enkelmann** (born 1959, Swiss citizen) has been the Chief Financial Officer and a member of the Executive Board of Julius Baer Group Ltd. and Bank Julius Baer & Co. Ltd. since 2009. He previously served as Chief Financial Officer and was a member of the Executive Board of the former Julius Baer Holding Ltd. since 2006 and additionally served as the administrative and organizational manager of the Executive Board of the former Julius Baer Holding Ltd. from 2008 to 2009. Prior to his entry into the Julius Baer Group Ltd. in December 2006, Mr. Enkelmann has also served as Chief Financial Officer at Barry Callebaut and Chief Financial Officer of the business unit Financial Services at Swiss Re (where he also served as Head of Corporate Financial Management and Investor Relations). Currently, Mr. Enkelmann is also 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. Mr. Enkelmann holds a degree in law from the University of Zurich.

**Nic Dreckmann** (born 1974, Swiss citizen), holds a master degree in Business Administration and Corporate Finance (lic.oec. publ.) from the University of Zurich. He spent 5 years as a global Business Project Manager with Accenture AG, Zurich, before joining Julius Baer in 2004, where he started in the Private Banking Product Management as well as in the Private Banking Business Development. He subsequently headed the Strategic Management & Regional Coordination and then became Chief of Staff for the CEO and COO of Bank Julius Baer. In 2012, he took over responsibility for the global integration of the International Wealth Management business from Bank of America Merrill Lynch and in 2015 had been mandated as Program Director of JB 2.0, a global program to define and implement the global operating model of the Bank. As a member of the Executive Board, Mr. Dreckmann took over the COO role on Bank level as at 1 August 2016 and became COO (and member of the Executive Board) of Julius Baer Group Ltd. as at 1 January 2017.

**Bernhard Hodler** (born 1960, Swiss citizen) has been the Chief Risk Officer of Julius Baer Group Ltd. and a member of its Executive Board since 2009 (from January to February 2013 he was Chief Operating Officer ad interim and Executive Board member). He began his career at Bank Julius Baer & Co. Ltd. as Head of Global Risk Management in 1998, and is currently its Chief Operating Officer and a member of the Executive Board of Bank Julius Baer & Co. Ltd., roles he has held since 2005. Mr. Hodler previously was a member of the Executive Board of the former Julius Baer Holding Ltd. from November 2007 to September 2009. Mr. Hodler is also a member of the Board of Directors of ifb International AG, Pfäeffikon. Mr. Hodler has a degree in Business Administration from the School of Economics and Business (HWV), Berne, and attended the Advanced Executive Programme of the Swiss Banking School between 1999 and 2000 and the Advanced Management Program of the Wharton School, University of Pennsylvania, in 2004. He is a chartered financial risk manager (GARP).

**Larissa Alghisi Rubner** (born 1970, Swiss and Italian citizen), has been the Chief Communications Officer and member of the Executive Board of Julius Baer Group Ltd. since 1 July 2017. She holds a Master of Arts HSG of the University of St. Gallen, Switzerland. From 1996 to 1999, she had been with Andersen Consulting (Accenture), followed by UBS AG Zurich, where she had been in Media Relations, Stakeholder Reporting and finally (from 2008 – 2010) acted as Head Corporate Center Communications/Communications Management and Internal Communications. In 2010, Mrs. Alghisi joined GAM Holding AG, Zurich, as Group Head of Communication and became a member of the Management Board in July 2015 (until 2016).

**Christoph Hiestand** (born 1969, Swiss citizen) has been the General Counsel of Julius Baer Group Ltd. and a member of the Executive Board of Julius Baer Group Ltd. since 2009. He joined Bank Julius Baer & Co. Ltd. in 2001 as Legal Counsel, and subsequently served as Deputy Group General Counsel at the former Julius Baer Holding Ltd. from 2006 to 2009. Mr. Hiestand holds a law degree from the University of St. Gallen and an LL.M. from Cornell Law School.

The business address of all members of the Executive Board of Julius Baer Group Ltd. is Julius Baer Group Ltd., Bahnhofstrasse 36, P.O. Box, CH-8010 Zurich, Switzerland.



### ***Audit Committee***

The Audit Committee is responsible for the integrity of controls for financial reporting and the review of the Julius Baer Group's and the Issuer's financial statements, including the interim management statements, but in particular the consolidated statement of the Julius Baer Group and the annual and semi-annual financial statements, before they are presented to the entire Board of Directors. 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 Issuer 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 Julius Baer Group adopted by the Board of Directors or other relevant supervisory or management bodies.

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

The Audit 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 Audit 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 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 four hours on average. The members of the Executive Board of Julius Baer Group Ltd. 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.

As at the date of this Offering Circular, the Audit Committee consists of Heinrich Baumann (chairperson), Claire Giraut, Paul Man-Yiu Chow and Charles G.T. Stonehill.

### ***Corporate Governance***

The Issuer fully adheres to the principles set out in the 'Swiss Code of Best Practice for Corporate Governance' of the Swiss business federation *economiesuisse*, including its appendix stipulating recommendations on the process for setting compensation for the Board of Directors and the Executive Board.

The Issuer is subject to and fully adheres to the Directive on Information relating to Corporate Governance (revised effective 1 April 2016 of the SIX Swiss Exchange (the "**Corporate Governance Directive**") which applies to issuers whose equity securities are listed on the SIX Swiss Exchange and whose registered office is in Switzerland, with the guidelines and recommendations of the "Swiss Code of Best Practice for Corporate Governance" of the Swiss business federation *economiesuisse* (in its current version dated February 2016) and the Federal Council's "Ordinance against excessive compensation in listed companies" (in force effective 1 January 2014)

In April 2014, the annual shareholders meeting of the Issuer approved the adapted Articles of Incorporation and the relevant committees and procedures pursuant to the requirements of the Ordinance against excessive compensation in listed companies (*Verordnung gegen übermässige Vergütungen bei börsenkotierten Aktiengesellschaften, VegüV*).

For further information regarding Corporate Governance, refer to Chapter I — Corporate Governance in the Julius Baer Group Annual Report 2016 as attached hereto in Annex B.

### ***Incorporation, Company Name, Registered Office, Register and Legal Form***

The Issuer's legal name is Julius Baer Group Ltd. (Julius Bär Gruppe AG, Julius Baer Groupe SA). The Issuer was incorporated on 18 June 2009 as a company limited by shares (*Aktiengesellschaft*) established

under the laws of Switzerland (article 620 *et seqq.* of the Swiss Code of Obligations) for an indefinite period of time and registered in the commercial register of the Canton of Zurich, Switzerland (the "**Commercial Register**"), on 25 June 2009 and has been assigned the Business Identification Number (UID) CHE-114.934.412 (prior to 2014 the Issuer's register number was CH-020.3.033.970-7). Its current registered office is at Bahnhofstrasse 36, CH-8001 Zurich, Switzerland. The Issuer's most recent Articles of Incorporation are dated 9 April 2014.

The Issuer was incorporated on 18 June 2009 by Julius Baer Holding Ltd. (renamed GAM Holding AG) as founder and registered in the Commercial Register on 25 June 2009.

The Issuer is a holding company that comprises Bank Julius Baer & Co. Ltd., as principal operating entity, and other subsidiaries listed in Note 26 of the Issuer's consolidated financial statements as at and for the year ended 31 December 2016.

## **Purpose**

According to article 2.1 of the Articles of Incorporation, the main corporate purpose of the Issuer is the acquisition and management of its permanent participations, particularly in banks and other companies engaged in financial services.

## **Share Capital Structure**

### ***The Shares***

All of the shares in the Issuer are registered shares (*Namenaktien*) with a nominal value of CHF 0.02 each, are validly issued and fully paid-in. The shares are listed on the SIX Swiss Exchange and traded under the ticker symbol "BAER".

In accordance with the Articles of Incorporation and the requirements of the clearing arrangements of SIX SIS Ltd., the shares are issued in uncertificated form (*Wertrechte*, within the meaning of article 973c of the Swiss Code of Obligations) and entered in the Issuer's book of book-entry securities (*Wertrechtbuch*). The shares are registered in the main register (*Hauptregister*) maintained by SIX SIS Ltd and credited to the securities account of each holder of such shares and thus will become intermediated securities (*Bucheffekten*, within the meaning of the Intermediary-Held Securities Act (*Bucheffektengesetz*)). Shareholders are not entitled to request delivery of shares or share certificates. However, a shareholder may at any time request that the Issuer issues a confirmation of such shareholder's shareholding. Such confirmation is not a negotiable instrument.

### ***Registered Issued Share Capital***

As at the date of this Offering Circular, the Issuer's registered issued share capital amounted to CHF 4,476,188.96, divided into 223,809,448 registered shares, fully paid-up, with a nominal value of CHF 0.02 each.

### ***Conditional Share Capital***

The Issuer's Articles of Incorporation currently provide for a conditional share capital (*bedingtes Aktienkapital*) of CHF 200,000, divided into 10,000,000 registered shares, to be fully paid-up, with a nominal value of CHF 0.02 each.

Article 3.4 of the Articles of Incorporation reads as follows (translated from the German original):

- "1 The Company's share capital is to be increased by the issue of up to 10,000,000 registered shares, to be fully paid up and each with a par value of CHF 0.02, in a maximum total amount of CHF 200,000.00 through the exercise of conversion or warrant rights in connection with bonds issued by the Company or its subsidiaries. Existing shareholders are excluded from subscription rights. 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 *et seqq.* of the Articles of Incorporation.
- 2 When issuing convertible or warrant bonds, the Board of Directors may rescind priority subscription rights of existing shareholders for important reasons.

- 3 Important reasons can be the securing of optimal conditions
- 4 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 or 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 Zurich stock exchange during the five days preceding the determination of the final issue conditions for the relevant convertible or warrant bonds."

As of the date of this Offering Circular, no shares out of the Issuer's conditional capital have been issued. Application has been made to, and approval has been given by, the SIX Swiss Exchange to formally list according to the Main Standard of the SIX Swiss Exchange 10,000,000 additional registered shares with a nominal value of CHF 0.02 each that may be issued under the conditional share capital of the Issuer.

### ***Own Equity Securities***

As of 30 June 2017, companies within the Issuer held 6,735,160 registered shares equalling 3.0093 per cent. of the Issuer's registered issued share capital (including the shares in the Issuer held by the Julius Baer Group in the course of ordinary banking activities).

### ***Shareholders' Rights***

Each share carries one vote at the Issuer's shareholders' meeting. Voting rights may be exercised only after a shareholder has been recorded in the Issuer's share register (*Aktienregister*) as a shareholder with voting rights. The shares rank *pari passu* with each other, including with respect to dividends, to a share in the liquidation proceeds in case of a liquidation of the Issuer and to subscription rights (*Bezugsrecht*).

### ***Share-based payments***

The Julius Baer 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 re-measured 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.

### **Significant Shareholders / Participants**

Based on notifications received by Julius Baer Group Ltd. each of the following shareholders /participants held more than 3 per cent. of the voting rights in Julius Baer Group Ltd. as of the date of this Offering Circular):

Shareholder(s)/group	Purchase positions	Sale positions	Publication date
	<i>total percentage in voting rights</i>	<i>total percentage in voting rights</i>	
MFS Investment Management	9.9834 %	-	04.01.2014
BlackRock Inc.	5.08 %	0.07%	05.05.2017
Harris Associates L.P.	4.95%	-	02.12.2016

Shareholder(s)/group	Purchase positions	Sale positions	Publication date
	<i>total percentage in voting rights</i>	<i>total percentage in voting rights</i>	
Wellington Management Group LLP	4.94%	-	12.07.2017
Invesco Ltd.	3.34%	-	09.03.2017
Julius Baer Group Ltd.	3.0093%	-	24.03.2017

The percentage holding of voting rights as well as the other terms as used above have to be read in the context of the applicable SIX Swiss Exchange rules. The Issuer publishes the current numbers and additional details to such reports on its website.

### Outstanding Bonds

For further information regarding the Issuer's bonds as of the end of 2016, see Note 9 "Debt Issued" in the Julius Baer Group Half-Year Report 2017 as attached hereto in Annex C.

### Independent Auditors

The Issuer's statutory auditors are KPMG AG, Badenerstrasse 172, CH-8004 Zurich, Switzerland. KPMG AG is a member of the Swiss Institute of Certified Accountants and Tax Consultants. The Issuer's consolidated financial statements as at and for the year ended 31 December 2016 and the Issuer's consolidated financial statements as at and for the year ended 31 December 2015, and the Issuer's statutory financial statements as at and for the year ended 31 December 2016 and the Issuer's statutory financial statements as at and for the year ended 31 December 2015 have been audited by KPMG AG, independent accountants, as stated in their reports appearing herein.

### Court, Arbitration and Administrative Proceedings

The Issuer and its subsidiaries are involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of their businesses. It is inherently difficult to predict the outcome of many of the legal, regulatory and other adversarial proceedings involving the Issuer's businesses, particularly those cases in which the matters are brought on behalf of various classes of claimants, seek damages of material or indeterminate amounts or involve novel legal claims.

For further information regarding legal proceedings and the Julius Baer Group's litigation provisions as of 30 June 2017, see Note 10 "Provisions" in the Julius Baer Group Half-Year Report 2017 as attached hereto in Annex C.

### Ratings

The Issuer was assigned an "A3 (stable)" rating by Moody's Investors Service, inc. ("**Moody's**") on 5 December 2016.

### Fiscal Year

The fiscal year of the Issuer commences on 1 January and ends on 31 December of each calendar year.

### Historical Dividend Information

The following table sets forth the total ordinary dividends paid by the Issuer in respect of each year since its incorporation:

Fiscal Year	Total dividends	Dividends per share
	<i>(CHF in millions)</i>	<i>(CHF)</i>
2010 .....	124 <sup>(1)</sup>	0.60
2011 .....	196 <sup>(1)</sup>	1.00 <sup>(2)</sup>
2012 .....	130 <sup>(1)</sup>	0.60
2013 .....	133 <sup>(1)</sup>	0.60
2014 .....	224 <sup>(1)</sup>	1.00
2015 .....	246 <sup>(1)</sup>	1.10
2016 .....	269 <sup>(1)</sup>	1.20

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#### Notes

- (1) Paid out of reserves from capital contributions/share premium (*Reserven aus Kapitaleinlagen/gesetzlichen Kapitalreserven*).
- (2) Includes a dividend of CHF 0.60 per share and a special dividend of CHF 0.40 per share.

### Information Policy

The Issuer provides information to its shareholders and the public by means of annual and half-year reports and interim management statements. It also publishes press releases, presentations and brochures as needed. The documents are generally available to the public in electronic form on the website of the Issuer (<http://www.juliusbaer.com>) as well as in printed form. Current publication dates can be found online on the website of the Issuer (<http://www.juliusbaer.com>).

### Notices

According to the Articles of Incorporation, official notices of the Issuer to the shareholders are to be published in the Swiss Official Gazette of Commerce (*Schweizerisches Handelsamtsblatt*). Notices from the Issuer to registered shareholders shall be sent by letter to the addresses entered in the share register. Additionally, notices required under the listing rules will be published on the website of the SIX Swiss Exchange (<http://www.six-exchange-regulation.com>), or otherwise in compliance with the Listing Rules. Notices in respect of the 2017 Tier 1 Bonds will be published in accordance with Condition 12 (*Notices*).

### Financial Statements

Unless otherwise indicated, financial information in this Offering Circular has been prepared in accordance with International Financial Reporting Standards of the International Accounting Standards Board ("**IFRS**").

### Annual General Meeting of 12 April 2017

The shareholders of Julius Baer Group Ltd. approved all of the proposals submitted by the Board of Directors at the Annual General Meeting of 12 April 2017. At the Annual General Meeting:

- (i) The consolidated financial statements and individual financial statements for the year ended 2016 were approved.
- (ii) The Remuneration Report 2016 was approved in a consultative vote.
- (iii) The appropriation of the disposable profit, the dissolution and the distribution of CHF 268.6 million out of 'statutory capital reserve' were approved. The amount corresponds to a distribution of CHF 1.20 per registered share. The distribution will be paid free of expense from 20 April 2017.
- (iv) The members of the Board of Directors and of the Executive Board were discharged for the 2016 financial year.

- (v) The maximum aggregate amount of compensation of the Board of Directors for the coming term of office (AGM 2017 – AGM 2018) was approved. Additionally, the shareholders approved the Executive Board's aggregate amount of variable cash-based compensation elements for the completed financial year 2016, the aggregate amount of variable share-based compensation elements that are allocated in the financial year 2017 and the maximum aggregate amount of fixed compensation for the next financial year 2018.
- (vi) The Board members Daniel J. Sauter, Gilbert Achermann, Ann Almeida, Andreas Amschwand, Heinrich Baumann, Paul Man-Yiu Chow, Claire Giraut, Gareth Penny and Charles G.T. Stonehill (Vice Chairman) were re-elected for a one-year term.
- (vii) Ivo Furrer was elected as new member of the Board of Directors for a one-year term.
- (viii) Daniel J. Sauter was re-elected as Chairman of the Board of Directors for a one-year term.
- (ix) Ann Almeida, Gilbert Achermann, Heinrich Baumann and Gareth Penny were re-elected as members of the Compensation Committee for a one-year term.
- (x) KPMG AG, Zurich, was appointed as Statutory Auditors for another one-year period.
- (xi) Dr. Marc Nater, Wenger Plattner Attorneys at Law, Kuesnacht, was elected as independent representative until the end of the next ordinary Annual General Meeting.



## INFORMATION REGARDING THE CET1 RATIO AND SWISS CAPITAL RATIOS

### Capital Requirements – Overview of the Swiss legal framework

Switzerland applies the internationally agreed capital adequacy rules of the Basel Capital Accord, but the implementation imposes a differentiated and stricter regime than the internationally agreed rules, including a more stringent definition of capital. The Capital Adequacy Ordinance for banks and securities dealers of 1 July 2012, as amended (*Verordnung über die Eigenmittel und Risikoverteilung für Banken und Effektenhändler*) ("**CAO**"), which implements Basel III, not only covers credit, market and operational risks, but also risk concentrations. Under the Federal Act on Banks and Savings Banks of 8 November 1934, as amended (*Bundesgesetz über die Banken und Sparkassen*), the Ordinance on Banks and Savings Banks of 20 April 2014, as amended (*Verordnung über die Banken und Sparkassen*), and the CAO, a bank must maintain an adequate ratio of capital resources to total risk-weighted assets. This requirement applies to the Issuer on a consolidated basis.

Pursuant to the CAO, bank regulatory capital is composed of the following capital categories:

- Tier 1 capital, consisting of:
  - (i) Common Equity Tier 1 ("**CET1**");
  - (ii) Additional Tier 1 ("**AT1**");
- Tier 2 capital (supplementary capital);
- Capital Conservation Buffer; and
- Countercyclical Buffer including extended countercyclical buffer.

CET1 includes paid-in share capital, open reserves, reserves for general banking risks, capital participations of minority shareholders in certain fully-consolidated subsidiaries as well as retained earnings and current-year net profits less anticipated dividends. Subject to certain conditions, CET1 may also include share capital relating to preference shares (*Vorzugsaktien*) and to non-voting share capital (*Partizipationskapital*). CET1 is reduced by, among other things, losses carried forward and losses accrued in the current year, net long position in own shares, goodwill, uncovered valuation adjustments and uncovered provision requirements of the current year and the net long position of participations in companies active in the finance sector included in the consolidation. AT1 capital includes participations which do not qualify as CET1 capital and certain debt instruments, in both cases **provided that**, among other things, there is no formal maturity date, with repayment being at the discretion of the bank; repayment by the bank is only possible five years after issuance at the earliest and is subject to the approval of FINMA, the capital or debt instrument is subordinated to all unsubordinated claims; any compensation is independent of the creditworthiness of the bank; and, in the case of debt instruments, the instrument will be extinguished upon the reaching of a certain trigger point – the point of non-viability – or by conversion into CET1 or write-down of the debt. Tier 2 capital includes primarily subordinated debt instruments with a minimum term of five years which are either written off or converted into CET1 when the point of non-viability is reached.

Under the CAO, a Swiss bank is required to maintain on a consolidated basis a regulatory capital-to-risk ratio (the "**Total Capital Ratio**") of minimum 8 per cent., with 4.5 per cent. being covered by CET1 capital and 6 per cent. being covered by Tier 1 capital. The minimum Capital Conservation Buffer, in the form of CET1 capital, must be maintained at 2.5 per cent. of risk-weighted assets. In addition, the Swiss Federal Council, upon request of Swiss National Bank, may require banks to accumulate a Countercyclical Buffer representing up to an additional 2.5 per cent. in the form of CET1 capital of risk-weighted assets. FINMA retains its power to increase the capital requirements under the CAO.

Pursuant to the FINMA Circular 2011/2 regarding the Capital Buffer and Capital Planning of Banks, as amended, effective 1 January 2013, the Issuer falls into a category 3 bank which must have a Total Capital Ratio of at least 12 per cent., a CET1 ratio of at least 7.8 per cent. and a Tier 1 capital ratio of at least 9.6 per cent. Furthermore, the SNB temporary countercyclical buffer for Swiss mortgages must be added to the minimum 12 per cent. capital requirement which presently adds 0.2 per cent. in the form of CET1 capital resulting in a minimum Total Capital Ratio of at least 12.2 per cent.

## Regulatory Capital of the Issuer

The following information in this Section "Information regarding the CET1 ratio and Swiss capital ratios — Regulatory Capital of the Issuer" (including all subsections) has been extracted from the Chapter "Comment on Risk and Capital Management — Management of Capital including Regulatory Capital" of the "Financial Statements Julius Baer Group 2016" in the Julius Baer Group Annual Report 2016 as attached hereto in Annex B, from the Julius Baer Group Half-Year Report 2017 as attached hereto in Annex C and from the Julius Baer Group Annual Report 2015 as attached hereto in Annex A.

### Overview

In managing its capital, the Julius Baer 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 Julius Baer 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 a strong external credit rating.

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

In 2016, the scope of consolidation used for the calculation of capital adequacy is identical to that applied for accounting purposes. Note 26A "Companies Consolidated as at 31 December 2016" of the "Financial Statements Julius Baer Group 2016" in the Julius Baer Group Annual Report 2016 as attached hereto in Annex B provides an overview of the Julius Baer Group's consolidated companies. The Julius Baer Group's calculations of its risk-weighted assets published in the annual reports are identical to those carried out for regulatory reporting purposes.

The effects of Basel III and of the changes to IAS 19 with regard to pension fund liabilities are gradually incorporated into the Julius Baer Group's calculations of risk-weighted assets and eligible equity capital during the period from 2014 to 2018. Furthermore, recognition of tier 1 and tier 2 instruments which are not compliant with Basel III requirements are gradually discontinued between 2013 and 2022.

The Basel III international standard approach requires CET1 equivalent to at least 4.5 per cent. of risk-weighted assets, plus a CET1 capital buffer of 2.5 per cent., plus 1.5 per cent. of additional tier 1 (AT1) capital (or better-quality capital), plus 2 per cent. of supplementary tier 2 capital (or better-quality capital). In aggregate, this amounts to an overall capital requirement of at least 10.5 per cent. of risk-weighted assets. FINMA minimum capital requirements for the Julius Baer Group are 7.8 per cent. for CET1, 1.8 per cent. for AT1 and 2.4 per cent. for tier 2, which puts its overall minimum capital requirement at 12 per cent. of risk-weighted assets. At present, the Julius Baer Group is also required to hold an additional anti-cyclical CET1 capital buffer for mortgages on residential properties in Switzerland which adds a further 0.2 per cent. to its minimum capital requirement of 12 per cent. of risk-weighted assets. The capital held by the Julius Baer Group at 31 December 2016 and at 31 December 2015 was sufficient to meet the relevant Bank of International Settlement ("BIS") and FINMA requirements.

### Capital ratios

The following table sets forth the Issuer's capital ratios as at 30 June 2017 (Pro-forma figures Julius Bär Group) and 31 December 2016, 2015 and 2014 (CHF in millions):

	As at 30 June	As at 31 December		
	2017 <sup>(1)</sup>	2016 <sup>(1)</sup>	2015 <sup>(1)</sup>	2014 <sup>(1)</sup>
<b>Risk-weighted positions</b>				
Credit risk .....	14,072.5	14,902.80	13,775.4	12,206.8

Non-counterparty-related risk .....	442.2	506.7	510.0	547.9
Market risk .....	1,253.1	957.7	776.5	346.6
Operational risk .....	4,796.4	4,634.6	4,232.9	3,876.4
<b>Total .....</b>	<b>20,564.2</b>	<b>21,001.8</b>	<b>19,294.8</b>	<b>16,977.7</b>
<b>Eligible capital</b>				
CET1 capital <sup>(2)</sup> .....	3,060.3	3,444.2	3,534.2	3,739.6
Tier 1 capital <sup>(2)</sup> .....	3,720.0	3,597.0	3,534.2	3,739.6
of which hybrid tier 1 instruments <sup>(3)</sup> .....	1,144.7	1,134.7	908.0	772.8
Tier 2 capital .....	80.4	70.2	214.2	240.8
of which lower tier 2 instruments <sup>(4)</sup> .....	0.0	0.0	171.4	193.0
Total capital .....	3,800.4	3,667.2	3,748.4	3,980.4
CET1 capital ratio <sup>(2)</sup> .....	14.9%	16.4%	18.3%	22.0%
Tier 1 capital ratio <sup>(2)</sup> .....	18.1%	17.1%	18.3%	22.0%
<b>Total capital ratio .....</b>	<b>18.5%</b>	<b>17.5%</b>	<b>19.4%</b>	<b>23.4%</b>

Notes:

- <sup>(1)</sup> The Basel III effects, but also the effects of IAS 19 revised relating to pension liabilities, will be phased in between 2014 and 2018 for the calculation of the eligible capital. Furthermore, non-compatible Basel III tier 1 and tier 2 capital instruments will be phased out between 2013 and 2022.
- <sup>(2)</sup> The BIS Basel III tier 1 capital at the end of 31 December 2015 was the same as the BIS Basel III CET1 (common equity tier 1) capital and includes additional tier 1 capital which offsets the required deductions for goodwill and other intangible assets. During the phase-in period the amount of intangibles which has to be deducted directly from CET1 increases proportionally over time and the remaining amount of intangibles which is allowed to be deducted from additional tier 1 capital decreases respectively. As soon as the remaining amount of intangibles is lower than the additional tier 1 capital the CET1 capital will be lower than the tier 1 capital as at 31 December 2016 and 30 June 2017.
- <sup>(3)</sup> The hybrid tier 1 instruments are tier 1 bonds issued by Julius Baer Group Ltd. in 2012, tier 1 bonds issued by Julius Baer Group Ltd. in 2014, tier 1 bonds issued by Julius Baer Group Ltd. in 2015 and tier 1 bonds issued by Julius Baer Group Ltd. in 2016.
- <sup>(4)</sup> The lower tier 2 instruments are the subordinated unsecured bonds issued by Julius Baer Group Ltd in 2011.

The above table shows the Issuer's capital ratios as calculated on a phase-in basis. The Issuer's capital ratios calculated on a fully applied basis can be accessed on page 14 of its HY 2017 Results and Business Update - Presentation for Investors, Analysts & Media, Zurich, 24 July 2017 (the "**HY 2017 Results and Business Update Presentation**"). Page 14 of the HY 2017 Results and Business Update Presentation shall be deemed to be incorporated in, and to form part of, this Offering Circular provided however that any statement contained therein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained herein modifies or supersedes such statement. A copy of the HY 2017 Results and Business Update Presentation may be obtained from the Issuer at its registered office and online at <https://www.juliusbaer.com/group/en/news-detail-page/item/half-year-presentation-2017/>.

Further details regarding tier 1 instruments can be found in the Regulatory Disclosure section of [www.juliusbaer.com](http://www.juliusbaer.com).

### Capital components

The principal adjustment to the Issuer's total equity under IFRS 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 (as at 31 December 2016, 2015 and 2014). In addition to the table below, a separate Basel III pillar 3 report has been prepared which shows a full reconciliation between all components of the Issuer's eligible regulatory capital and its reported IFRS balance sheet as at 31 December 2016. This report, which is published in the Regulatory Disclosures section of [www.juliusbaer.com](http://www.juliusbaer.com), has been prepared in accordance with the FINMA regulations governing the disclosure of the composition of eligible regulatory capital.

	As at 31 December		
	2016 <sup>(1)</sup>	2015 <sup>(1)</sup>	2014 <sup>(1)</sup>
	(CHF in millions)		
Gross common equity tier 1 capital <sup>(2)</sup> .....	5,339.7	4,939.4	5,335.9
of which non-controlling interests .....	9.4	3.8	7.3
Effects of IAS 19 revised relating to pension liabilities .....	81.0	132.8	98.4
Goodwill and other intangible assets .....	(1,670.8)	(1,250.9)	(1,390.8)
Other deductions .....	(305.7)	(287.1)	(303.9)

	As at 31 December		
	2016 <sup>(1)</sup>	2015 <sup>(1)</sup>	2014 <sup>(1)</sup>
	(CHF in millions)		
<b>Common equity tier 1 capital</b> .....	<b>3,444.2</b>	<b>3,534.2</b>	<b>3,739.6</b>
Tier 1 capital instruments	1,134.7	908.0	772.8
of which preferred securities (phase-out capital instrument) .....	-	-	180.0
of which tier 1 bond (Basel III-compliant capital instrument) .....	1,134.7	908.0	592.8
Goodwill and intangible assets, offset against tier 1 capital instruments .....	(981.9)	(908.0)	(772.8)
<b>Additional tier 1 capital</b> .....	<b>152.8</b>	<b>-</b>	<b>-</b>
Tier 1 capital .....	3,597.0	3,534.2	3,739.6
Tier 2 capital .....	70.2	214.2	240.8
of which lower tier 2 capital (phase-out capital instrument) .....	-	171.4	193.0
of which other tier 2 capital .....	70.2	42.8	47.8
<b>Total capital</b> .....	<b>3,667.2</b>	<b>3,748.4</b>	<b>3,980.4</b>

Notes:

<sup>(1)</sup> The Basel III effects, but also the effects of IAS 19 revised relating to pension liabilities, will be phased in between 2014 and 2018 for the calculation of the eligible capital. Furthermore, non-compatible Basel III tier 1 and tier 2 capital instruments will be phased out between 2013 and 2022.

<sup>(2)</sup> Phase-in of 40 per cent. non-controlling interests of CHF 23.6 million (31.12.2015 phase-in 60 per cent. of CHF 6.4 million).

### Capital requirements

Required capital (see table below, as at 31 December 2016, 2015 and 2014) for credit risks arising from amounts due from banks, loans, financial investments and derivative financial instruments accounts for more than 71 per cent. (2015: 71 per cent.) of the total required capital. Capital required for non-counterparty risk (2016: 2 per cent.; 2015: 3 per cent.) and market risk (2016: 5 per cent.; 2015: 4 per cent.) is of minor significance. The capital required to cover operational risk accounts for more than 22 per cent. of total required capital (2015: 22 per cent.).

	As at 31 December		
	2016 <sup>(1)</sup>	2015 <sup>(1)</sup>	2014 <sup>(1)</sup>
	(CHF in millions)		
Credit risk .....	1,192.2	1,102.0	976.6
of which for equity securities in the banking book .....	9.8	4.4	7.7
Non-counterparty-related risk .....	40.5	40.8	43.8
Market risk .....	76.6	62.1	27.7
Operational risk .....	370.8	338.7	310.1
<b>Total</b> .....	<b>1,680.1</b>	<b>1,543.6</b>	<b>1,358.2</b>

Notes:

<sup>(1)</sup> The Basel III effects, but also the effects of IAS 19 revised relating to pension liabilities, will be phased in between 2014 and 2018 for the calculation of the eligible capital. Furthermore, non-compatible Basel III tier 1 and tier 2 capital instruments will be phased out between 2013 and 2022.

For further information on the Issuer's capital adequacy and liquidity, see Disclosure Obligations Regarding Capital Adequacy and Liquidity December 2016 attached hereto in Annex D.

## TAXATION

### SWITZERLAND

*The following discussion of taxation under the heading "Switzerland" in this section is only an indication of certain tax implications currently in force under the laws of Switzerland as they may affect investors. It applies only to persons who are beneficial owners of the 2017 Tier 1 Bonds and may not apply to certain classes of person. The summary contains general information only; it is not exhaustive and does not constitute legal or tax advice and is based on taxation law and practice at the date of this Offering Circular. Potential investors should be aware that tax law and interpretation, as well as the level and bases of taxation, may change from those described and that changes may alter the benefits of investment in, holding or disposing of, 2017 Tier 1 Bonds. The Issuer makes no representations as to the completeness of the information nor undertakes any liability of whatsoever nature for the tax implications for investors. Potential investors are strongly advised to consult their own professional advisers on the implications of making an investment in, holding or disposing of, 2017 Tier 1 Bonds under the laws of the countries in which they are liable to taxation and in light of their particular circumstances.*

#### Swiss Withholding Tax

Interest payments by the Issuer in respect of 2017 Tier 1 Bonds are exempt from Swiss withholding tax (*Verrechnungssteuer*) under the statutory exemption of article 5(1)(g) of the Swiss Withholding Tax Act (*Bundesgesetz über die Verrechnungssteuer*) for write-down bonds.

On 4 November 2015, the Swiss Federal Council announced that it had mandated the Swiss Finance Department to appoint a group of experts to prepare a proposal for a reform of the Swiss withholding tax system. The proposal is expected to, among other things, replace the current debtor-based regime applicable to interest payments with a paying agent-based regime for Swiss withholding tax. This paying agent-based regime is expected to be similar to the one contained in the draft legislation published by the Swiss Federal Council on 17 December 2014, which was subsequently withdrawn on 24 June 2015. If such a paying agent system were introduced and a paying agent acting out of Switzerland were required to deduct or withhold Swiss withholding tax on payments in respect of the 2017 Tier 1 Bonds classifying as interest, the Issuer would have no obligation to pay additional amounts or otherwise indemnify a holder for any such withholding or deduction by the Issuer, a paying agent or any other party, as a result of the deduction or withholding of such amount.

#### Swiss Securities Turnover Tax

The issue, sale and delivery, of the 2017 Tier 1 Bonds, on the Issue Date will not subject to Swiss securities turnover tax (*Umsatzabgabe*) (primary market). Secondary market transactions in the 2017 Tier 1 Bonds may be subject to Swiss turnover tax at a rate of up to 0.15 per cent. of the consideration paid for the 2017 Tier 1 Bonds traded, however, only if a Swiss securities dealer, as defined in the Swiss Stamp Tax Act (*Bundesgesetz über die Stempelabgaben*), is a party or an intermediary to the transaction and no exemption applies. Even if such a Swiss securities dealer is a party or an intermediary to the transaction, no Swiss turnover tax will apply to a transaction where both the seller and the purchaser of the 2017 Tier 1 Bonds are not residents of Switzerland or the Principality of Liechtenstein.

#### Swiss Income Taxation

##### *Classification and Coupon Split*

The 2017 Tier 1 Bonds classify for Swiss individual income tax purposes as transparent structured financial products composed of a bond and one or more options or similar rights the yield-to-maturity of which predominantly derives from periodic interest payments and not from a one-time interest payment such as an original issue discount or a repayment premium (*Obligationen ohne überwiegende Einmalverzinsung; non-IUP*). In accordance with such classification, each semi-annual interest payment in respect of each 2017 Tier 1 Bond of USD 200,000 is split into two components for Swiss tax purposes:

- (i) a non-taxable option premium amount (hereinafter for purposes of this section, the "**Embedded Premium Amount**") equivalent to USD 1,520 (1.52 per cent. per annum, the "**Embedded Premium Rate**"); and



- (ii) a taxable interest amount (hereinafter for purposes of this section, the "**Embedded Interest Amount**") equivalent to:
- USD 3,230 (3.23 per cent. per annum) from (but excluding) the Issue Date until (but excluding) the First Call Date; and
  - USD 100,000 multiplied by the embedded rate of interest being calculated on the basis of (a) the prevailing CMT Rate plus the Margin, minus (b) the Embedded Premium Rate, in respect of each Relevant Five-Year Period thereafter.

#### ***2017 Tier 1 Bonds held by Non-Swiss Holders***

Holders who are not residents of Switzerland for tax purposes and who during the relevant taxable period have not held 2017 Tier 1 Bonds through a permanent establishment within Switzerland are not subject to Swiss income tax in respect of their 2017 Tier 1 Bonds. See "*—Swiss Withholding Tax*" above for a summary of the taxation treatment of the 2017 Tier 1 Bonds in respect of Swiss withholding tax. See "*—International Automatic Exchange of Financial Accounts Information in Tax Matters*" as concerns the exchange of information in respect of 2017 Tier 1 Bonds held in accounts or deposits with financial institutions in Switzerland. See "*—FATCA*" below for a summary of the taxation treatment of the 2017 Tier 1 Bonds in respect of FATCA.

#### ***2017 Tier 1 Bonds held as Private Assets by Swiss Resident Holders***

An individual who resides in Switzerland and holds 2017 Tier 1 Bonds as private assets is required to include all payments of Embedded Interest Amounts on the 2017 Tier 1 Bonds, converted into CHF at the exchange rate prevailing at the time of the interest payment, in his or her personal income tax return for the relevant tax period and is taxable on any net taxable income (including the Embedded Interest Amounts) for such tax period at the then prevailing tax rates.

The payment of Embedded Premium Amounts on the 2017 Tier 1 Bonds and a gain realised on the sale or other disposal of 2017 Tier 1 Bonds, including, in respect of the option(s) or similar right(s) embedded in the 2017 Tier 1 Bonds, interest accrued or foreign exchange rate or interest rate changes, is a tax-free private capital gain. The same applies for gain realised upon the redemption of 2017 Tier 1 Bonds, except when 2017 Tier 1 Bonds are redeemed early, in which case compensation for interest accrued paid by the Issuer to a Holder constitutes a taxable interest amount. Conversely, a loss, including in respect of foreign exchange rate or interest rate changes realised on the sale or other disposal or redemption of 2017 Tier 1 Bonds or a loss resulting from a Contingent Write-down or a Subsequent Write-down is a private capital loss which is not tax deductible. See "*—2017 Tier 1 Bonds held as Assets of a Trade or Business in Switzerland*" for a summary of the taxation treatment of Swiss resident individuals who, for income tax purposes, are classified as "professional securities dealers".

#### ***2017 Tier 1 Bonds held as Assets of a Trade or Business in Switzerland***

Individuals who hold 2017 Tier 1 Bonds through a business in Switzerland, and Swiss-resident corporate taxpayers, and corporate taxpayers residing abroad holding 2017 Tier 1 Bonds through a permanent establishment situated in Switzerland, are required to recognise payments of Embedded Interest Amounts and Embedded Premium Amounts and gains or losses realised on the disposal or redemption of 2017 Tier 1 Bonds, and, as the case may be, losses realized from a Contingent Write-down or a Subsequent Write-down of 2017 Tier 1 Bonds in their income statement for the relevant tax period, and will be taxable on any net taxable earnings for such tax period at the then prevailing tax rates. The same taxation treatment also applies to Swiss-resident individuals who, for Swiss income tax purposes, classify as "professional securities dealers" for reasons of, *for example*, frequent dealings, or leveraged transactions, in securities.

#### **International Automatic Exchange of Financial Accounts Information in Tax Matters**

Switzerland has concluded a multilateral agreement with the EU on the international automatic exchange of information ("**AEOI**") in tax matters (the "**AEOI Agreement**"), which is replacing the repealed EU savings tax agreement and the repealed agreements of Switzerland with Austria and UK on final withholding taxes. The AEOI Agreement became effective as of 1 January 2017, and applies to all 28 member states of the EU and also Gibraltar. In addition, on 1 January 2017 the multilateral competent authority agreement on the automatic exchange of financial account information ("**MCAA**"), and based on the MCAA, a number of bilateral AEOI agreements with other countries, became effective. Based on



the AEOI Agreement and the bilateral AEOI agreements and the implementing laws of Switzerland, Switzerland began to collect data in respect of financial assets, such as the 2017 Tier 1 Bonds, held in, and income derived thereon and credited to, accounts or deposits with a paying agent in Switzerland for the benefit of residents in an EU member state or a treaty state from 2017, and will begin to exchange it from 2018. Switzerland has signed and will sign further AEOI agreements with further countries, which, subject to ratification, will become effective on 1 January 2018 or at a later date. A list of the AEOI agreements of Switzerland in effect or signed and becoming effective can be found on the website of the State Secretariat for International Financial Matters (SIF).

## **FATCA**

The Issuer and other financial institutions through which payments on the 2017 Tier 1 Bonds are made may be required to withhold at a rate of up to 30 per cent. on all, or a portion of, payments made after 31 December 2018 pursuant to Sections 1471 through 1474 of the US Internal Revenue Code (commonly referred to as "**FATCA**").

The Issuer is a foreign financial institution ("**FFI**") for the purposes of FATCA. If the Issuer is required, or agrees, to provide certain information about its account holders pursuant to a FATCA agreement with the US Internal Revenue Service (i.e. the Issuer is a "**Participating FFI**") then withholding may be triggered if: (i) payments on the 2017 Tier 1 Bonds are classified as "foreign passthru payments" for purposes of FATCA and (ii) (a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is a US person or should otherwise be treated as holding a "United States Account" of the Issuer, (b) an investor does not consent, where necessary, to have its information disclosed to the IRS or (c) any FFI that is an investor, or through which payment on the 2017 Tier 1 Bonds is made, is not a Participating FFI or otherwise exempt from being withheld upon under FATCA.

The United States and Switzerland entered into an intergovernmental agreement to facilitate the implementation of FATCA (an "**IGA**"). Under the US-Switzerland IGA, financial institutions acting out of Switzerland generally are directed to become Participating FFIs. The agreement ensures that accounts held by U.S. persons with Swiss financial institutions are disclosed to the U.S. tax authorities either with the consent of the account holder or by means of group requests within the scope of administrative assistance. Information will not be transferred automatically in the absence of consent, and instead will be exchanged only within the scope of administrative assistance on the basis of the double taxation agreement between the U.S. and Switzerland. The United States has entered into IGAs with a number of jurisdictions besides Switzerland and is in the process of negotiating or in dialogue regarding IGAs with other jurisdictions.

If an amount in respect of FATCA were to be deducted or withheld from interest, principal or other payments on or with respect to the 2017 Tier 1 Bonds, the Issuer would have no obligation to pay additional amounts or otherwise indemnify a holder for any such withholding or deduction by the Issuer, a paying agent or any other party as a result of the deduction or withholding of such amount. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected.

An FFI investor that is not a Participating FFI and that is withheld upon generally will be able to obtain a refund only to the extent an applicable income tax treaty with the United States entitles the investor to a reduced rate of tax on the payment that was subject to withholding under FATCA, provided the required information is furnished in a timely manner to the IRS.

There is a grandfathering rule that generally exempts payments made with respect to obligations that are classified as indebtedness for US federal income purposes that are issued before the date that is six months after the publication of regulations defining the term foreign passthru payment. However, the terms of the 2017 Tier 1 Bonds make it uncertain that they will be classified as indebtedness for these purposes.

Significant aspects of the application of FATCA are not currently clear. Investors should consult their own advisors about the application of FATCA, in particular if they may be classified as financial institutions under the FATCA rules.

### **The proposed financial transactions tax ("FTT")**

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the 2017 Tier 1 Bonds (including secondary' market transactions) in certain circumstances.

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the 2017 Tier 1 Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the 2017 Tier 1 Bonds are advised to seek their own professional advice in relation to the FTT.

## SUBSCRIPTION AND SALE

BNP Paribas, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited and Bank Julius Baer & Co. Ltd. (the "**Managers**") have, in a bond purchase agreement dated 8 September 2017 (the "**Bond Purchase Agreement**") and made between the Issuer and the Managers upon the terms and subject to the conditions contained therein, severally agreed to subscribe for the 2017 Tier 1 Bonds at their issue price of 100 per cent. of their Original Notional Amount. The Issuer has also agreed to reimburse the Managers for certain of their expenses incurred in connection with the management of the issue of the Securities.

### General

Each Manager has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers the 2017 Tier 1 Bonds or possesses, distributes or publishes this Offering Circular or any other offering material relating to the 2017 Tier 1 Bonds. Persons into whose hands this Offering Circular comes are required by the Issuer and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver 2017 Tier 1 Bonds or possess, distribute or publish this Offering Circular or any other offering material relating to the 2017 Tier 1 Bonds, in all cases at their own expense.

### Singapore

Each of the Managers has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore (the "**MAS**"). Accordingly, each of the Managers has represented, warranted and agreed that it has not offered or sold any 2017 Tier 1 Bonds or caused the 2017 Tier 1 Bonds to be made the subject of an invitation for subscription nor purchase and will not offer or sell any 2017 Tier 1 Bonds or cause the 2017 Tier 1 Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the 2017 Tier 1 Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) under Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the 2017 Tier 1 Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the 2017 Tier 1 Bonds pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or

- (5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

### **United States**

The 2017 Tier 1 Bonds have not been, and will not be, registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The 2017 Tier 1 Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Manager has agreed that, except as permitted by the Bond Purchase Agreement, it will not offer, sell or deliver the 2017 Tier 1 Bonds, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the 2017 Tier 1 Bonds, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells 2017 Tier 1 Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the 2017 Tier 1 Bonds within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after commencement of the offering, an offer or sale of 2017 Tier 1 Bonds within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### **United Kingdom**

Each Manager has represented, warranted and undertaken that:

- (a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, as amended ("**FSMA**")) received by it in connection with the issue or sale of the 2017 Tier 1 Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the 2017 Tier 1 Bonds in, from or otherwise involving the United Kingdom.

### **Hong Kong**

Each of the Managers has represented and agreed that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any 2017 Tier 1 Bonds, except for 2017 Tier 1 Bonds which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**"), other than (a) to "professional investors" as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMPO)**") or which do not constitute an offer to the public within the meaning of the C(WUMPO); and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the 2017 Tier 1 Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to 2017 Tier 1 Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

## GENERAL INFORMATION

1. Pursuant to a resolution of the Board of Directors of the Issuer dated 27 June 2017, the Issuer has authorised the issue of the 2017 Tier 1 Bonds.
2. The Issuer confirms that this Offering Circular contains all information regarding the Issuer and the 2017 Tier 1 Bonds which is (in the context of the issue of the 2017 Tier 1 Bonds) material; such information is true and accurate in all material respects and is not misleading; any opinions, predictions or intentions expressed in this Offering Circular on the part of the Issuer are honestly held or made and are not misleading in any material respect; this Offering Circular does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and reasonable enquiries have been made to ascertain and to verify the foregoing. The Issuer assumes responsibility pursuant to article 27 of the Listing Rules of the SIX Swiss Exchange and section 4 of Scheme E thereunder for the completeness and accuracy of this Offering Circular.
3. Other than as disclosed in this Offering Circular, there has been no material change in the assets and liabilities, financial position and profits and losses of the Issuer since 30 June 2017.
4. Other than as disclosed herein (see "*Julius Baer Group Ltd. — Court, Arbitration and Administrative Proceedings*"), there are no pending or threatened court, arbitral or administrative proceedings that are of material importance to assets and liabilities or profit and losses of the Issuer and/or its Subsidiaries.
5. The 2017 Tier 1 Bonds have been provisionally admitted to trading on the SIX Swiss Exchange from 12 September 2017. The last trading day is expected to be the second dealing day prior to the date on which the 2017 Tier 1 Bonds are fully redeemed or the Write-down Date, as applicable, in accordance with the Terms and Conditions of the 2017 Tier 1 Bonds. Application has been made for the 2017 Tier 1 Bonds to be listed on the SIX Swiss Exchange.

In accordance with article 43 of the Listing Rules of the SIX Swiss Exchange, the Issuer has appointed Credit Suisse AG as its representative to lodge the listing application for the 2017 Tier 1 Bonds with the SIX Swiss Exchange.
6. Copies of the following documents, all of which are published in English, may be inspected during normal business hours on any weekday (Saturdays and public holidays excepted) at the registered office of the Issuer:
  - (i) the Articles of Incorporation of the Issuer;
  - (ii) the Global Certificate;
  - (iii) the Agency Agreement;
  - (iv) a copy of this Offering Circular together with any amendment or supplement to this Offering Circular; and
  - (v) the latest published annual consolidated financial statements of the Issuer and the latest published interim consolidated financial statements of the Issuer.
7. The International Securities Identification Number ("**ISIN**"), the Common Code and the Swiss Security Number of the 2017 Tier 1 Bonds are XS1679216801, 167921680 and 38205293, respectively.
8. KPMG AG has audited, and rendered an unqualified audit report on, the annual consolidated financial statements of the Issuer for the financial years ended 31 December 2015 and 2016.
9. Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.

In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. For the purpose of this paragraph the term "affiliates" include also parent companies.

10. Within the context of the offering and sale of the 2017 Tier 1 Bonds, the Issuer, any of its affiliates or the Managers may directly or indirectly pay fees in varying amounts to third parties, such as distributors or investment advisors, or receive payment of fees in varying amounts, including any levied in association with the distribution of the 2017 Tier 1 Bonds, from third parties. Prospective investors should be aware that the Issuer, its affiliates and the Managers may retain fees in part or in full.
11. The provisions on bondholder meetings contained in Article 1157 *et seq.* of the Swiss Federal Code of Obligations apply in relation to meetings of Holders.

These provisions provide, *inter alia*, that (i) certain amendments to the Terms of the Bonds that restrict the rights of Holders can be approved by a meeting of Holders with a majority of two thirds of the outstanding nominal amount of the 2017 Tier 1 Bonds, subject to the approval of such amendments by the higher cantonal composition authority (here the higher court (*Obergericht*) of the Canton of Zurich) and (ii) amendments to the Terms of the Bonds that do not restrict the rights of Holders can be approved by a meeting of Holders with the majority of the nominal amount of the 2017 Tier 1 Bonds represented at such meeting.

Such amendments to the Terms of the Bonds are binding on all Holders, irrespective of whether they attended the meeting of Holders or voted in favour or against such amendments.



**ANNEX A**  
**JULIUS BAER GROUP LTD. ANNUAL REPORT 2015**

Julius Bär

## ANNUAL REPORT 2015

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JULIUS BAER GROUP LTD.



#### Front cover:

Located in the southernmost part of Switzerland, on the shores of the eponymous lake, Lugano is the biggest city in the Canton of Ticino. Its humid subtropical climate and growing number of illustrious visitors from all over the world have earned it the nickname of the 'Monte Carlo of Switzerland'. In addition to tourism and historically significant trade on the north-south axis, financial services have developed into the third important pillar of Lugano's economy in recent decades. In fact, Lugano is now the third largest of the country's financial centres, also making it a major location for Julius Baer.

Including integration and restructuring expenses as well as the amortisation of intangible assets related to previous acquisitions or divestitures, the net profit achieved in 2015 amounted to CHF 123 million. Excluding these items, the adjusted net profit for 2015 amounted to CHF 279 million. Further information on this basis can be found in the presentation and the media release on the 2015 financial results and the Business Review 2015.

## KEY FIGURES

	2015	2014	
Return on equity (ROE)	2.4%	7.1%	-
Return on equity (ROE) <sup>1</sup>	8.3%	16.3%	-
Cost/income ratio <sup>2</sup>	73.5%	79.2%	-
Cost/income ratio <sup>3</sup>	67.2%	69.9%	-
	31.12.2015	31.12.2014	Change %
<b>Consolidated balance sheet</b>			
Total assets (CHF m)	84,115.5	82,233.8	2.3
Total equity (CHF m)	4,942.0	5,337.8	-7.4
BIS tier 1 capital ratio	18.3%	22.0%	-
<b>Client assets (CHF bn)</b>			
Assets under management	299.7	290.6	3.1
Assets under custody	85.8	105.8	-18.9
Total client assets	385.5	396.4	-2.7
<b>Personnel</b>			
Number of employees (FTE)	5,364	5,247	2.2
<i>of whom in Switzerland</i>	3,064	3,076	-0.4
<i>of whom abroad</i>	2,300	2,171	6.0

<sup>1</sup> 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

<sup>2</sup> Excluding valuation allowances, provisions and losses

<sup>3</sup> Excluding valuation allowances, provisions and losses, and integration and restructuring expenses as well as amortisation of intangible assets

### Listing

Zurich, Switzerland	SIX Swiss Exchange under the securities number 10 248 496 Member of the Swiss Market Index SMI
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### Ticker symbols

Bloomberg	BAER VX
Reuters	BAER.VX

	2015	2014	Change %
<b>Information per share (CHF)</b>			
Equity (book value, as at 31.12.)	23.0	24.6	-6.4
EPS	0.55	1.68	
Share price (as at 31.12.)	48.66	45.81	6.2
<b>Market capitalisation (CHF m, as at 31.12.)</b>	10,891	10,253	6.2
<b>Moody's long-term deposit rating Bank Julius Baer &amp; Co. Ltd.</b>	Aa2	A1	-
<b>Capital structure (as at 31.12.)</b>			
Number of shares, par value CHF 0.02	223,809,448	223,809,448	-
Weighted average number of shares outstanding	218,613,533	218,451,680	-
Share capital (CHF m)	4.5	4.5	-



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## DEAR READER

Financial market developments in 2015 were dominated by declining monetary policy efficacy and growing cyclical divergence between emerging and developed economies. While overall investment performance was satisfactory, many asset classes took severe turns during the year. This contributed to pronounced seasonality in business momentum, with strong client activity in the first months of the year giving way to a more risk-averse stance in the second half. Following the unexpected move of the Swiss National Bank to abandon the Swiss franc's cap against the euro in mid-January 2015, we introduced a comprehensive set of measures to protect our Group's profitability against the negative effects of the strong Swiss franc in February 2015. On 5 February 2016, we were able to announce the final settlement with the US Department of Justice in connection with the Group's legacy US cross-border business, including the settlement amount totalling USD 547.25 million, for which we had set aside a corresponding provision in 2015. At the end of 2015, our Group managed assets of CHF 300 billion, a record high.

Following the formal closing of the acquisition of Merrill Lynch's International Wealth Management (IWM) business outside the US at the end of January 2015, the transfer of IWM's India business in September 2015 marked the final step of this landmark transaction. The potential for structural changes in the wealth management industry remains high, driven by margin pressure and thus the need for scale. We have every intention of taking advantage of the ongoing industry consolidation if and when opportunities arise, provided they meet our stringent strategic, cultural and financial criteria. 2015 saw us complete the acquisitions of Leumi Private Bank AG and Fransad Gestion SA in Switzerland, take a 40% strategic investment in NSC Asesores, the largest independent wealth manager in Mexico, and announce the increase of our stake in Italy-based Kairos from 19.9% to 80% and the acquisition of Commerzbank International SA Luxembourg, the latter two transactions expected to be completed in 2016. By continuously investing in our existing business, we adapt not only to shifting patterns in clients' investment behaviour but also to trends such as the swift spread and rising acceptance of digitalisation. Important initiatives launched in 2015 include the renewal of our core banking platforms globally, the overhaul of our online channels and the introduction of *Julius Baer – Your Wealth* as part of our substantially enhanced advisory process.

Julius Baer remains well capitalised, even taking into account the impact of the aforementioned provision and the final IWM payment to Bank of America. With the aim to further optimise the Group's capital structure, Julius Baer successfully issued SGD 450 million of innovative additional tier 1 securities in November 2015, predominantly to Asian-based investors, underlining our strong commitment to Julius Baer's second home market. The new securities are fully Basel III-compliant. Some of the proceeds were

used at the beginning of December 2015 to redeem 'old-style' preference securities issued in 2005. At the end of 2015, the Group's BIS total capital ratio stood at 19.4% and the BIS tier 1 capital ratio at 18.3%, well above the floors as well as the required regulatory levels. The Board of Directors intends to propose to the Annual General Meeting on 13 April 2016 an increased dividend of CHF 1.10 per share. The total proposed dividend payout amounts to CHF 246 million, up from CHF 224 million in 2015.

Thanks to our strong position in most of our chosen markets, our focused and highly differentiated business model, our excellent standing with clients and, last but not least, our highly skilled and motivated employees, we are confident that Julius Baer will successfully master the challenges ahead and be able to exploit the many growth opportunities the international wealth management industry has to offer.

We would like to take this opportunity to express our sincerest thanks to our clients for their esteemed loyalty, to our employees for their unwavering commitment and to our shareholders and bond investors for their continued support.



Daniel J. Sauter  
*Chairman*

A handwritten signature in dark ink, appearing to read 'D. Sauter'.



Boris F.J. Collardi  
*Chief Executive Officer*

A handwritten signature in dark ink, appearing to read 'Boris Collardi'.

Zurich, March 2016



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This Annual Report also appears in German. The English version is prevailing.



# I. CORPORATE GOVERNANCE

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Corporate governance is a decisive part of business management. Shareholders, clients and staff are usually considered the key stakeholder groups within the context of corporate governance. Moreover, the focus of Julius Baer Group Ltd. (the Company) on achieving sustained success and consistency in the Group'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 the Company is presented in accordance with the Corporate Governance Directive of the SIX Swiss Exchange revised on 1 September 2014 and with the guidelines and recommendations of the 'Swiss Code of Best Practice for Corporate Governance' of the Swiss business federation *economiesuisse* in its current version dated 29 September 2014.

The revision dated 29 September 2014 takes into account the changes that have resulted from Article 95, paragraph 3 of the Federal Constitution (regarding 'excessive compensation', cf. the subsequent paragraph). It emphasises in particular the concept of sustainable corporate success as the foundation of sensible 'corporate social responsibility'. It also prescribes specific modifications to the composition of the Board of Directors (including representation of women) and to risk management (including compliance).

On 20 November 2013, the Federal Council put its executive 'Ordinance against excessive compensation in listed companies' into force effective 1 January 2014. It contains legal provisions applicable until the final implementation of the law. The Ordinance has implications on a number of the Group's constituent documents including the Articles of Incorporation and is reflected in the Group's corporate governance where necessary.

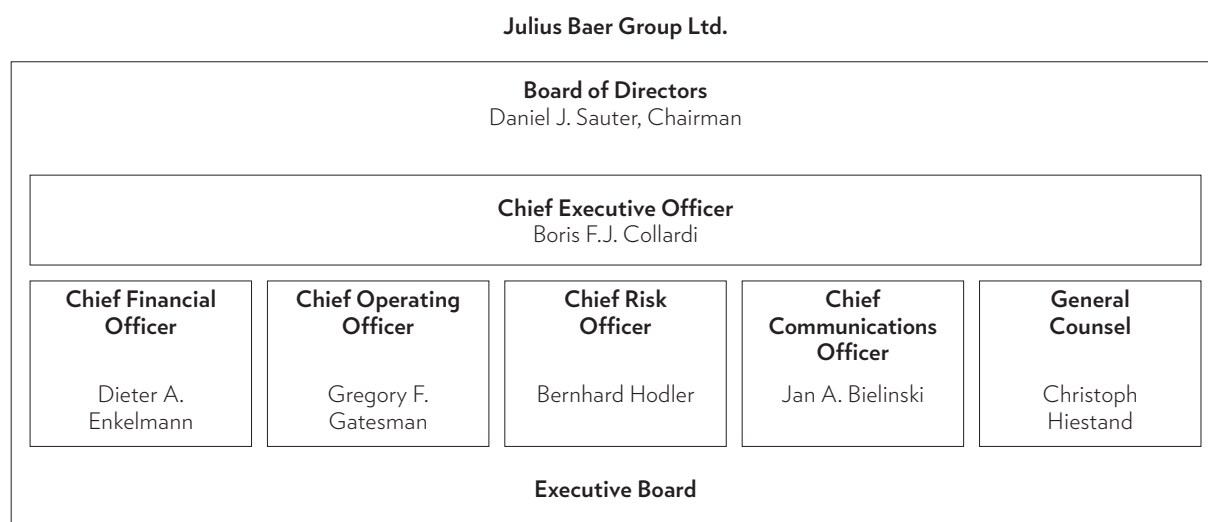
⇒ The Group's overall compensation framework including compensation governance, compensation elements and their application in the period under review is described in detail in chapter *II. Remuneration Report* of this Annual Report.

The following information corresponds to the situation as at 31 December 2015 unless indicated otherwise.

## GROUP STRUCTURE AND SHAREHOLDERS

### Operational Group structure of Julius Baer Group Ltd. as at 31 December 2015

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The consolidated Group companies are disclosed in Note 26A.



## SIGNIFICANT SHAREHOLDERS/ PARTICIPANTS

Based on notifications received by Julius Baer Group Ltd., each of the following shareholders/participants held 3% or more of the voting rights in Julius Baer Group Ltd. as at 31 December 2015:<sup>1</sup>

Shareholder/participant <sup>3</sup>	Disclosure of purchase positions <sup>2</sup>		Disclosure of sale positions <sup>2</sup>	
MFS Investment Management <sup>4</sup>	9.98%			
BlackRock Inc. <sup>5</sup>	5.95%		0.0036%	
Harris Associates L.P. <sup>6</sup>	5.33%			
Wellington Management Group LLP <sup>7</sup>	4.92%			
Bank of America Corporation <sup>8</sup>	3.76%			

<sup>1</sup> 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. Please note that the above figures are based on reports made before respectively after the following events: a) capital increase by way of rights offering completed on 17 October 2012 with the issuance of 20,316,285 newly registered shares of Julius Baer Group Ltd.; b) capital increase out of authorised share capital completed on 24 January 2013 with the issuance of 7,102,407 newly registered shares of Julius Baer Group Ltd.

<sup>2</sup> 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).

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).

The implementing provisions on disclosure law have been integrated into the new FINMA Financial Market Infrastructure Ordinance (FMIO-FINMA), which has entered into force on 1 January 2016. Purchase positions must be disclosed pursuant to art. 14 para. 1 a FMIO-FINMA and sales positions pursuant to art. 14 para. 1 b FMIO-FINMA.

<sup>3</sup> Please note that a change in the holding of voting rights within reportable thresholds does not trigger a notification duty. Further details on individual shareholdings can be found on [www.juliusbaer.com/shareholders](http://www.juliusbaer.com/shareholders) or on [www.six-exchange-regulation.com](http://www.six-exchange-regulation.com) in the section Publications > Significant Shareholders, Issuer Julius Bär Gruppe AG

<sup>4</sup> MFS Investment Management, Boston/USA, and its subsidiaries (reported on 30 December 2013)

<sup>5</sup> BlackRock Inc., New York/USA, and its subsidiaries (reported on 26 June 2015)

<sup>6</sup> Harris Associates L.P., Chicago/USA (reported on 3 September 2013)

<sup>7</sup> Wellington Management Group LLP, Boston/USA (reported on 26 August 2015)

<sup>8</sup> Bank of America Corporation, Charlotte/USA, and its directly and indirectly held subsidiaries (reported on 16 August 2012)

The individual reports that were published during the year under review can be accessed on the reporting and publication platform of the Disclosure Office of SIX Swiss Exchange at the address [www.six-exchange-regulation.com](http://www.six-exchange-regulation.com) in the section Publications > Significant Shareholders, Issuer Julius Bär Gruppe AG.

## 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 4,476,188.96 as at 31 December 2015. It is fully paid up and divided into 223,809,448 registered shares (shares) with a par value of CHF 0.02 each. The shares (Swiss securities no. 10 248 496; ISIN CH 010 2484968) are listed on the SIX Swiss Exchange and are member 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 200,000.00 through the exercise of conversion or warrant rights in connection with bonds issued by the Company or its subsidiaries. Existing shareholders are excluded from subscription rights. 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 4.4ff. of the Articles of Incorporation.

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

Important reasons can be the securing of optimal conditions in issuing the bonds and ensuring equal treatment of shareholders domestically and abroad. 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 in chapter *III. Financial Statements Julius Baer Group* of this Annual Report. For information about changes of capital in periods three or more years back please visit [www.juliusbaer.com/reports](http://www.juliusbaer.com/reports).

### SHARES AND PARTICIPATION CERTIFICATES

#### Shares

	2015	2014
Number of shares with par value of CHF 0.02 as at 31 December	<b>223,809,448</b>	223,809,448
(dividend entitlement, see Note 19)		

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 2015)

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 a 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 registered 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 securities, 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 Meeting of Shareholders 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 discloses to the Company the name, address, nationality or registered office and shareholdings of any person or legal entity for whose account it holds 0.5% or more of the share capital. Fiduciaries/nominees who are affiliated with other fiduciaries/nominees by means of ownership structure or voting rights, or who 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.

## 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 in identical responsibilities as the Board of Directors of Julius Baer Group Ltd.

### MEMBERS OF THE BOARD OF DIRECTORS

**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, 2001–2012. Julius Baer Holding Ltd., member of the Board of Directors, 2007–2009; Bank Julius Baer & Co. Ltd., member of the Board of Directors since 2007 and its Chairman since 2012; Julius Baer Group Ltd., member of the Board of Directors since 2009; Chairman of the Board of Directors of Julius Baer Group Ltd. since 2012 (term of office until 2016).

**Gilbert Achermann** (born 1964), Swiss citizen; Bachelor of Business Administration, School of Economics and Business (HWV), St. Gallen, 1988; Executive MBA, IMD Lausanne, 2000. UBS Investment Banking, 1988–1998: Graduate trainee programme Trading & Sales, 1988–1989; Associate Corporate Finance / Capital Markets; Assistant to Regional Head North America, 1990–1994; Director Corporate Finance Advisory, 1995–1998; Straumann Group since 1998: Chief Financial Officer and Deputy CEO, 1998–2001; Board member of the ITI Association and ITI Foundation since 2002; Chief Executive Officer, 2002–2010; Chairman of the Board of Directors since 2010. Member of the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 2012 (2016).

**Andreas Amschwand** (born 1960), Swiss citizen; Bachelor of Business Administration, School of Economics and Business (HWV), 1986. Credit Suisse Group, apprenticeship and subsequent further education in Lausanne, 1976–1981; UBS AG, 1986–2011: Balance Sheet Management, 1986–1991; Money Market, 1992–2000; Forex and Money Market, Investment Bank, Global Head Forex and Money Market, Head Investment Banking Switzerland, member of the Investment Bank Executive Committee, 2001–2008; Investment Products and Services Wealth Management and Swiss Bank, Global Head Investment Products and Services, member of the Wealth Management Executive Committee, 2010–2011. Member of the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 2012 (2016).

**Heinrich Baumann** (born 1951), Swiss citizen; PhD in Management, Technology and Economics, Swiss Federal Institute of Technology (ETH), Zurich, 1985. UBS AG, 1975–1998: COO Singapore Branch and Deputy Branch Manager, 1985–1987; Chief of Staff International Division and Section Head Management Support, 1987–1990; member of the Regional Management Committee (New York), Chief Operating Officer Region North America, 1990–1994; Department Head Finance and Controlling on Group level, 1994–1998; independent Management Consultant, 1998–1999; HSBC Guyerzeller Bank Ltd., 1999–2009: Chief Operating Officer, 1999–2002; Vice-President of the Executive Committee/Chief Operating Officer, 2003–2005; Chief Executive Officer, 2006–2009; independent Management Consultant since 2009. Member of the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 2011 (2016).

**Paul Man Yiu Chow** (born 1946), Chinese (Hong Kong SAR) citizen; University of Hong Kong; Bachelor of Science in Mechanical Engineering, 1970, Diploma in Management Studies, 1979, Master of Business Administration, 1982; Diploma in finance, Chinese University of Hong Kong, 1987; Doctor h.c. of Social Science, the Open University of Hong Kong, 2010. Hong Kong Government, Executive Officer II, 1970–1971; IBM World Trade Corporation, Hong Kong, Associate Systems engineer, 1971–1973; Sun Hung Kai Group, Hong Kong, 1973–1988: Sun Hung Kai Securities Limited,

Executive Director, 1982–1983; Sun Hung Kai Bank Limited, Executive Director, Deputy General Manager and Chief Financial Officer, 1983–1985, Sun Hung Kai & Co. Ltd., Chief Administration & Financial Officer, and Sun Hung Kai Securities Limited, Executive Director, 1985–1988; Chinese University of Hong Kong, lecturer in finance, 1988–1989; The Stock Exchange of Hong Kong Limited, 1989–1997: Director of Operations and Technology, 1989–1990; Hong Kong Securities Clearing Company Ltd., Chief Executive Officer, 1990–1991; Chief Executive, 1991–1997; HSBC Asset Management, Asia Pacific (ex Japan) Region, Chief Executive Officer; HSBC Asset Management Group, member of the Global Management Committee; HSBC Insurance Company Limited, Hong Kong, Non-executive Director, 1997–2003; Hong Kong Exchanges & Clearing Limited, Chief Executive Officer and Executive Director, 2003–2010. Member of the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 2015 (2016).

**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; Ipsen Group, Paris, Chief Financial Officer and member of the Executive Committee, 2003–2011; Europcar Groupe S.A., Guyancourt, France, Chief Financial Officer, 2011–2012; bioMérieux, Lyon, France, Corporate Vice-President Purchasing and Information Systems since September 2013, Chief Financial Officer since January 2014. Member of the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 2010 (2016).

**Gareth Penny** (born 1962), dual South African and British citizen; Master of Arts in Philosophy, Politics and Economics, Oxford University (Rhodes Scholar),

UK, 1985. Anglo American Corporation, Johannesburg, Head of Anglo American & De Beers Small Business Initiative, 1988–1991; De Beers Group, 1991–2010: Teemane Manufacturing Company, Botswana, Project Manager, 1991–1993; Diamond Trading Company De Beers, various functions, 1993–2006, incl. Managing Director, 2004–2006; De Beers SA, Luxembourg, member of the Board of Directors, 2003–2010; De Beers SA, Luxembourg, Group Managing Director, 2006–2010; AMG Advanced Metallurgical Group N.V., London, Chief Executive mining business, 2011–2012; New World Resources Plc, London, Executive Chairman of the Board of Directors since October 2012; Norilsk Nickel, Moscow, Non-executive Chairman of the Board of Directors since April 2013. 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 (2016).

**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; Gulfsands Petroleum, Non-executive Director, 2005–2006; Panmure Gordon Plc., Chairman of the Board of Directors, 2006–2008; The London Metal Exchange Ltd., Independent Director from 2005 until August 2009; Better Place, Palo Alto, USA, Chief Finance Officer, 2009–2011; Green & Blue Advisors LLC, New York, co-founder and partner since 2011; RSR Partners, New York, Managing Director, 2012–2013; TGG Group, New York, Advisor since January 2014. 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 (2016).

## HONORARY CHAIRMAN

The Honorary Chairman has no active function in 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., 1988: Head of the Swiss Capital Market Group, Zurich, 1988; New York branch, Deputy Branch Manager, 1990–1993; Zurich Head Office, member of the Management Committee, 1993–1996; Julius Baer Holding Ltd., 1996–2009: member of the Group Executive Board and Head of the Private Banking business line as of 1996; Vice President of the Group Executive Board 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, 2003–2009. Chairman of the Board of Directors of Bank Julius Baer & Co. Ltd., 2003–2012; Chairman of the Board of Directors of Julius Baer Group Ltd., 2009–2012. Alpine Select AG, Zug, Chairman of the Board of Directors since April 2013. Honorary Chairman of Bank Julius Baer & Co. Ltd. and Julius Baer Group Ltd. since 2012.

### **Elections and re-elections at the Annual General Meeting 2015/Changes in the Board of Directors**

At the Annual General Meeting of Julius Baer Group Ltd. on 15 April 2015, Daniel J. Sauter, Gilbert Achermann, Andreas Amschwand, Heinrich Baumann, Claire Giraut, Gareth Penny and Charles G. T. Stonehill were re-elected to the Board of Directors for another term of one year.

Paul Man Yiu Chow was elected as new member of the Board of Directors for a one-year term.

Daniel J. Sauter was re-elected as Chairman of the Board of Directors for a one-year term.

Gilbert Achermann, Heinrich Baumann and Gareth Penny were re-elected as members of the Compensation Committee for a one-year term.

## OTHER ACTIVITIES AND INTEREST TIES

In applying the Corporate Governance Directive and the corresponding commentary of the SIX Swiss Exchange as well as the ‘Ordinance against excessive compensation in listed companies’, the Company fundamentally discloses all mandates and interest ties of its Board members outside of the Julius Baer Group according to the applicable paragraphs of article 13 (Mandates outside the Group) of the Articles of Incorporation:

No member of the Board of Directors may hold more than ten additional mandates of which no more than four mandates in listed companies.

The following mandates are not subject to the aforementioned limitations:

- a) mandates in companies which are controlled by the Company or which control the Company;
- b) mandates held at the request of the Company or companies controlled by it. No member of the Board of Directors may hold more than five such mandates;
- c) mandates in associations, charitable organisations, foundations, trusts and employee welfare foundations. No member of the Board of Directors may hold more than ten such mandates.

Mandates shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Mandates in different legal entities that are under joint control are deemed one mandate.

### **Daniel J. Sauter:**

- Chairman of the Board of Directors of Trinsic AG, Zug, Switzerland;
- Chairman of the Board of Directors of Hadimec AG, Maegenwil, Switzerland;
- Chairman of the Board of Directors of Tabulum AG, Zug, Switzerland;
- Member of the Board of Directors of Sika Ltd, Baar, Switzerland.



**Gilbert Achermann:**

- Chairman of the Board of Directors of Straumann Group, Basle, Switzerland;
- Member of the Board of Directors of the ITI Association and ITI Foundation, Basle, Switzerland;
- Member of the Executive Committee of Blues Now! Basel, Basle, Switzerland.

**Andreas Amschwand:**

- Chairman of the Board of Directors, EMFA Holding AG, Kerns, Switzerland;
- Chairman of Verein Standortpromotion Kanton Obwalden, Sarnen, Switzerland;
- Chairman of the Board of Directors of Agricola Tirgu Frumos SA, Razboieni, Romania;
- Administrator of SC AA Agriculture Farm SRL, Razboieni, Romania;
- Administrator of SC Butea Farm SRL, Razboieni, Romania;
- Administrator of SC Agro Verd SRL, Butea, Romania;
- Administrator of SC Vicsani Farm SRL, Razboieni, Romania.

**Heinrich Baumann:**

- Vice President of the Board of Directors of Atlis AG, Biberist, Switzerland;
- Vice President of the Board of Directors of Completo AG, Biberist, Switzerland;
- Member of the Foundation Board of the International Foundation for Research in Paraplegia, Chêne-Bourg, Switzerland.

**Paul Man Yiu Chow:**

- Member of the Advisory Committee on Innovation and Technology, The Government of the Hong Kong Special Administrative Region;
- Member of the Asian Advisory Council, AustralianSuper, Melbourne, Australia;
- Independent Non-executive Director and Member of the Audit Committee, China Mobile Limited, Hong Kong;
- Independent Non-executive Director, member of the Audit, Risk Policy and Connected-Party Transaction Committees as well as Chairman of Human Policy and Remuneration Committee, Bank of China Limited, Beijing, China;

- Chairman of the Board of Directors, Hong Kong Cyberport Management Company Limited, Hong Kong.

**Claire Giraut:**

- Member of the Board of Directors and of the Audit Committee of Heurtey-Petrochem S.A., Vincennes, France.

**Gareth Penny:**

- Member of the Board of Directors and Executive Chairman of New World Resources Plc, London, UK;
- Non-executive Chairman of the Board of Directors of Norilsk Nickel, Moscow, Russia.

**Charles G. T. Stonehill:**

- Governor, Harrow School, Harrow on the Hill, London, UK;
- Member of the Advisory Board of Rubicon Technology Partners L.P., Menlo Park, CA, USA;
- Non-executive member of the Board of Directors of CommonBond, Inc., New York, USA, new as of 10 March 2015.

## ELECTIONS AND TERMS OF OFFICE

The members of the Board of Directors are elected on an individual basis by the Annual General Meeting for a one-year term both in the case of re-elections or new elections. The period between two Annual General Meetings is deemed to be one year. Members whose term of office has expired are immediately eligible for re-election. Except for the election of the Chairman of the Board of Directors and the members of the Compensation Committee by the Annual General Meeting, the Board of Directors constitutes itself. The maximum (cumulative) term of office for the members of the Board of Directors is generally twelve years. Members who have reached their 75th year of age generally do not seek re-election at the end of their current term.

## INTERNAL ORGANISATIONAL STRUCTURE

The Board of Directors consists of five 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 for urgent or routine businesses 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.

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 macro-economic and company-specific circumstances.

In 2015, the complete Board of Directors of Julius Baer Group Ltd. held nine meetings (of which three in the form of a conference call), including a two-day strategy seminar.

### Attendance of the members of the Board of Directors at the respective meetings

	January	March <sup>1</sup>	April I	April II <sup>1</sup>	June
<b>First half of 2015</b>					
Daniel J. Sauter, Chairperson	x	x	x	x	x
Gilbert Achermann	x	x	x	x	x
Andreas Amschwand	x	x	x	x	x
Heinrich Baumann	x	x	x	x	x
Paul Man Yiu Chow <sup>2</sup>	-	-	x	x	x
Claire Giraut	x	x	x	x	x
Gareth Penny	x	x	x	x	x
Charles G. T. Stonehill	x	x	x	x	x

<sup>1</sup> Meeting by teleconference

<sup>2</sup> Joined the Board of Directors in April 2015

	September	October	November <sup>1</sup>	December
<b>Second half of 2015</b>				
Daniel J. Sauter, Chairperson	x	x	x	x
Gilbert Achermann	x	x	x	x
Andreas Amschwand	x	x	x	x
Heinrich Baumann	x	x	x	x
Paul Man Yiu Chow	x	x	x	x
Claire Giraut	x	x	x	x
Gareth Penny	x	x	x	x
Charles G. T. Stonehill	x	x	x	x

<sup>1</sup> Meeting by teleconference

Except for the election of the Chairman of the Board of Directors and the members of the Compensation Committee by the Annual General Meeting, the Board of Directors elects the members of the committees of the Board of Directors from among its members. 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 business report, the remuneration report and to prepare the General Meetings of Shareholders 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. 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 & Risk Committee*

The Chairman's & 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 & 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 Executive Board and/or affiliated entities and related parties ('Organ-kredite') as defined by the relevant Swiss accounting standards. The Chairman's & 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 & 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 & Risk Committee bases its risk-related work on the Risk Landscape, as approved by the Audit Committee of the Board of Directors at a joint meeting with the Chairman's & Risk Committee, once a year. The Chairman's & 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 & Risk Committee furthermore approves the formation, the change in capital or ownership structure, the change of legal form or licences, and the liquidation or closure of all subsidiaries. The Chairman's & Risk Committee decides on requests from members of the Board of Directors and of the Executive Board 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 government.

The Chairman's & Risk Committee generally convenes monthly. In 2015, the Committee met eleven times for approximately four hours each. The Chief Executive Officer and the Chief Financial Officer are permanent guests and the other members of the Executive Board of the Company generally participate for specific reporting sessions in the meetings of the Chairman's & Risk Committee.

**Members** Daniel J. Sauter (Chairperson),  
Andreas Amschwand and Charles G. T. Stonehill

#### Attendance of the members of the Chairman's & Risk Committee at the respective meetings

	January	February	March	April	June I	June II
First half of 2015						
Daniel J. Sauter, Chairperson	x	x	x	x	x	x
Andreas Amschwand	x	x	x	x	x	x
Charles G. T. Stonehill	x	x	x	x	x	x
	August	September	October	November	December	
Second half of 2015						
Daniel J. Sauter, Chairperson	x	x	x	x	x	
Andreas Amschwand	x	x	x	x	x	
Charles G. T. Stonehill	x	x	x	x	E	

E = excused

#### Audit Committee

The Audit Committee is responsible for the integrity of controls for financial reporting and the review of the Company's and the Group's financial statements, including the interim management statements but in particular the consolidated statement of the Group and the annual and semi-annual financial 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 managing bodies.

The Committee 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 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 four 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 nine meetings including three conference calls.

**Members** Heinrich Baumann (Chairperson), Paul Man Yiu Chow, Claire Giraut and Charles G. T. Stonehill

#### Attendance of the members of the Audit Committee at the respective meetings

	January	April	May <sup>1</sup>	June
<b>First half of 2015</b>				
Heinrich Baumann, Chairperson	x	x	x	x
Paul Man Yiu Chow <sup>2</sup>	-	x	x	x
Claire Giraut	x	x	x	x
Charles G. T. Stonehill	x	x	x	x
Daniel J. Sauter	G	G	G	G
Andreas Amschwand	-	-	-	G

<sup>1</sup> Meeting by teleconference

<sup>2</sup> Joined the Committee in April 2015

G = attended meeting as guest

	July <sup>1</sup>	September	October	November I <sup>1</sup>	November II
<b>Second half of 2015</b>					
Heinrich Baumann, Chairperson	x	x	x	x	x
Paul Man Yiu Chow	x	x	x	x	x
Claire Giraut	x	x	x	x	x
Charles G. T. Stonehill	x	x	x	x	x
Daniel J. Sauter	G	G	G	G	G

<sup>1</sup> Meeting by teleconference  
G = attended meeting as guest

#### *Compensation Committee*

The Compensation Committee shall carry out the Board's overall responsibility for drawing up the remuneration principles, remuneration strategy and policies covering the Chairman of the Board of Directors, the further non-executive members of the Board of Directors, the Chief Executive Officer (CEO) and the further members of the Executive Board within the Julius Baer Group. This includes reviewing any compensation principles (changes thereof have to be submitted for approval to the Board of Directors), reviewing and approving compensation policies relating to the Company as a whole as well as any compensation policies within the Group which are linked to the shares of the Company.

The Compensation Committee, with the support of external advisors if needed, undertakes to advise the full Board of Directors, whether the current compensation for the Chairman, the Board of Directors, the CEO and the Executive Board is in line with market practices.

The Compensation Committee annually reviews the compensation elements and the share ownership programmes by considering possible impacts of new regulatory developments and feedback received from stakeholders.

The Compensation Committee is responsible for reviewing and approving the Company's principles on total compensation and benefits (Remuneration Policy). It annually reviews that the principles are operated as intended and that the policy is compliant with national and international regulations and standards.

The Compensation Committee determines the compensation of the Chairman and of the Executive Board and submits the respective proposals for the other members of the Board of Directors and the CEO to the Board of Directors for approval. The compensation proposals for the Chairman, the Board of Directors, the CEO and in aggregate form for the Executive Board are subsequently submitted to the Annual General Meeting for approval by the shareholders.

Finally, the Compensation Committee on an annual basis prepares and proposes to the Board of Directors and subsequently to the attention of the shareholders a Remuneration Report as well as other reports as required by law or regulations.

➔ The Group's overall compensation framework including compensation governance, compensation elements and their application in the period under review is described in detail in chapter II. *Remuneration Report* of this Annual Report.

The Compensation Committee consists of at least three members who are elected by the Annual General Meeting. 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, however, not less than three times a year. During the year under review, the Compensation Committee held five meetings for two hours on average.

**Members** Gareth Penny (Chairperson),  
Gilbert Achermann and Heinrich Baumann



#### Attendance of the members of the Compensation Committee at the respective meetings

	January	April	June	September	November
Gareth Penny, Chairperson	x	x	x	x	x
Gilbert Achermann	x	x	x	x	x
Heinrich Baumann	x	x	x	x	x
Daniel J. Sauter	G	G	G	G	G

G = attended meeting as guest except portions of meetings where a conflict of interest might have arisen

#### 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 Annual General Meeting.

The Nomination Committee is also responsible for the long-term succession planning of the Chief Executive Officer (CEO) and the other members of the Executive Board 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, CEO and other Executive Board members succession plan.

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 Nomination Committee met four times in 2015 for an average duration of one hour each.

**Members** Charles G. T. Stonehill (Chairperson), Gilbert Achermann, Claire Giraut and Daniel J. Sauter.

#### Attendance of the members of the Nomination Committee (ad hoc) at the respective meetings

	January	June	October	November
Charles G. T. Stonehill, Chairperson <sup>1</sup>	G	x	x	x
Gilbert Achermann	x	x	x	x
Claire Giraut <sup>2</sup>	x	x	x	x
Daniel J. Sauter	x	x	x	x

<sup>1</sup> Joined the Committee in April 2015 as its Chairperson

<sup>2</sup> Chairperson of the Committee until April 2015

G = attended meeting as guest

## 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 monitors 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 individuals, 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 (OGR). All relevant information contained in the OGR is substantially disclosed in the respective sections of this *Corporate Governance* chapter.

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 Meetings of Shareholders (Annual General Meeting and Extraordinary [if any] Meetings) 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 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. 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 (if any) 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 or licenses, and the liquidation or closure of principal operating companies and other subsidiaries to the Chairman's & Risk Committee for final approval. The Executive Board grants permission to employees (other than the members of the Executive Board) 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 and government.

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 Chairman's & Risk Committee of 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 Organisational 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), the Chief Financial Officer (CFO) 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 (usually monthly to Chairman's & Risk Committee)

- Written report by the General Counsel (quarterly to complete Board of Directors)
- Written or oral reporting by the members of the Executive Board (quarterly to complete Board of Directors, usually monthly to Chairman's & Risk Committee)
- Financial reporting by the CFO (Monthly Financial Report to complete Board of Directors; enlarged written and oral reporting on a quarterly basis to complete Board of Directors; enlarged written and oral reporting monthly to Chairman's & Risk Committee)
- Financial statements by the CFO (half-year results as well as Interim Management Statements to Audit Committee, full-year results to Audit Committee and complete Board of Directors)
- Forecast by the CFO (quarterly to complete Board of Directors)
- Pension Fund update by the CFO (annually to complete Board of Directors)
- Treasury/Asset & Liability Management update by the CFO or the Head Treasury (annually to complete Board of Directors and usually monthly to Chairman's & Risk Committee)
- Budget, Capital Management 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 & Risk Committee)
- Regulatory reporting of 'Klumpenrisiken' by the Chief Risk Officer (quarterly to Chairman's & Risk Committee)
- Group Risk reporting by the Chief Risk Officer (quarterly to Chairman's & Risk Committee as well as to Audit Committee, annually to complete Board of Directors)
- Risk Landscape by the Chief Risk Officer (annually to Chairman's & Risk Committee and 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 usually on a quarterly basis, respectively.

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## EXECUTIVE BOARD

### MEMBERS OF THE EXECUTIVE BOARD

**Boris F.J. Collardi** (born 1974), dual Swiss and Italian citizen; Executive Programme IMD Lausanne, 1999. Credit Suisse, 1993–2005: 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. Entry into Bank Julius Baer & Co. Ltd., 2006: Member of the Executive Board 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). Chairman of the Julius Baer Foundation from 1 January 2015 to 31 December 2015. 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; PhD 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: Development of PR/Marketing activities, 1983–1986; Head of Corporate and Marketing Communications, 1987–1995; Julius Baer Holding Ltd., 1996–2009: Chief Communications Officer and Head of Investor Relations from 1996 until 30 September 2009 (Head of Investor Relations until 2008); member of the Extended Group Executive Board from 2002 until December 2005; member of the Corporate Centre Management from December 2005 until November 2007; Bank Julius Baer & Co. Ltd. since 2010: member of the Extended Executive

Board from 1 January 2010 until 29 February 2012; Chief Communications Officer since 1 January 2010; additionally Head Marketing from 1 November 2011 until 31 March 2015; member of the Executive Board and Chief Communications Officer of Julius Baer Group Ltd. since 1 October 2009.

**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 1997–2003: Head Corporate Financial Management and Investor Relations, 1997–2000; 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; Chief Financial Officer and Member of the Management Committee of Bank Julius Baer & Co. Ltd., 2006–2007; 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 Executive Board and Chief Financial Officer of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 1 October 2009.

**Gregory F. Gatesman** (born 1975), US citizen; The College of New Jersey, Trenton State College, Bachelor of Science in Business Administration, 1997; Financial executive education, Wharton School, University of Pennsylvania, Philadelphia, USA, 2004; Executive MBA, Smeal School of Business, Pennsylvania State University, USA, 2004; Chartered Financial Analyst (CFA), 2007. Merrill Lynch, 1997–2009: different positions, 1997–2002; Vice-President Advisory Division Administration, 2002–2004; Director of Private Banking Platform, 2004–2005; Managing Director / Co-Head and COO Merrill Lynch Trust Company, 2005–2008; Managing Director / Chief Operating Officer US Wealth Management, 2008–2009; Bank of America Corporation, Managing Director / Transition Leadership Executive, 2009; Merrill Lynch Global Wealth Management, Managing Director / Chief Operating Officer International Wealth

Management, 2010–2013. Member of the Executive Board and Chief Operating Officer of Bank Julius Baer & Co. Ltd. and Julius Baer Group Ltd. since 1 February 2013.

**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. Beiten Burkhardt Mittl & Wegener, attorneys-at-law, Frankfurt am Main and Duesseldorf (Germany), 1997–1998; attorney-at-law with BBLP Meyer Lustenberger, Zurich, 1999–2001. Entry into Bank Julius Baer & Co. Ltd., 2001: Legal Counsel 2001–2003; General Counsel, Corporate Centre, 2004–2005; Julius Baer Holding Ltd., Deputy Group General Counsel, 2006 until 30 September 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 (HWW) 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. Head of Global Market & Credit Risk and Global Controlling Trading & Sales, Credit Suisse, 1994–1996; Head of European Risk Management, Credit Suisse First Boston, 1997–1998. Entry into Bank Julius Baer & Co. Ltd. in 1998 as Head of Global Risk Management, 1998–2001; Chief Risk Officer, 2001–2009; President of the Management Committee from 2001 until 2 December 2005; Julius Baer Holding Ltd.: member of the Extended Group Executive Board and Chief Risk Officer 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 from 15 November 2007 until 30 September 2009; Bank Julius Baer & Co. Ltd., member of the Executive Board since 15 November 2007; Chief Risk Officer from 15 November 2007 until 2009; Head Risk, Legal & Compliance from

2009 until 31 March 2011; Chief Operating Officer (COO) from 1 April 2011 to 31 December 2012, COO a.i. from 1 to 31 January 2013; Chief Risk Officer since 1 February 2013. Chief Operating Officer (COO) a.i. of Julius Baer Group Ltd. from 1 to 31 January 2013; member of the Executive Board and Chief Risk Officer of Julius Baer Group Ltd. since 1 October 2009.

### Changes in the Executive Board

In the 2015 financial year, the composition of the Executive Board has remained unchanged. All Executive Board members have a full-time employment relationship with the Group.

Giovanni M.S. Flury joined the Executive Board on 1 January 2016.

## OTHER ACTIVITIES AND INTEREST TIES

In applying the Corporate Governance Directive and the corresponding commentary of the SIX Swiss Exchange as well as the 'Ordinance against excessive compensation in listed companies', the Company fundamentally discloses all mandates and interest ties outside of the Julius Baer Group according to the applicable paragraphs of article 13 (Mandates outside the Group) of the Articles of Incorporation:

No member of the Executive Board may hold more than five additional mandates of which no more than one mandate in listed companies.

The following mandates are not subject to the aforementioned limitations:

- a) mandates in companies which are controlled by the Company or which control the Company;
- b) mandates held at the request of the Company or companies controlled by it. No member of the Executive Board may hold more than five such mandates;
- c) mandates in associations, charitable organisations, foundations, trusts and employee welfare foundations. No member of the Executive Board may hold more than ten such mandates.



Mandates shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Mandates in different legal entities that are under joint control are deemed one mandate.

The current members of the Executive Board may, in deviation from article 13.2. of the Group's Articles of Incorporation, hold up to two mandates in listed companies until December 2016, provided that they held these mandates already as of 9 April 2014.

**Boris F.J. Collardi:**

- Member of the Board and the Committee of the Governing Board of the Board of Directors of the Swiss Bankers Association, Basle, Switzerland;
- President of the Association of Swiss Asset and Wealth Management Banks, Zurich, Switzerland;
- Member of the Foundation Board of the Swiss Finance Institute, Zurich, Switzerland;
- Member of the Foundation Board of Avenir Suisse, Zurich, Switzerland;
- Member of the Foundation Board of Fondation du Festival et Académie de Verbier, Verbier, Switzerland;
- Member of the Advisory Board of the Lee Kong Chian School of Business – Singapore Management University, Singapore;
- Member of the Board of Directors of BlueOrchard SA, Geneva, Switzerland;
- Member of the Foundation Board of IMD, International Institute for Management Development, Lausanne, Switzerland.

**Dieter A. Enkelmann:**

- Member of the Board of Directors of Cosmo Pharmaceuticals S.p.A., Lainate, Italy, including Head of the Audit Committee and member of the Nomination Committee;
- Chairman of the Foundation Board of Stiftung für angewandte Krebsforschung, Zurich, Switzerland.

**Bernhard Hodler:**

- Member of the Board of Directors of Ifb AG, Cologne, Germany.

MANAGEMENT CONTRACTS

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

## SHAREHOLDERS' PARTICIPATION RIGHTS (AS AT 31 DECEMBER 2015)

### VOTING-RIGHTS RESTRICTIONS AND REPRESENTATION

In relation to the Company, any person entered in the share register shall be deemed to be a shareholder. The shareholder shall exercise its rights in the affairs of the Company at the General Meeting of Shareholders. It may represent itself or be represented by the independent voting rights representative or a third party at the General Meeting of Shareholders.

The General Meeting of Shareholders shall elect the independent voting rights representative for a term of office expiring after completion of the next Ordinary General Meeting of Shareholders. Re-election is possible.

The independent voting rights representative shall inform the Company of the amount, kind, nominal value and category of shares represented by it. The Chairman shall convey this information to the General Meeting of Shareholders.

The Group's shareholders are given the possibility to vote their shares through an electronic voting tool. Such votes will be delegated to the independent voting rights representative.

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 General Meetings of Shareholders are passed by an absolute majority of the votes cast, excluding blank or invalid ballots.

### CONVOCACTION OF THE GENERAL MEETINGS OF SHAREHOLDERS

The convocation of the General Meetings of Shareholders 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 General Meeting of Shareholders. 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 Annual General Meeting of Shareholders, 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.

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## 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).

retirement benefits under the pension plan, etc.) which are generally available to other Julius Baer employees. The Executive Board members, however, are not entitled to other severance pay or special termination benefits under the pension plans compared to the general staff population.

### CLAUSES ON CHANGES OF CONTROL

Executive Board members are not entitled to specific payments upon a change of control or upon termination of employment related to a change of control; however, they are eligible to receive such benefits (e.g. accrued holiday pay, death/disability/

Special change-of-control provisions may be available under the EPP. All provisions remain subject to the prevailing legislation in each of the applicable jurisdictions at the time of the change of control. More details can be found in chapter *II Remuneration Report* of this Annual Report.

## AUDIT

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

### EXTERNAL AUDITORS

The statutory auditor of the Julius Baer Group is KPMG AG (KPMG), Badenerstrasse 172, 8004 Zurich, Switzerland. The mandate was first given to KPMG for the business year 2006. Philipp Rickert has been the Lead Auditor since 2013. Swiss Law requires the Lead Auditor to rotate every seven years.

KPMG attends all meetings of the Audit Committee. At each meeting, KPMG reports on the findings of its audit and/or interim review work. The Audit Committee reviews KPMG's audit plan on an annual basis and evaluates the performance of KPMG and its senior representative in fulfilling their responsibilities.

Moreover, the Audit Committee recommends to the Board of Directors the appointment or replacement of the External Auditors, subject to shareholder approval as required by Swiss law.

KPMG provides a report as to its independence to the Audit Committee at least once a year. In addition, the policy that governs the cooperation with the External Auditors strives to ensure an appropriate degree of independence of the Group's External Auditors. The policy limits the scope of service that the External Auditors may provide to Julius Baer Group Ltd. or any of its subsidiaries in connection with its audit and stipulates certain permissible types and caps of additional audit-related and consulting-related services. The Audit Committee pre-approves all other services on a case-by-case basis. In accordance with this guidance and as in prior years, all KPMG non-audit services provided in 2015 were pre-approved. KPMG is required to report to the Chief Financial Officer and the Audit Committee periodically the extent of services provided and the fees for the services performed to date.

**Fees paid to External Auditors**

	<b>2015</b> <i>CHF m</i>	2014 <i>CHF m</i>
Audit fees <sup>1</sup>	<b>5.8</b>	4.9
Audit-related fees <sup>2</sup>	<b>0.4</b>	0.4
Other services fees <sup>3</sup>	<b>1.2</b>	0.6

<sup>1</sup> Fees related to Group and stand-alone financial statement and regulatory audit

<sup>2</sup> Fees related to accounting and regulatory compliance services and other audit and assurance services

<sup>3</sup> Fees related to tax compliance and consultancy services

**GROUP INTERNAL AUDIT**

With 33 professionals as at 31 December 2015, compared to 32 as at 31 December 2014, Group Internal Audit (GIA) performs the global internal audit function for the Julius Baer Group. GIA is an independent and objective function that provides assurance to the Board of Directors on safeguards taken by management (i) to protect the reputation of the Group, (ii) to protect its assets and (iii) to monitor its liabilities. GIA provides assurance by assessing the reliability of financial and operational information, as well as compliance with legal,

regulatory and statutory requirements. All reports with key issues are provided to the Chief Executive Officer, the Executive Board members of the Bank and other responsible members of management. In addition, the Chairman and the Audit Committee members are regularly informed about important issues. GIA further assures the closure and successful remediation of audit issues.

To maximise its independence from management, the Head of GIA, Peter Hanimann, reports directly to the Chairman and to the Chairperson of the Audit Committee for delegated duties. GIA has unrestricted access to all accounts, books, records, systems, property and personnel, and must be provided with all information and data needed to fulfil its auditing duties. The Chairman and the Chairperson of the Audit Committee may request special assignments to be conducted. Other Board of Directors members and the Executive Board may ask for such special assignments with the approval of the Chairman or the Chairperson of the Audit Committee.

Coordination and close cooperation with the External Auditors enhance the efficiency of GIA's work.

## INFORMATION POLICY

Julius Baer Group Ltd. informs its shareholders and the public each year by means of the Annual and Half-year Reports. Julius Baer furthermore provides a summary account of the business performance for the first four and the first ten months of each year, respectively, in separate Interim Management Statements. It also publishes press releases, presentations and brochures as needed.

- ⇒ Current as well as archived news items can be accessed via [www.juliusbaer.com/news](http://www.juliusbaer.com/news).
- ⇒ Stakeholders and interested parties can be kept informed automatically by subscribing to Julius Baer's News Alert service at the address [www.juliusbaer.com/newsalert](http://www.juliusbaer.com/newsalert).

### ADDRESS AND CONTACT

JULIUS BAER GROUP LTD.  
Bahnhofstrasse 36  
P.O. Box  
8010 Zurich  
Switzerland  
Telephone +41 (0) 58 888 1111  
Fax +41 (0) 58 888 5517

[www.juliusbaer.com](http://www.juliusbaer.com)  
[info@juliusbaer.com](mailto:info@juliusbaer.com)

### Investor Relations

Alexander C. van Leeuwen  
Telephone +41 (0) 58 888 5256

### IMPORTANT DATES

21 March 2016	Publication of Annual Report 2015
13 April 2016	Annual General Meeting, Zurich
15 April 2016	Ex-dividend date
18 April 2016	Record date
19 April 2016	Dividend payment date

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

- ⇒ Please refer to the corporate calendar at the address [www.juliusbaer.com/calendar](http://www.juliusbaer.com/calendar) for the publication dates of financial statements and further important corporate events.

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## LETTER TO OUR SHAREHOLDERS

Dear Shareholders,

2015 saw a strong performance by the Julius Baer Group, particularly in terms of top-line growth and operational efficiencies. This has been recognised in the compensation decisions for 2015, together with our ongoing commitment to implement a compensation framework that promotes value creation for all stakeholders. We view this as an important platform for our compensation policies which supports our business strategy in the long term.

In comparison to 2014, operating income was up 6%, the cost/income ratio improved from 69.9% to 67.2% and the underlying performance of the adjusted net profit was up 20%. As a result, the Board of Directors proposes to increase the dividend to CHF 1.10 per share for 2015, despite the negative impact of the provisioning for the US cross-border settlement on this year's profitability. The dividend proposal of CHF 1.10 represents a sustainable return to shareholders.

The consideration of the record 2015 operating results in the determination of the awarded performance-based variable compensation was, however, tempered by the accounting for the US cross-border settlement. Given the nature of this settlement, the compensation of the key decision makers of the firm was affected. In particular, the total variable compensation of the Executive Board was curtailed by 10%. The Board of Directors also reduced their total compensation for the term AGM 2015/2016 by 10%. This reduction of the Board of Directors' compensation will be fully recognised in their cash-based fees.

Pay mix appropriateness (from the perspective of best practices as defined by regulators, market alignment and our compensation strategy) remained an important agenda item in 2015. Firstly, as approved last year, we executed the planned base salary adjustments for our Executive Board members (excluding the CEO), as part of the second step in the re-balancing of our executive pay mix. Secondly, in the aim to drive sustainable growth, a more unified approach was adopted with regard to our deferred variable compensation pay mix. Effective from the 2015 performance year onwards, all eligible staff are awarded a portion of their deferred variable compensation in deferred cash and deferred equity. This mixture of deferred cash and equity, new for some of our non-senior staff, represents in our view a more appropriate compensation pay mix. As part of these adjustments, we aligned the deferral rates across all of our variable compensation plans with the stricter governance standards set for our senior employees, resulting in higher deferrals.

As part of our active management of regulatory compliance and risk matters, Julius Baer strives to embed its company values and risk management culture into its compensation policies. To this end, the governance oversight around our key risk taker population was further enhanced in 2015. Regardless of whether a key risk taker is employed by a Julius Baer entity subject to Capital Requirements Directive (CRD) IV provisions, the variable compensation allocation decision is internally monitored with respect to the 2:1 variable to fixed compensation ratio. Attesting to the growing importance placed by regulators on qualitative performance assessments, we critically reviewed our qualitative parameters, resulting in the further refinement of the criteria selection, assessment processes and compensation impacts.

We will continue to monitor the developments in the field of performance-based variable compensation to ensure that Julius Baer complies with all rules and regulations and adheres to the best practices in our industry. Our compensation framework aims to support our overall business strategy in a responsible way in order to promote the continued development of our business for the benefit of our shareholders.

We are thankful for the confidence our shareholders have demonstrated in our compensation framework. In line with the 'Swiss Ordinance against Excessive Compensation in Listed Companies', shareholders will be asked to vote on the identified, detailed compensation arrangements for the Board of Directors and Executive Board disclosed in the Remuneration Report. In addition, mirroring the importance we place on dialogue with our shareholders, a consultative vote on the Remuneration Report will again be conducted.

On behalf of the Board of Directors,

Daniel J. Sauter  
*Chairman*

Gareth Penny  
*Chairman of the Compensation Committee*

## COMPENSATION GOVERNANCE

### COMPENSATION COMMITTEE AUTHORITY AND RESPONSIBILITIES

Julius Baer operates a multi-tiered system of compensation governance which ensures that there are clear processes governing all aspects of compensation. The Board of Directors sets the overall remuneration policy and retains full responsibility for designing and monitoring all aspects of the compensation paid to the Board of Directors and the Executive Board.

The Compensation Committee supports the Board of Directors in carrying out the Board's overall responsibility with regard to defining Julius Baer's remuneration principles and compensation strategy. The Compensation Committee oversees the compensation of the Board of Directors (including the Chairperson), Executive Board members (including the CEO) as well as that of all other employees of Julius Baer Group Ltd. (the 'Company' or the 'Group') on a collective basis. This includes reviewing any compensation principles (changes to

which have to be submitted for approval to the Board of Directors), reviewing and approving compensation policies relating to the Company as a whole as well as any compensation policies within the Group which are linked to the shares of the Company. Where relevant, the Compensation Committee also collaborates with other Julius Baer Committees (e.g. the Audit Committee and the Chairman's & Risk Committee) when shaping policy.

Every year, the Compensation Committee reviews the compensation elements and the share ownership programmes in the light of Julius Baer's business strategy, market practice, possible impacts of new regulatory developments and feedback received from stakeholders. The Compensation Committee also carries out an annual review of the Company's compliance with these principles and policies and ensures that the relevant policies conform to national and international standards and regulations. For each group of recipients, the following table shows the procedures for recommendations and decisions on compensation:

Compensation recipient	Recommended by	Reviewed and agreed by	Approved by
Chairperson of the Board of Directors	Chairperson of the Compensation Committee	Compensation Committee	Shareholders
Board of Directors members (excluding the Chairperson)	Compensation Committee	Board of Directors	Shareholders
CEO	Chairperson of the Board of Directors and Chairperson of the Compensation Committee	Compensation Committee/ Board of Directors	Shareholders
Executive Board (excluding the CEO)	CEO	Compensation Committee/ Board of Directors	Shareholders
Regulated staff (e.g. key risk takers)	Line management	CEO/Executive Board	Compensation Committee
High income earners	Line management	CEO/Executive Board	Compensation Committee

To avoid any conflicts of interest, the Chairperson of the Board, the CEO and other members of the Executive Board do not participate in those parts of the Compensation Committee meetings which serve to discuss and determine their proposed compensation.

The Compensation Committee consists of at least three members of the Board of Directors who are elected by the Annual General Meeting. Where

decisions of a specialised nature are required, the Compensation Committee may seek advice from additional members of the Board of Directors.

**Members:** Gareth Penny (Chairman), Gilbert Achermann and Heinrich Baumann. As described in the 'Corporate Governance' section of the Annual Report (AR), these three individuals are experienced Board members who have a broad range of expertise in the industry as well as in matters of governance.

The Compensation Committee convenes as often as required and holds a minimum of three meetings each year. During the year under review, the Compensation Committee held five meetings

lasting an average of 2.5 hours each. The following table shows the meetings held by the Compensation Committee of Julius Baer Group Ltd. in 2015 and the Committee members attending each meeting:

	January	April	June	September	November
Gareth Penny, Chairperson	x	x	x	x	x
Gilbert Achermann	x	x	x	x	x
Heinrich Baumann	x	x	x	x	x
Daniel J. Sauter	G	G	G	G	G

G = attended meeting as guest except portions of meetings where a conflict of interest might have arisen

## COMPENSATION PRINCIPLES

The primary compensation principles of the Julius Baer Group are to:

- attract and retain industry professionals who are dedicated to contributing value to the Company;
- foster risk awareness, while ensuring full alignment with regulatory compliance;
- incentivise management by rewarding achieved performance and by providing incentives for the creation of future shareholder value; and
- ensure that the performance-based variable compensation is in line with current market practice.

its compensation practices, structure and pay levels (adjusted for performance) are consistent with those of its peers from year to year, in order to remain competitive within the marketplace.

In 2015, the Company reviewed detailed benchmarking data related to the structure and level of pay at a broad range of companies within the Swiss Market Index (SMI) as well as at other European financial industry peers. Based on the findings from this review, the Compensation Committee continues to consider the SMI as the most relevant peer group for the purposes of compensation comparison. It believes that, based on Julius Baer's market capitalisation and the complexity of the industry in which it operates, the Group's current positioning between the lower quartile and median of SMI companies remains appropriate. Based on this peer group positioning, the Compensation Committee will continue to review the structure, level of pay and pay mix in the future.

## PEER BENCHMARKING

It is important to the Compensation Committee and the Board of Directors that the Group ensures that

### Overview of peer groups for compensation benchmarking and relative performance review

Industry peer group		Market peer group		
Credit Suisse	LODH	ABB	Nestlé	Swisscom
DBS	Morgan Stanley	Actelion	Novartis	Swiss Re
Deutsche Bank	Pictet	Adecco	Richemont	Syngenta
EFG	Standard Chartered	Geberit	Roche	Transocean
Goldman Sachs	UBS	Givaudan	SGS	Zurich Insurance
HSBC	Vontobel	LafargeHolcim	Swatch	

## EXTERNAL ADVISERS

In 2015, the Company continued to work with PricewaterhouseCoopers AG (PwC), which provided independent advice on our compensation model, on changing compensation legislation and on general compensation-related issues encountered (including equity accounting and changing global policies and regulations). Hostettler & Company AG (HCM) was engaged to provide advice on compensation strategy, in particular with regard to our relationship manager compensation model, regulatory and compensation topics and valuation of equity-based awards. During the year, Willis Towers Watson (formerly Towers Watson) and McLagan (a business division of Aon Hewitt) provided compensation survey data that were utilised internally by the Julius Baer Group for benchmarking purposes. For our Irish and UK-based entities, Mercer LLC was retained to provide pension and benefit advisory services. Ernst & Young AG (EY) was mandated to provide analysis with regard to the promotion of a range of diversity topics. PwC and Linklaters LLP were also engaged to continue to assist with various compensation and

benefits-related issues arising from the integration of Bank of America Merrill Lynch's International Wealth Management business outside the US (IWM). Of these aforementioned advisers, EY, PwC and Linklaters LLP also have other mandates within Julius Baer outside the Compensation and Benefits department of the Julius Baer Group.

## SAY-ON-PAY

In accordance with the 'Swiss Ordinance against Excessive Compensation in Listed Companies' (referenced as the 'Ordinance'), Julius Baer Group Ltd. reports the compensation awarded to members of both the Board of Directors and the Executive Board on a business year basis. The Board of Directors recognises that the binding say-on-pay vote is a meaningful tool for shareholders, but also one that requires analysis and proper context to enable shareholders to understand and interpret the compensation numbers on which they are voting. This Remuneration Report aims to assist shareholders in that task.

### Say-on-pay shareholder approvals at AGM 2016

	2016 AGM vote			
	2015		2016	2017
Board of Directors maximum aggregate amount of compensation (AGM to AGM)			Compensation period	
Executive Board maximum aggregate amount of fixed compensation (2017)				Compensation period
Executive Board aggregate amount of variable cash-based compensation (2015)	Annual performance period			
Executive Board aggregate amount of variable equity-based Compensation (2016)			Annual grant (three-year performance period)	
Consultative vote on the Remuneration Report (2015)	Compensation framework and governance			

The approval of compensation by the Annual General Meeting is defined in article 11.1 of the Articles of Incorporation. This approval determines:

- a) the maximum aggregate amount of compensation paid to the Board of Directors for its next term of office;
- b) the maximum aggregate amount of fixed compensation of the Executive Board for the financial year following the respective General Meeting of Shareholders;
- c) the aggregate amount of variable cash-based compensation elements of the Executive Board for the financial year preceding the respective General Meeting of Shareholders;

- d) the aggregate amount of variable equity-based compensation elements of the Executive Board granted in the current financial year.

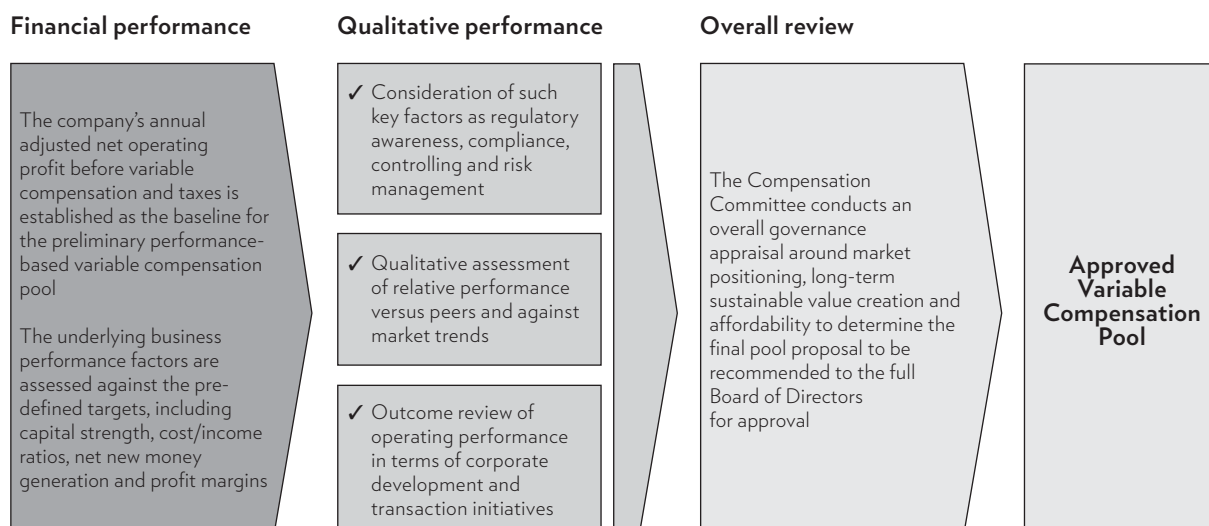
In addition, a consultative vote on the Remuneration Report is again scheduled for the Annual General Meeting on 13 April 2016. The Board of Directors is interested in hearing shareholders' opinions on an ongoing basis. The detailed compensation data will be provided to shareholders as part of their invitations to the AGM.



## GROUP PERFORMANCE AND VARIABLE COMPENSATION POOL FUNDING

### VARIABLE COMPENSATION POOL FUNDING

#### Variable compensation pool funding process



#### Financial performance assessment

The baseline for calculating the Company's variable compensation pool is the annual adjusted net operating profit before variable compensation and taxes ('adjusted NOPbBT') generated by the Company (as reconciled by the Audit Committee). Julius Baer's adjusted NOPbBT is derived by excluding from the audited IFRS financial statements items such as integration and restructuring expenses and amortisation of intangible assets related to acquisitions or divestments.

Adjusted NOPbBT has been selected as the appropriate baseline for the variable compensation pool funding as it is the underlying, sustainable operating profit generated by the business. It is an important metric which reflects the Group's actual performance, thus giving the Compensation Committee a clear indication of operating performance and providing a reliable baseline for comparing the year-on-year development of the Group.

In determining the pool, the Compensation Committee also takes other financial metrics into consideration such as changes in and/or the

development of the capital ratios, cost/income ratio, gross/net profit margin and net new money generation. All quantitative metrics are measured against the overall midterm plan, the strategic goals of Julius Baer Group and its historical results for the prior three years.

#### Qualitative performance assessment

The qualitative review of performance is multi-faceted in order for the Compensation Committee to gain a perspective on the sustainability of the financial results and quality of earnings. Firstly, the Company's performance is measured in terms of how successfully key aspects, affecting current and future performance, have been managed with regard to regulatory awareness and compliance as well as controlling and risk. Secondly, the financial results are further assessed against the performance of peers and in light of market trends, which provide important indications for determining the true, relative value contribution. Finally, the progression and outcomes around key strategic initiatives pertaining to corporate development and transactions (merger and acquisition activity) are also appraised.

### Overall review

The Compensation Committee and the Board of Directors carry out a discretionary review of the size of the overall variable compensation pool to account for factors such as overall affordability, market positioning and long-term sustainable value creation. It is fixed as a percentage each year and impacts all employee bonuses within the Julius Baer Group. This additional governance process further helps the Compensation Committee to maintain a balance between the development of the pool and the Group's corporate performance.

In addition, the Board of Directors seeks to ensure that the profit distribution amongst stakeholders (principally through shareholder dividends, global taxes paid to the relevant authorities, employee variable compensation and reinvestments into the business) is sustainable and reflects an appropriate, equitable distribution.

This performance-adjusted variable compensation pool is allocated across the various business units based on such factors as headcount, financial performance, significant achievements and contributions to the adjusted NOPbBT. This policy has been consistently employed over many years and thus allows meaningful year-on-year comparisons and the continued implementation of a stable compensation system.

### 2015 JULIUS BAER GROUP PERFORMANCE

The Company is convinced that it is vital for the amount of performance-based variable compensation available for distribution to its employees to be directly linked to the overall performance of the Group.

The 2015 business year was a successful one for Julius Baer, with improvements in top-line results and operating efficiencies. While the underlying adjusted net profit increased by 20%, the US cross-border tax settlement did have a significant impact, with the adjusted net profit dropping to CHF 279 million. Additionally, assets under management increased by 3% to a record CHF 300

billion and net new money amounted to a healthy CHF 12 billion, (which represents 4.2% of the previous year-end assets under management and falls within the medium-term target range of 4–6%).

Operating income increased by 6%, resulting in a gross margin for the Group of 94 bps. The net margin declined due to the aforementioned settlement, but thanks to the continued synergies from the IWM integration and persistent cost discipline, the cost/income ratio improved to 67.2% (well within the medium-term target range of 65–70%). Due to the settlement, the IFRS net profit decreased by 67% to CHF 121 million and IFRS earnings per share declined from CHF 1.68 to CHF 0.55. With a BIS total capital ratio of 19.4% and a BIS tier 1 capital ratio of 18.3%, the Group's capital position remains significantly in excess of the Group's set targets and regulatory capital requirements.

With regard to net new money generation, profit margin and cost/income ratio, Julius Baer has performed very well when compared to its peers. The Compensation Committee and Board of Directors took note of the Group's outstanding achievements in 2015 as well as the compliance and risk factors associated with the issue surrounding the legacy US-based business. Julius Baer has been able to leverage its proven merger and acquisition integration capabilities and its progress in meeting internal development goals is on track or ahead of schedule. Julius Baer continues to grow and thrive under its current management.

### 2015 VARIABLE COMPENSATION POOL

Julius Baer took impressive strides in 2015 (as indicated in the '2015 Julius Baer Group Performance' section above), maintaining strong net new money generation, increasing gross income in challenging market conditions as well as continuously improving the cost/income ratio. The overall size of the pool has increased from 2014 to 2015. This difference has been driven by the strong contribution of our employees and properly reflects our pay-for-performance culture in a reasonable and measured manner. Some of the key additional factors

contributing to the level of the variable compensation pool remained the residual costs and payments related to acquisition transactions (e.g. new joiners in 2015, legal obligations to maintain a certain continuation of historical compensation to such employees and revenue generation which is still developing to expected levels) and the staggered implementation of global synergies. Due to the nature of the US cross-border tax action relating to Julius Baer's legacy business, the focus of the impact on

compensation has been on the key decision makers of the organisation.

## OVERVIEW OF 2015 VARIABLE COMPENSATION PLANS

The following table summarises the key features of our variable compensation plans funded by the pool, including the relevant population eligibility:

### Summary of 2015 deferred compensation plans

	Ongoing plans <sup>1</sup>				One-time grants		Employee Share Purchase
	Deferred Bonus Plan	Equity Performance Plan	Deferred Cash Plan	Premium Share Plan	Long-Term Incentive Plan (replacements) <sup>2</sup>	Integration Incentive Award	Share Participation Plan
<b>Eligibility</b>	Executives and selected senior management with bonus over CHF 125,000	Executives and selected senior management by CEO invitation	Employees with bonus over CHF 125,000	Employees with bonus over CHF 125,000	New hires who lost compensation due to change in employer	Former Bank of America Merrill Lynch employees	All employees who are not participants in other company share plans <sup>3</sup>
<b>Purpose</b>	Align with sustainable value creation	Align long-term performance and retention	Align with sustainable value creation	Align long-term performance and retention	Attraction and long-term alignment	Retention and long-term alignment	Shareholder alignment
<b>Funding drivers</b>	Company, business and individual performance				Business and company affordability checks		Mainly self-financed <sup>4</sup>
<b>Duration</b>	5 years	3 years	3 years	3 years	3 years	3 to 5 years	3 years
<b>Payout factors</b>	<b>Share price</b>	•		•	•	•	•
	<b>Vesting performance conditions</b>	•					
	<b>Forfeiture clauses and clawback</b>	•	•	•	•	•	• (additional shares)
<b>Settlement</b>	Cash	Shares	Cash	Shares	Shares	Cash and shares	Shares

<sup>1</sup> Staff who are participants of the DBP and EPP are not eligible to participate in the DCP and PSP and vice versa.

<sup>2</sup> In very exceptional cases (e.g. restructuring), retention awards are granted under the LTI.

<sup>3</sup> Employees in some specific locations are excluded from participating, because the SPP cannot be offered in these particular jurisdictions for legal or regulatory reasons.

<sup>4</sup> For every three shares purchased by the employee, an additional share is granted free of charge at the end of the three-year vesting period.

## EXECUTIVE BOARD AND SENIOR MANAGEMENT COMPENSATION

This section provides the details of the compensation system for members of the Executive Board and selected senior management. The 2015 figures for the Executive Board are presented in the 'Compensation, loans and shareholdings of the Executive Board' section of this Remuneration Report.

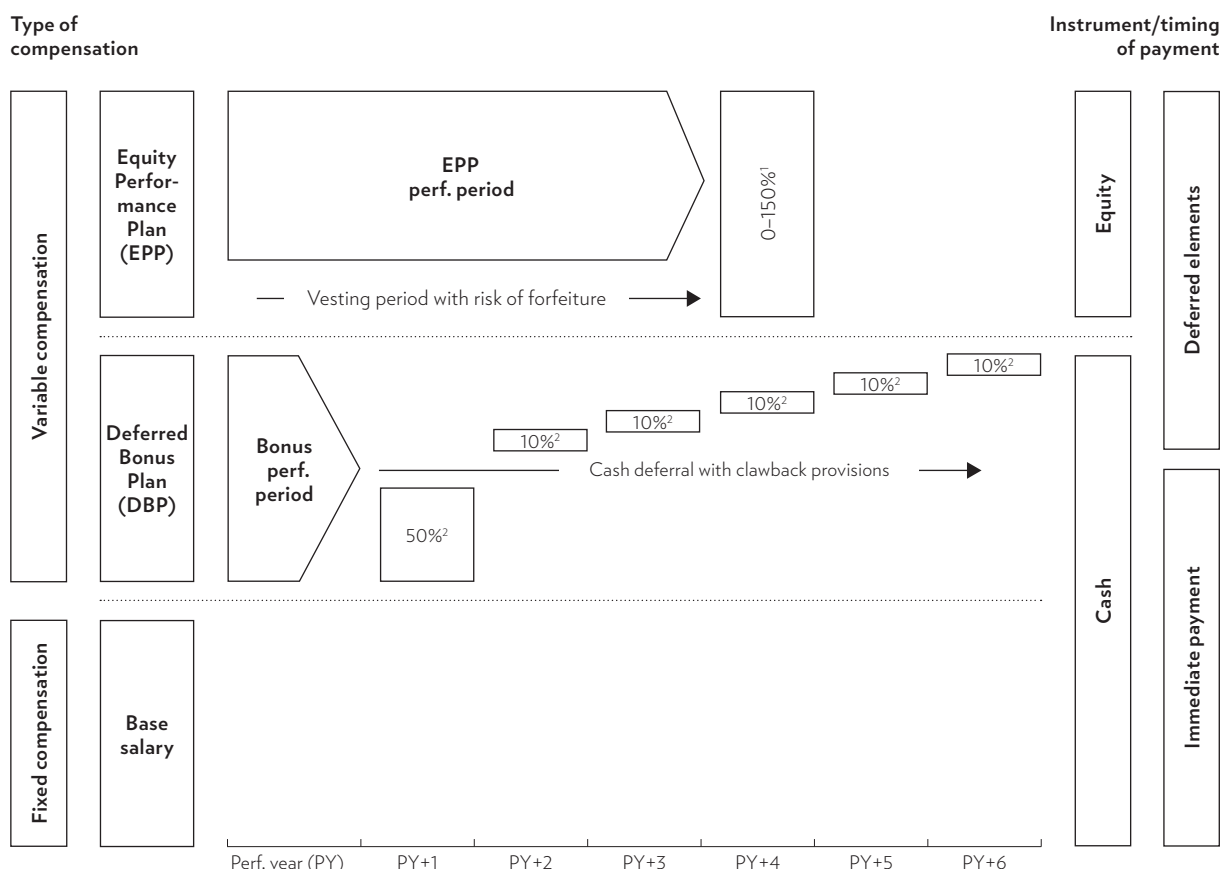
### Key elements of Executive Board<sup>1</sup> and senior management compensation:

- 1 Simple and transparent structure with total compensation consisting of three elements: (i) base salary in cash, (ii) a cash-based variable compensation element (delivered under the Deferred Bonus Plan – DBP), and (iii) a long-term, performance-based equity incentive (delivered under the Equity Performance Plan – EPP). The structure is designed to reward executives for contributing to the Group's overall performance and implementing the Group's strategy to prepare for future growth and success.
- 2 Explicit link to value drivers (internal factors) and share price performance (external factors): the DBP is based on internal measures of achieved performance that Julius Baer regards as being closely related to the long-term value of the Company. The EPP uses a system of Performance Units linked to two KPIs, relative Total Shareholder Return (rTSR) and cumulative Economic Profit (cEP), thus aligning managerial compensation to the external view of the market and aiming to incentivise long-term shareholder value creation.
- 3 Clearly defined caps on variable compensation: the Company has Executive Board variable compensation caps across all members with specific caps for the CEO.
- 4 Share ownership guidelines: to foster alignment of the interests of the Executive Board with those of our shareholders, members of the Executive Board have a three-year period to build up and hold a specific number of Julius Baer shares.

<sup>1</sup> For the purposes of this section, unless specifically noted otherwise, the Executive Board includes the CEO.

The Julius Baer compensation model for the Executive Board and selected members of senior management is structured as follows:

*Illustrative example*



<sup>1</sup> Subject to performance of KPIs; share allocation capped at 150% of Performance Units granted; share value at vesting dependent on market performance.

<sup>2</sup> Deferrals from DBP range from 20 to 50% based on the level of the allocated bonus (example assumes 50% DBP deferral).

## TOTAL COMPENSATION PAY MIX

Total compensation of members of the Executive Board including the CEO consists of a base salary in cash, a cash-based variable compensation component (DBP) and a performance-based variable component (EPP) in the form of equity.

In accordance with its decision that the pay mix needed to be adjusted to be more in line with SMI market practice, the Compensation Committee completed the re-balancing of the pay mix in 2015. The goal of this exercise was to re-balance the compensation components, whilst leaving total compensation at the same level. As a result, the total compensation paid to all members of the Executive

Board remained stable, subject only to annual performance adjustments based on both the Group's performance and that of the individual Executive Board members.

## FIXED COMPENSATION

### Base salary

For Executive Board members, all base salary is paid in cash. The base salary represents the compensation for the market value of the function. Each Executive Board member's fixed base salary is determined individually, taking into consideration his or her role, tasks, responsibilities and experience, as well as the level of education, the degree of seniority and the level

of expertise required to fulfil the function. The base salary adjustments included a one-step increase to the CEO's base salary in 2014 and a two-step increase of the base salaries of the remaining Executive Board members (partially effective in 2014 and partially effective in 2015). Julius Baer received shareholder approval for the aggregate amount of the 2016 Executive Board base salaries (which are consistent with 2015 base salaries) at the 2015 Annual General Meeting of Shareholders.

### **Pension payments**

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.

### **Benefits**

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.

## **VARIABLE COMPENSATION**

### **Cash-based variable compensation**

The Executive Board members (plus selected key risk takers, regulated staff and/or nominated senior employees) receive their variable compensation under the Deferred Bonus Plan (DBP) in six instalments over a five-year period.

#### *Performance assessment process*

Julius Baer rewards Executive Board members who contribute to:

- enhancing value by employing investor capital efficiently while at the same time managing risks;
- adhering to regulatory requirements; and
- meeting Julius Baer corporate culture standards.

Although Julius Baer's variable compensation scheme is discretionary, the final amounts allocated to its individual participants are based on a careful assessment of each individual's attainment of a mix of specific quantitative and qualitative objectives.

Julius Baer believes that qualitative evaluations are important as they allow the Board of Directors to ensure that the compensation system remains in alignment with the core values of Julius Baer. In particular, the Board of Directors can use this component as one facet of the disciplinary measures available to it in the event of a violation of the cultural standards of Julius Baer.

#### *Objective setting for the CEO*

At the beginning of each year, the Chairperson meets with the CEO to discuss and determine the key performance objectives for the upcoming performance year. The objectives are identified on a CEO scorecard (see the 2015 scorecard below in the 'Performance assessment based on scorecard' section of this report) with clear indications of the individual goals and targets for each of the respective value driver categories. In a typical year, the CEO will receive performance objectives in the four value driver categories (each of which will typically contain several goals). These objectives include various qualitative and quantitative metrics individually weighted to support the alignment of managerial actions with shareholder interests.

When formulating the CEO's objectives, the Chairperson of the Board's aim is to ensure the defined goals are aligned with the overall midterm plan and strategic goals of Julius Baer. In addition, he endeavours to attain a proper weighting of the goals in order to promote sustainable performance in a conservative manner, while also ensuring risk awareness and regulatory compliance. Qualitative objectives are defined in order to reflect the attainment of individual goals which, while not readily expressible in quantitative terms, nonetheless contribute to the overall success of Julius Baer.

Once agreed and defined, the Chairperson of the Board approves the final objectives in their entirety. It is important to note that the baseline for the various objectives contained in the CEO's scorecard (e.g. the three-year midterm plan or budget, quantitative Company level goals, etc.) is approved by the full Board of Directors.

#### *Objective setting for the Executive Board members*

The Executive Board objective setting process mirrors that of the CEO; however, it is the CEO who



meets with each member of the Executive Board to discuss and determine the key performance objectives for the upcoming performance year.

Executive Board members are also given performance objectives in all four of the value driver categories listed on the scorecard below (each of which will typically contain several goals). As each Executive Board member acts in a different capacity within the Company, the objectives for each value driver category (and the corresponding goals within each category) are individually geared towards each Executive Board member's area of responsibility. The CEO approves the final objectives in their entirety.

However, the CEO's scorecard, as approved by the full Board of Directors, serves as the baseline for the individual Executive Board members' scorecards.


*Performance assessment based on scorecard*

These key performance objectives are formally measured at year-end, when the scorecard is discussed between the Chairperson of the Board and the CEO (in the case of the CEO's goals) and between the CEO and the respective Executive Board member (in all other cases). However, performance against value drivers and individual goals is continuously monitored.


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For the year 2015, the following value drivers and individual goals were defined in the Executive Board members' individual scorecards:

**Core objectives<sup>1</sup> (CEO 30% / EB 35%)<sup>2</sup>**

2015 Budget and KPIs			<b>Assessment</b>
	Overall	<ul style="list-style-type: none"> <li>Overall 2015 budget in terms of profitability including operating income and expenses</li> <li>For the specific area of responsibility, the 2015 budget is directly allocated to each of the EB members' scorecards and is directly derived from the budget the Board of Directors has approved for the performance year 2015</li> </ul>	Target
	Client-facing units targets	<ul style="list-style-type: none"> <li>Growth of net new clients assets</li> <li>Development of asset profitability</li> <li>Cost/income ratio</li> <li>Cost management</li> <li>Attraction and retention of relationship managers</li> </ul>	
	Non-client-facing units targets	<ul style="list-style-type: none"> <li>Efficient and process-optimised management</li> <li>Cost management</li> </ul>	
	Additional targets for CEO/CFO/CRO	<ul style="list-style-type: none"> <li>Capital-requirement KPIs</li> <li>Specified KPIs</li> </ul>	


**Project objectives (CEO 30% / EB 35%)<sup>2</sup>**

		<b>Assessment</b>
Integration	<ul style="list-style-type: none"> <li>Integrate the acquired franchises within schedule and budget</li> <li>Focus on the right-sizing process of front- and back-office related organisational units</li> </ul>	Target
Corporate Social Responsibility (CSR)	<ul style="list-style-type: none"> <li>Promote continuous integration of sustainability considerations into Julius Baer's daily life including sustainable investing</li> </ul>	
Strategic targets	<ul style="list-style-type: none"> <li>Identify and drive internal projects of strategic importance</li> </ul>	
Mergers & Acquisitions (M&A)	<ul style="list-style-type: none"> <li>Actively shape the M&amp;A strategy of the Company</li> </ul>	
Platform	<ul style="list-style-type: none"> <li>Rejuvenation of the IT platform</li> </ul>	

**General objectives (CEO 30% / EB 15%)<sup>2</sup>**

		<b>Assessment</b>
Regulatory awareness and compliance	<ul style="list-style-type: none"> <li>Actively address changes in the regulatory environment by defining suitable measures for important topics such as: tax transparency/enforcement development, investment suitability, FINMA regulations (e.g. distribution rules, balance sheet requirements) and fulfilment of regulatory requirements outside Switzerland</li> </ul>	Target
Risk and qualitative objectives	<ul style="list-style-type: none"> <li>Revalidate new consolidated risk framework following the IWM integration</li> <li>Succession planning/management; manage existing staff and hiring pipeline</li> <li>Proactively advance and handle communication</li> <li>Comply with and build sensible business policies and practices</li> </ul>	
Other general objectives	<ul style="list-style-type: none"> <li>Raise awareness of data security and enforce compliance</li> <li>Promote core values to further develop a common culture and identity</li> </ul>	

**Personal goals (CEO 10% / EB 15%)<sup>2</sup>**

	<b>Assessment</b>
<ul style="list-style-type: none"> <li>To improve their contributions to firm value, goals are set that help the individual EB members to develop their skill sets and ultimately contribute to the success of Julius Baer</li> </ul>	Target 

<sup>1</sup> The overall variable compensation pool available is determined by the overall profitability of the Group. Accordingly, company-wide performance measures are also relevant for the total variable compensation awarded and the variable compensation is always conditional on the size of such pool in a given year.

<sup>2</sup> The weightings shown are the standard for EB members and may vary slightly in individual cases depending on roles and responsibilities.

For competitive reasons, it is not possible to disclose the specific quantitative objectives for each of the above components.

In the assessment process, the actual achievement of quantitative objectives is measured against the objective set on the individuals' scorecards to determine their relative achievement. For qualitative objectives, actual performance is measured directly by the Chairperson in the case of the CEO and by the CEO in the case of all other members of the

Executive Board. However, in the case of qualitative measurements, the measuring party may need to rely upon other Julius Baer employees, external advisers, and/or members of the Board of Directors to complete the measurement. For example, where a determination of the level of the individual's performance relative to regulatory awareness and compliance needs to be identified, consultation with the Group's Head of Compliance may be required to complete the final assessment.

For each of the individual goals, each Executive Board member's actual achievement is determined in percentage terms based on the following rating system:

Rating	Description	Performance objective achievement
A++	significantly exceeds goal	>133%
A+	exceeds goal	111–133%
A	fully meets goal	91–110%
B	goal achievement below expectation	67–90%
C	does not meet goal at all	<67%

Once the individual performance goals (within each value driver) are properly assessed, a weighted-average of all performance objectives is calculated to determine the individual's overall performance within the applicable value driver. A final average weighting of all four value drivers is calculated based on the value driver weighting to determine the preliminary performance rating based on the individual's assessed performance.

Once the Executive Board member's preliminary performance rating has been calculated, a discretionary verification is performed. This verification is completed by the Chairperson of the Board in the case of the CEO's performance and by the CEO for all other members of the Executive Board. The purpose of this verification step is to ensure that the preliminary performance rating of the participant makes fundamental sense (for example to ensure that strong qualitative performance does not skew the overall rating of an Executive Board member in a year when overall quantitative corporate performance and shareholder return is negative). In this verification process, the final performance rating of

the Executive Board member may be adjusted marginally upwards or downwards to determine the final performance rating.

The scorecard's results provide the basis for determining the recommended DBP allocation. These individual assessments mean that the overall pay mix awarded to individual Executive Board members may differ from year to year, due to individual, divisional and/or Group performance, as well as overall individual responsibilities.

All DBP recommendations for the Executive Board are subject to confirmation by the Compensation Committee and, once approved, are then brought to the attention of the Board of Directors, with specific acceptance of the proposed DBP award to the CEO being requested from the Board of Directors. The Board of Directors reserves the right to make further adjustments to the DBP allocations based on Company performance (taking into consideration such factors as extraordinary events, changes in responsibility, etc.). This adjustment for Company performance can be either positive or negative.

Final approval of the DBP for the financial year for the Executive Board will be sought from our shareholders at the AGM following the end of the financial year.

#### *2015 Executive Board performance*

The Group's underlying financial results were a significant component in the positive scorecard assessment (as part of the Core Objectives) of both the CEO and Executive Board members. In 2015, Julius Baer delivered strong underlying financial results, improving top-line growth despite market turmoil as well as increasing cost efficiency through further optimisation. Our Executive Board successfully led Julius Baer to exceed nearly all budget target objectives in terms of operating performance (as explained in the '2015 Julius Baer Group Performance' section above).

The Executive Board's 2015 project targets focused on completing the landmark IWM integration, implementing a selective merger and acquisition strategy, driving the renewal of the global core banking platform and supporting business growth through the promotion of sustainability. Building on its proven track record, the Executive Board aptly steered the asset transfer and on-boarding of both IWM India and Leumi Private Bank in 2015. The Group's market penetration was increased through the acquisition of Fransad in Switzerland and through partner transactions with NSC Asesores, the largest independent wealth manager in Mexico, and Italian-based Kairos. Supporting the renewal of the core banking platform, a project initiated last year to further Julius Baer's ability to provide top-quality service to our global client population, the Group acquired Commerzbank International SA Luxembourg with a Temenos-based booking centre and a highly experienced IT team. Additionally, work on the integration of the Environmental, Social & Governance (ESG) criteria into the Julius Baer's investment-selection process moved forward.

The Executive Board was instrumental in reinforcing Julius Baer's client-centric excellence and management culture, including the 2015 roll-out of a substantially enhanced advisory process (Julius Baer – Your Wealth) and an overhaul of online channels. These achievements are reflected in the external recognition bestowed on the Group. Julius Baer

received various awards across the globe, including 'Best Boutique Private Bank in Asia' by 'The Asset' (a leading publication in the region) for the sixth consecutive year, 'Best Private Bank for Growth Strategy' at 'The Banker's 2015 Global Private Banking Awards', 'Best Private Bank – Pure Play' at the '2015 Private Banker International Global Wealth Awards' and the 'Best Pure Play Private Bank' of the year accolade from the 'Wealth Briefing Asia Hong Kong Awards 2015'.

Based on individual and corporate performance in 2015, the Executive Board members (excluding the CEO) achieved an average performance rating of 'A' under Julius Baer's assessment process.

The CEO's leadership in the continuing company transformation and positioning of Julius Baer was reflected in his 2015 scorecard assessment as well as the aforementioned strong Group financial results. His sustained focus on business right-sizing and cost discipline has allowed the Group to achieve a high degree of strategic flexibility, enabling Julius Baer to take advantage of structural changes in the wealth management industry. The CEO effectively sought the implementation of business processes and models which ensure resilience, consistent execution and sustainable success. The CEO's focus on growth through innovation helped drive brand awareness in 2015 as did his steering of the landmark IWM integration and partnership transactions. Based on the above individual and corporate performance in 2015, the CEO scorecard assessment completed by the Chairperson of the Board of Directors together with the Compensation Committee resulted in a final assessment of 'A+' under Julius Baer's performance rating scheme.

In assessing and determining the compensation of the CEO and Executive Board members for 2015, the Compensation Committee took all of the above performance assessments into consideration as well as the impact of the US cross-border tax litigation and the planned pay mix adjustments implemented for Executive Board members in 2015 (these 2015 pay mix adjustments excluded the CEO).

#### *Plan structure of the DBP*

The DBP aims to ensure that its participants continue to manage Julius Baer for sustainable long-term

shareholder value creation, to emulate the Julius Baer values, and to carry out all business activities in a manner which is compliant with regulatory requirements. As a result, the amounts allocated to each individual (through the individual's scorecard) are closely tied to variables that Julius Baer has identified as key value drivers for the Company.

The full amount of the DBP is generally awarded in the first quarter following the close of the relevant financial (i.e. calendar) year. In 2016, the DBP 2015 for the Executive Board will be recommended in the first quarter of 2016; however, it will not be paid until it has been approved by our shareholders.

Although subject to deferral, the DBP is considered as earned in the year the award is granted and, as such, it is reported under the accrual principle in the Remuneration Report for the performance year in which the award is earned. The DBP is paid in cash; however, where the granted DBP exceeds the minimum threshold (CHF 125,000, or its local currency equivalent) a portion is subject to a five-year deferral. During those five years, the deferred amount is paid out in five equal annual instalments. For DBP amounts between the minimum threshold and CHF 1 million (or its local currency equivalent), a sliding scale is applied, under which the deferral percentage increases linearly from 20% to 50% (consistent with the previous year). DBP amounts of CHF 1 million (or its local currency equivalent) or higher will remain subject to the maximum deferral rate of 50%. Amounts below the DBP minimum threshold are not subject to deferral.

This deferral promotes an increased long-term orientation of the executives concerned. In addition, it allows Julius Baer to clawback DBP amounts in the event of substantial breaches of legal or regulatory requirements, financial losses (e.g. misrepresentation of variables on which the DBP award was based) and a variety of other events where the employee's conduct has substantially contributed to a financial loss by the Julius Baer Group or has caused it reputational damage. The deferral element is not intended to function as a retention measure, since the executives are entitled to continue to receive the deferred amounts (according to the payout

schedule) even after termination of employment. It is nevertheless an important element in the compensation package.

For DBP grants made in respect of the performance year 2015 and thereafter, the members of the Executive Board and senior management can elect to hold the deferred cash awards (partially or fully) in Julius Baer mutual funds, in particular the JB Strategy Income, Balanced or Growth fund. This plan adjustment further aligns the interests of the Executive Board with those of our major clients. All such investments and any potential proceeds remain subject to the same clawback conditions.

### **Equity-based variable compensation**

The Equity Performance Plan (EPP) is a key part of the Julius Baer compensation model. One of the Compensation Committee's objectives was to create a robust long-term incentive mechanism for key employees. The EPP is an equity plan which seeks to create a retention element for key employees and to link a significant portion of the executive compensation to the future performance of the Julius Baer Group.

Eligibility for the EPP is based on various factors, which include nomination by the CEO, overall role within Julius Baer and total variable compensation. All members of the Executive Board, key employees, and employees defined as risk takers by virtue of their function within the organisation are considered for the EPP based on their specific role. The size of the grant awarded to each individual varies based on factors which include, but are not limited to, seniority, contribution to Julius Baer, defined total pay mix and level of responsibility.

#### *Plan structure of the EPP*

The EPP is an annual rolling equity grant (made in February each year) that awards Performance Units to eligible executives subject to service and performance-based requirements. The EPP award reflects the value of the employee for the future success of the business and more closely links an individual's compensation to his or her contribution to the future performance of Julius Baer. The goal of the EPP is to incentivise participants in two ways:

- Firstly, by the nature of its construction, the ultimate value of the award to the participants fluctuates with the market value of Julius Baer shares.
- Secondly, the Performance Units are contingent on continued service and two KPIs, cumulative Economic Profit (cEP) and relative Total Shareholder Return (rTSR). The service condition requires that the participant remains with Julius Baer for three years after the grant (through a cliff-vesting mechanism). The performance of the two KPIs determines the number of shares the participant ultimately receives.

The number of shares delivered under the EPP is between 0% and 150% of the number of Performance Units granted in any given year (with each individual KPI being capped at a maximum multiplying factor of 200%). The cap serves to limit EPP awards so as to avoid any unforeseen outcome of the final EPP multiplier resulting in unintentionally high or excessive levels of compensation. A high level of performance is required to attain a maximum share delivery (creating a maximum uplift of 50% of the Performance Units granted), with low-level performance leading to potential nil compensation.

The KPI targets are set based on the strategic three-year budget/plan that is approved by the Board of Directors on an annual basis. Extremely high (and, thus, unrealistic) performance targets are avoided, so as not to incentivise excessive risk taking by executives and other managerial staff.

Until allocation to the plan participants, all Performance Units granted under the EPP are administered by the LOTEKO Foundation.

#### *Details of key performance indicators (KPIs)*

KPI 1: cumulative Economic Profit (cEP). Julius Baer rewards Executive Board members for creating economic value added, i.e. profitability for shareholders over and above the Cost of Capital. This idea is captured in economic profit, which is calculated as:

$$\text{cEP} = \text{NOPbB} - \text{T} - \text{CoC}$$

where

NOPbB = adjusted net operating profit before variable compensation (excluding amortisation of intangible assets and integration and restructuring costs related to acquisitions or divestments, as well as nonperformance-related extraordinary events approved by the Compensation Committee)

T = taxes

CoC = cost of capital

All calculations will be based on the approved figures confirmed by the Audit Committee of Julius Baer. The calculation and all its components are reviewed and approved by the Compensation Committee.

Each year, the Compensation Committee approves a cEP target range for the next three years. Any performance below the minimum in this range will be deemed to constitute low-level performance and will result in a multiplier of 0%; when the cEP achieved over the three-year performance period is above this minimum, the multiplier increases linearly, up to a maximum multiplying factor of 200%. For both the EPP 2015 and EPP 2016 grants, the Compensation Committee has chosen the following payout parameters:

- Minimum: if the final cEP is 50% or less of the cEP target, the cEP multiplier will be 0%
- Target: if the final cEP is equal to the cEP target, the cEP multiplier will be 100%
- Maximum: if the final cEP exceeds the cEP target by 50% or more, the cEP multiplier will be 200%

Julius Baer's cEP target is entirely based on the Company's three-year midterm plan. As publishing the actual cEP performance target is considered a sensitive disclosure from a competitive viewpoint and is therefore not in the best interest of the Company and its shareholders, Julius Baer has chosen not to disclose these figures. However, Julius Baer sets a challenging midterm plan which is approved by the Board of Directors, which is fully aware that this plan constitutes the baseline for the cEP.

KPI 2: relative Total Shareholder Return (rTSR).

Julius Baer wishes to ensure that the Executive Board (plus selected regulated staff and/or nominated employees) is rewarded for outperforming



its competitors in terms of the value created for shareholders. Thus, while a positive economic profit (KPI 1) indicates that value was created, Julius Baer also wishes to incentivise its management to work on developing, executing and communicating on strategic and operational objectives in such a way that the expected and resulting economic profit performance is deemed sustainable into the future and will, as a result, translate into a relative share price outperformance. Accordingly, rTSR has been chosen as the second KPI, because it provides a measure of the success of these efforts. To calculate rTSR, the Julius Baer Group's TSR is compared against the performance of the STOXX Europe 600 Banks Index (the 'Index').

Each year, the Compensation Committee approves the rTSR target range. Any performance below the minimum in that range will be deemed to constitute low-level performance and will result in a multiplier of 0%; when the rTSR achieved over the three-year performance period is above this minimum, the multiplier increases linearly up to a maximum multiplying factor of 200%. For both the EPP 2015 and EPP 2016 grants, the Compensation Committee has chosen the following payout parameters:

- Minimum: if the final Julius Baer TSR is -22% or less than the return of the Index, the rTSR multiplier will be 0%
- Target: if the final Julius Baer TSR is +3% higher than the return of the Index, the rTSR multiplier will be 100%
- Maximum: if the final Julius Baer TSR is at least +28% higher than the return of the Index, the rTSR multiplier will be 200%

For the purposes of calculating the rTSR performance over the three-year performance period, the TSR will be calculated using a fixed pricing period at the beginning and end of the performance period. The calculation will be performed using the average closing price of the STOXX Europe 600 Banks gross return index during the first and last calendar months of the performance period. This return will be compared against the TSR of Julius Baer Group shares over the same period. The performance will then be assessed against the aforementioned scale (-22% to +28%) to determine the multiplier.

#### *Final evaluation of KPIs*

Once the KPIs have been measured at the end of the Performance Period, as described above, the final multiplier is calculated. The final multiplier used in calculating the number of shares ultimately allocated to plan participants is an average of the two multipliers (each individually capped at 200%) associated with the KPIs. The final multiplier itself, however, is capped at 150%. The number of shares ultimately allocated to each plan participant is then calculated as follows:

Number of shares vesting = Final Multiplier x  
Number of Performance Units granted

Similarly to the DBP, the EPP is also subject to forfeiture in the event of substantial breaches of legal or regulatory requirements, financial losses and a variety of other events where the employee's conduct has substantially contributed to a financial loss by the Julius Baer Group or has caused it reputational damage.

## COMPENSATION CAPS

The Compensation Committee agrees that it is important to ensure that the compensation paid to

members of the Executive Board is benchmarked and subject to specifically defined caps. There are no changes to the prior year's compensation caps.

### 2015 targets and maximum caps for Executive Board (all caps as a multiple of base salary)

	Target		Cap	
	Average EB	CEO	Average EB	CEO
Total variable compensation (DBP / EPP)	3.0	3.0	4.0	4.0
Cash-based variable compensation (DBP)	–	–	2.0	2.0
Equity-based variable compensation (EPP)	–	–	2.0	2.0

As a result, for 2015 the members of the Julius Baer Executive Board are subject to the following caps:

- The total sum of the variable compensation allocated to the members (in aggregate) of the Executive Board (including the CEO) shall be targeted at three times, but will be capped at four times the total sum of the base salaries paid to the entire Executive Board.
- The total sum of the DBP and the total sum of EPP allocated to all members (in aggregate) of the Executive Board (including the CEO) will each be capped at two times the total sum of the base salaries paid to the entire Executive Board.
- The total sum of the variable compensation allocated to the CEO shall be targeted at three times, but will be capped at four times the CEO's base salary.

- The total sum of the DBP and the total sum of the EPP allocated to the CEO will each be capped at two times the CEO's base salary.

The Compensation Committee is responsible for ensuring that the total variable compensation paid to the Executive Board members is compliant with the applicable compensation caps.

## GUIDELINES ON SHARE OWNERSHIP

Since 2014, the Executive Board members have been required to build up their total vested shareholdings until they reach the following levels:

Executive Board member	Share ownership requirement (in vested Julius Baer Group shares)
Chief Executive Officer (CEO)	100,000 shares
Executive Board members (excluding the CEO)	30,000 shares (or 2.5 times base salary, if lower)

The members of the Executive Board have a period of three full calendar years starting from the beginning of 2014 (for the members of the Executive Board already serving in 2014) or their appointment to the Executive Board (for new members of the Executive Board) to build up their Julius Baer Group shareholdings. The final measurement will be performed on 31 December of the third calendar year following the Executive Board member's appointment to the Board. For the members of the

Executive Board already serving in 2014, this measurement will be assessed on 31 December 2016. If the above targets are not reached by the measurement date, 50% of the shares vesting from the individual's equity-based grant will be held back until the defined level has been reached.

Details of the shareholdings of each member of the Executive Board can be found in the 'Compensation,

loans and shareholdings of the Executive Board' section of this Remuneration Report.

## EMPLOYMENT CONTRACTS

The notice period for all members of the Executive Board does not exceed six months. The Executive Board members are not entitled to any special severance payments or special termination benefits under the pension plans compared to the general staff population.

## CLAUSES FOR CHANGE OF CONTROL

Executive Board members are not entitled to specific payments upon a change of control or upon termination of employment related to a change of control; however, they are eligible to receive such benefits (e.g. accrued holiday pay, death/disability/retirement benefits under the pension plan, etc.) which are generally available to other Julius Baer employees. The Executive Board members are not entitled to other severance payments or special termination benefits under the pension plans compared to the general staff population.

Special change of control provisions may be available under the variable compensation plans. The Termination Provisions of Julius Baer Plans table provides details of the vesting and forfeiture rules for termination events. All provisions remain subject to the prevailing legislation in each of the applicable jurisdictions at the time of the change of control.

## 2015 EXECUTIVE COMPENSATION DECISIONS

### Compensation decisions for the CEO

The CEO's defined base salary (including a fixed lump-sum expense allowance) was set by the Compensation Committee at CHF 1.5 million with effect from 1 March 2014 in the re-balancing of his total compensation pay mix. The CEO's effective 2015 base salary, however, was temporarily reduced

in accordance with a decision taken by the Executive Board. The Executive Board's decision, supported by the Compensation Committee, was to reduce the members' base salaries by 5% for the performance year 2015 (effective from 1 March 2015 and resulting in a decrease of 4.2% from the defined base salaries) as part of a cost management initiative, launched to counter the effects of the appreciating CHF after the January decision of the Swiss National Bank to abandon its EUR floor exchange rate. This temporary reduction in base salaries expired on 31 December 2015. As a result of the March implementation of both the re-balancing of the CEO's compensation pay mix and the cost initiative, respectively in 2014 and 2015, the CEO's base salary, in fact, increased by 1.5% in comparison to 2014.

In determining the CEO's bonus allocation, the Compensation Committee considered both the positive scorecard results of the CEO and the impact of the US cross-border tax litigation. The CEO's total variable compensation was curtailed by 10% in terms of the amount allocated on the basis of his positive 2015 scorecard results. In comparison to 2014, the total DBP paid to the CEO decreased by 9.4%, despite the improvement in the Group's underlying performance. This lower DBP allocation and also a lower EPP award (EPP 2016) resulted in an overall decrease of 7.1% in the CEO's total compensation in comparison to 2014 (for further details see the 'company view' disclosure in the 'Compensation, loans and shareholdings of the Executive Board' section).

However, based on the audited reporting figures which are adjusted to be in line with the 'Swiss Ordinance against Excessive Compensation in Listed Companies', the CEO's total compensation is shown to have increased by 7.6% in 2015. This increase reflects the fact that the accounting guidance in accordance with the Ordinance requires the EPP allocated at the beginning of 2015 to be shown as compensation for 2015 rather than 2014. The change in the CEO's total compensation in respect of 2015 is more adequately reflected when the allocated EPP award at the beginning of 2016 is considered; the EPP 2016 award was reduced by

8.2% compared to the EPP 2015 award (resulting in the aforementioned 7.1% decrease in total compensation between 2014 and 2015).

The compensation paid to the CEO is fully in line with the prescribed compensation caps in all respects.

#### **Compensation decisions for the Executive Board**

In line with the 2015 compensation decision taken for the CEO, a consistent approach was applied to reflect the US cross-border tax litigation in the allocation of the total variable compensation to the other members of the Executive Board. Their total variable compensation was adjusted downwards by 10% in respect to the amounts allocated based on the individual results of their 2015 performance scorecard assessments. Additional reductions in the DBP award were also implemented to reflect the new pay mix framework and the related base salary increases. This resulted in an overall decrease of 13.1% in the total DBP paid to the aggregate Executive Board (excluding the CEO) in 2015. The net result of these adjustments was that the total cash-based compensation (base salary and DBP) paid to the Executive Board (excluding the CEO) decreased by 2.2% in 2015. When the compensation of former members of the Executive Board is also included for 2014, the respective decrease in total DBP paid to the aggregate Executive Board (excluding the CEO) in 2015 was 15.8% and the decrease in total cash-based compensation paid to the Executive Board (excluding the CEO) in 2015 was 6.1%.

The total EPP award for the aggregate Executive Board (excluding the CEO) was also reduced by 12.6% (which also equates to an EPP decrease of 12.6% when the compensation of former members of the Executive Board is included for 2014). Because the accounting guidance in accordance with the 'Swiss Ordinance against Excessive Compensation in Listed Companies' requires EPP awards to be disclosed in the year they are granted (as noted in the above section 'Compensation Decisions for the CEO'), the full impact of the 2015 curtailments of the Executive Board's compensation are not adequately reflected in the audited 2015 compensation disclosure, which has been adjusted to be in line with the Ordinance. The lower DBP and EPP awards resulted in an overall decrease of 6.1% in the total compensation of the aggregate Executive Board (excluding the CEO) in 2015 (which equates to a decrease of 8.6% when the compensation of former members of the Executive Board is also included). However, by the adjusted reporting standards in line with the Ordinance, which require the EPP allocation decision taken at the beginning of 2015 to be shown as compensation for 2015, the total 2015 audited compensation of the aggregate Executive Board (excluding the CEO) increased by 3.3% in comparison to 2014 (and increased by 0.4% when the compensation of former members of the Executive Board is also included for 2014).

The compensation paid to the aggregate Executive Board is fully in line with the prescribed compensation caps in all respects.

## OTHER EMPLOYEE COMPENSATION

This section provides details of the ongoing compensation system for the employees of Julius Baer (excluding the Executive Board and selected senior management whose compensation was addressed in the previous section). Swiss rules regarding the disclosure of compensation concern the Board of Directors and the Executive Board. It is on these groups that this Remuneration Report focuses. However, Julius Baer's success also depends on the continued excellence of all its employees. Accordingly, this section discusses the salient features of the compensation system for non-executive employees.

### Key elements of other employee compensation:

- 1 Simple and transparent total compensation structure: base salary in cash, year-end, cash-based variable compensation and deferred variable compensation when above minimum thresholds.
- 2 Performance assessment: individual bonus allocation based on paying for success where performance is measured on both a quantitative and qualitative basis, including such factors as compliance and regulatory awareness.
- 3 Balanced deferral scheme: deferred variable compensation delivered in equal proportions under the Deferred Cash Plan (DCP) and Premium Share Plan (PSP), which are both subject to forfeiture and deferred over three years to foster long-term orientation.

### FIXED COMPENSATION

#### Base salary

The Group's salary framework is based on a functional model comprising ten function levels, each of which represents an increasing degree of job complexity. A salary band is assigned to each function level. This band defines the target base salary range for jobs assigned to the respective function level concerned. Individual salaries are then determined within these salary bands taking market benchmarks into account.

The Group does not apply general salary increases (unless required by local legislation). Salary adjustments are made on an individual basis when employees are promoted to a new function level and/or based on the results of their annual personal assessment.

### VARIABLE COMPENSATION

As previously stated, Julius Baer's success also depends on the continued excellence of all its employees. The majority of permanent employees at Julius Baer are considered eligible for cash-based variable compensation.

Individual variable compensation amounts depend on the formal year-end assessment of performance against a range of quantitative and qualitative objectives (e.g. adherence to compliance and regulatory standards and to Julius Baer Group policies, core values and procedures) as well as skills, expertise and conduct. Regulated staff (e.g. key risk takers and code staff) are reviewed by the Compensation Committee on an individual basis which also takes the potential payout volatility (pay riskiness) of their total compensation into account.

As a result, in addition to the plans offered to the members of the Executive Board (as described above), Julius Baer also offers various equity- and cash-based plans to members of the global staff population. Participation in these plans depends on factors such as function level, overall variable compensation, and/or nomination for participation in the relevant plan on an annual basis.

Until their ultimate allocation to the individual plan participants, all shares underlying the equity-based compensation plans are administered by the LOTEKO Foundation.

### DEFERRED VARIABLE COMPENSATION

Generally, eligible permanent employees receive their variable compensation in one payment via a year-end bonus. However, where awards exceed the minimum threshold (CHF 125,000, or its local currency equivalent) a portion is subject to deferral either in cash or equity. For amounts between the minimum threshold and CHF 1 million (or its local currency equivalent), a sliding scale is applied, under which the deferral percentage increases linearly from 20% to 50%. For amounts of CHF 1 million (or its local currency equivalent) or higher, the award will remain subject to the maximum deferral rate of 50%.

loss by the Julius Baer Group or has caused it reputational damage.

Half of the deferred variable compensation is deferred through the Deferred Cash Plan (DCP) with the remaining portion being deferred through the Premium Share Plan (PSP) over a three-year period.

The diagram illustrates the accounting treatment of two types of share-based payment plans over time, from the performance year (PY) to PY+4. The x-axis represents time, with markers for Perf. year (PY)+1, PY+2, PY+3, and PY+4. The y-axis represents the accounting treatment, with a vertical label 'Premium Share Plan' on the left and 'Deferred variable compensation' on the right.

**Premium Share Plan:**

- Perf. year (PY)+1:** The plan is initiated, with the 'Premium share component of PSP' and 'Deferral component of PSP' recorded.
- PY+2:** 1/3 shares are vested.
- PY+3:** 1/3 shares are vested.
- PY+4:** 1/3 shares are vested, and the 'Premium' component is recognized as '+ 1/3 shares'.

**Deferred Cash Plan:**

- Perf. year (PY)+1:** The plan is initiated, with the 'Deferred Cash Plan' recorded.
- PY+2:** 1/3 cash is vested.
- PY+3:** 1/3 cash is vested.
- PY+4:** 1/3 cash is vested, and the 'Deferred variable compensation' is recognized as '1/3 cash'.

Both plans have a 'Vesting period with risk of forfeiture' indicated by a horizontal arrow from the start of the plan to the end of the vesting period (PY+3).

<sup>1</sup> Grant takes place in February following the performance year.

concerned and participation is determined on an annual basis. These deferred cash awards vest in equal one-third tranches over a three-year plan period subject to continued employment. Where share-based plans are not permissible under local legislation, employee annual awards are fully deferred through the DCP.

## Equity-based variable compensation

The Premium Share Plan (PSP) is designed to link a portion of the employee's variable compensation to the long-term success of the Julius Baer Group through its share price. A PSP grant is made once a year as part of the annual variable compensation



awarded to the individual concerned and participation is determined on an annual basis. The employee is granted a number of shares equal in value to the deferred element. These shares vest in equal one-third tranches over a three-year plan period. At the end of the plan period, subject to continued employment, the employee then receives an additional share award representing a further one-third of the number of shares granted to him or her at the beginning of the plan period. Where local legislation has set timing parameters with regard to changes in employee compensation terms, employee awards for the performance year 2015 have remained fully deferred through the PSP, but these locations will shift to the adjusted compensation structure for the performance year 2016.

## OTHER COMPENSATION ARRANGEMENTS

### **Integration Incentive Award (for former Bank of America Merrill Lynch relationship managers)**

As part of Julius Baer's integration of Bank of America Merrill Lynch's IWM business, key relationship managers from IWM were offered participation in the Integration Incentive Award (a cash- and share-based plan) which was designed to incentivise individuals to join Julius Baer and move clients and assets to Julius Baer. In 2015, new grants under the Integration Incentive Award (IIA) were made solely in conjunction with the final transfer of the business in India.

The Integration Incentive Award plan runs for a maximum of five years, with cash being paid out on a rolling six month basis over the first three years and shares being delivered to participants on the fourth and fifth anniversaries of the grant date. At the end of the plan period, subject to continued employment, the employee receives an additional share award representing one-third of the number of shares granted to him or her at the beginning of the plan period.

In the event of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested cash and/or shares are forfeited.

## COMPENSATION ARRANGEMENTS IN STRATEGIC PARTNERSHIPS

In certain strategic partnerships, Julius Baer operates special compensation arrangements unique to the organisation concerned. Such arrangements can include compensation linked to the strategic partner entity's shares. No such arrangements are currently linked to the shares of the Julius Baer Group.

## SIGN-ONS AND REPLACEMENTS

### **Sign-on bonus**

Although Julius Baer only offers performance-based compensation to its current staff, it may in the course of its recruitment processes also offer incentives for specific new hires when they join the Company. A sign-on bonus is a one-time cash payment which is generally made to a participant after reaching the end of his or her probationary period (three months from the date on which employment commences) and upon agreement that the individual will continue employment with Julius Baer. The grants also include a one-year clawback from the employee's hiring date in cases where the participant leaves Julius Baer within twelve months of his or her initially commencing employment. Actual parameters may vary according to location, local regulations and the specific circumstances of the hiring process. No sign-on bonuses were awarded to members of the Board of Directors or the Executive Board in 2014 or 2015.

### **Long-Term Incentive Plan (LTI)**

In certain specific situations, Julius Baer may also offer incentives outside the annual compensation cycle. Actions such as compensating new hires for deferred awards they have forfeited by resigning from their previous employer or making retention payments to key employees during extraordinary or critical circumstances may be carried out by granting individuals an equity-based LTI.

An LTI granted in these circumstances generally runs over a three-year plan period. Julius Baer currently operates two different vesting schedules for this plan: (1) three equal one-third tranches vesting over a three-year period, (2) cliff-vesting of

all granted shares in one single tranche at the end of a three-year period.

The shares are transferred to participants at the time of vesting, subject to continued employment and any other conditions set out in the plan rules. All grants made in 2015 are free from restrictions upon vesting. In the event of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested shares are forfeited.

## EMPLOYEE SHARE PURCHASE

### **Staff Participation Plan**

The Staff Participation Plan (SPP) is offered to most of Julius Baer's global employee population. Some individuals or employees in specific locations are

excluded from participating because, for example, the employees concerned are participants in another Julius Baer equity-based plan or because the SPP cannot be offered in a particular jurisdiction for legal or regulatory reasons. Under this plan, eligible participants may voluntarily purchase Julius Baer Group shares at the prevailing market price and for every three shares so purchased they will receive one additional share free of charge. These free shares vest after three years, subject to continued employment. Purchases under the Staff Participation Plan (SPP) only occur once a year.

The objective of this plan is to strengthen the employee's identification with the Group, to encourage entrepreneurial spirit, to generate greater interest in the business through ownership, and to provide employees with financial recognition for their long-term dedication to the Company.

## BOARD OF DIRECTORS COMPENSATION

This section provides details of the compensation system for members of the Board of Directors. The figures for 2015 are presented in the audited 'Compensation, loans and shareholdings of the Board of Directors' section of this Remuneration Report.

### Key elements of Board of Directors compensation

- 1 Simple structure: fixed compensation, paid in cash and in share awards, which is not linked to performance, but based on the work load of the individual Board member.
- 2 Share ownership guidelines: minimum required holdings of Julius Baer shares (subject to a three-year build-up period).

shares on the Swiss Stock Exchange prior to the grant date. This share-based compensation remains subject to a one-year, service-based vesting period over the term. The share-based compensation element is disclosed at grant value in the year of election or re-election.

No dividend entitlements accrue or are paid on the share-based awards until vesting. All shares delivered at vesting are unrestricted (subject to the Guidelines on share ownership as described below). Shares granted to all members of the Board of Directors are subject to a forfeiture clause, under which the award will only vest if the Board member concerned fulfils the entire term for which he or she has been elected or re-elected.

### COMPENSATION

Members of the Julius Baer Group Board of Directors (including the Chairperson) are only entitled to fixed compensation for their term in office. This fixed compensation is determined by the work load of the individual Board member based on the Board Committees on which he or she serves and his or her committee position.

The fixed compensation is paid in a combination of cash and shares. Reflecting the independent status of all members of the Board of Directors (including the Chairperson), the remuneration of members of the Board does not include a variable component and is therefore not dependent on the financial performance of Julius Baer Group. However, in order to align their compensation with the interests of our shareholders, a portion of the fixed compensation is paid in the form of shares.

Generally, the cash-based compensation is paid in December each year; the Chairperson receives the cash element on a quarterly basis. The cash element is disclosed on a business year basis (i.e. split across the two calendar years that make up a Board member's term).

At the beginning of each term, share-based compensation is determined on the basis of a fixed total compensation value. The number of shares which is granted is calculated on the basis of a five-day volume-weighted average price of Julius Baer Group

No additional compensation is paid to members of the Board of Directors for attending meetings. No stock options are granted to the members of the Board of Directors.

No changes were made to the elements of compensation paid to Board members in 2015. Due to the changes in the composition of the Board Committees, the compensation paid to individual Board members may have changed slightly (irrespective of the voluntary one-time reduction in their cash-based compensation due to the US cross-border tax litigation). Notably, Paul Man Yiu Chow joined the Julius Baer Board of Directors at the AGM 2015, thus increasing the number of Board members from seven to eight. Looking to the future, however, the Compensation Committee recognises that our Board members' compensation levels are lower than the median of our SMI peer group and will conduct a comprehensive market review in 2016. Any necessary adjustments will be incorporated in the proposed maximum aggregate compensation for approval at the AGM 2017 for the following compensation period (AGM 2017 to AGM 2018).

In order to avoid any conflicts of interest, members of the Board of Directors do not benefit from preferential staff conditions with regard to mortgages or loans. They do, however, benefit from preferential staff conditions for transactions (e.g. in securities) executed in-house.

## GUIDELINES ON SHARE OWNERSHIP

Share ownership is considered an additional factor underscoring commitment towards Julius Baer. The Board of Directors believes these requirements will

strengthen the ownership mentality of Board members and ensure the alignment of Board of Directors decisions with the interests of our shareholders.

The members of the Board of Directors will be required to build up their total vested shareholdings until they reach the following levels:

Board member	Share ownership requirement (in vested Julius Baer Group shares)
Chairperson of the Board of Directors	25,000 shares
Members of the Board of Directors (excluding the Chairperson)	7,500 shares

The members of the Board of Directors will have a period of three full calendar years starting from their initial election to the Board of Directors to build up their Julius Baer shareholdings to the minimum required levels. The final measurement will be performed on 31 December of the third calendar year following the Board member's election to the Julius Baer Group Board of Directors. Under these rules, individuals who were members of the Board of Directors from the inception of the shareholding guideline requirements (in May 2014) will be required to build up the aforementioned Julius Baer shareholdings by 31 December 2017. If the above shareholding requirements are not reached by the measurement date, 50% of the shares vesting from the individual's equity-based compensation grant will be held back until the defined level of shareholding has been reached.

Details of the shareholdings of each member of the Board of Directors can be found in the 'Compensation, loans and shareholdings of the Board of Directors' section of this Remuneration Report.

## CONTRACTS

The members of the Board of Directors do not have contracts with Julius Baer which provide for benefits upon termination of their term of office on the Board of Directors.

## COMPENSATION, LOANS AND SHAREHOLDINGS OF THE EXECUTIVE BOARD (AUDITED)

This section provides the data for 2015 and 2014. It does not repeat the details of the compensation system, but describes its outcome.

Under the guidance provided in the 'selected questions and answers for the audit of the remuneration reports in accordance with the Swiss Ordinance against Excessive Compensation in Listed Companies' formulated by the Swiss Expert Association for Audit, Tax and Fiduciary, the Julius Baer Group's deferred equity-based awards must be disclosed as compensation in the year of grant. Historically, Julius Baer reported equity awards on a

retrospective basis (e.g. equity-based grants in 2015 were reported as compensation for the 2014 financial year), in accordance with the former Swiss Code of Obligations in force at that time. In order to ensure transparency and comparability, the Julius Baer Group has chosen to maintain both the revised method of reporting, in accordance with the guidance around 'Swiss Ordinance against Excessive Compensation in Listed Companies', and the former reporting method in accordance with the former Swiss Code of Obligations. The table below reflects the revised method of reporting.

		Variable compensation <sup>2</sup>					Pension fund, social security contributions and varia <sup>3</sup> CHF 1,000	Total CHF 1,000
		Deferred elements						
			DBP	EPP				
		Base salary <sup>1</sup> CHF 1,000	Cash CHF 1,000	Cash CHF 1,000	Performance Units CHF 1,000			
Compensation of the members of the Executive Board								
Total compensation (in accordance with Ordinance against Excessive Compensation)	2015	4,504	3,029	2,649	5,797	1,873	17,852	
Total compensation (in accordance with Ordinance against Excessive Compensation)	2014	4,211	3,558	3,029	4,583	1,989	17,371	

At the end of 2015, the Executive Board consisted of six members as opposed to seven members at the end of 2014.

<sup>1</sup> The amounts disclosed for 2015 and 2014 include the lump-sum expense allowance of CHF 22,800 p.a. per member of the Executive Board and CHF 24,000 p.a. to the CEO (unchanged from the previous year). These amounts are based on full-time employment (100%) during the performance year. The aggregate amount of lump-sum expense allowances paid in 2015 was CHF 128,570 (CHF 143,280 in 2014). The increases in base salary came into effect on 1 March 2014 and 2015, respectively (the voluntary salary adjustment was also effective on 1 March 2015).

<sup>2</sup> The variable compensation for the members of the Executive Board for the 2015 and 2014 financial years comprised a cash component and an equity-based

component. For the reporting periods 2015 and 2014, the members of the Executive Board received a substantial part of their variable compensation as deferred elements (for details on the deferral see the 'Cash-based variable compensation' and 'Equity-based variable compensation' sections of this Remuneration Report). A minimum deferral of 20% of the DBP is applied starting from CHF 125,000 and the maximum deferral amounts to 50% at a DBP of CHF 1 million and above; the non-deferred amount of the DBP award is paid out in cash up front, whereas the deferral amount is deferred over a period of five years (disclosed under 'deferred elements, cash'). In addition to the DBP, the members of the Executive Board were granted an equity-based EPP

at fair value (CHF 35.07 per Performance Unit for the grant date 15 February 2015 and CHF 38.79 per Performance Unit for the grant dated 15 February 2014, disclosed under 'Performance Units'). Such awards cliff-vest in Julius Baer Group Ltd. shares at the end of year three from the grant date.

The fair value of the Performance Units was based on an equally weighted valuation of (i) the cumulative Economic Profit (cEP) component using a probabilistic model of the potential deviation of the future Group results from the strategic three-year plan, and of (ii) the relative Total Shareholder Return (rTSR) with the peer group being the STOXX 600 Europe Banks Index. The final payout of this EPP is linked to these two Key Performance Indicators (KPIs). Both KPIs have a payout range of 0 to 200% each, but the maximum uplift of the EPP is 50% of the number of Performance Units originally granted and is subject to full downside risk.

All deferred elements of the variable compensation of the members of the Executive Board (including the CEO) are subject to forfeiture and/or clawback provisions.

The DBP for 2015 as disclosed above is subject to approval by the shareholders at the AGM in April 2016.

The Compensation Committee decided on 23 and 29 January 2015 on the cash-based variable compensation (DBP) for 2014 and the EPP 2015 grant to be awarded to the members of the Executive Board. The respective decisions for the cash-based variable compensation (DBP) for 2015 (disclosed above as compensation for 2015) and the EPP 2016 grant (disclosed in the company view) were taken at the Compensation Committee meeting on 25 January 2016. Due to the variability of annual performance payments and awards from equity-based elements, the ratio of base salary to total compensation can vary significantly from year to year. In 2015, the average ratio of fixed to variable compensation for the members of the Executive Board amounted to 28.2%: 71.8%, compared to 27.4%:72.6% in 2014. 73.6% of the variable compensation of the members of the Executive Board in the reporting period was deferred either for a period of five years for the DBP or three years for the EPP (68.1% in 2014).

All members of the Executive Board have a full-time employment relationship with the Group, except for Bernard Keller (Private Banking Representative until the end of 2014, whose average workload in 2014 was slightly below 50%).

<sup>3</sup> The amounts reported in this column include actual employer contributions to social security (AHV/ALV) for base salaries and estimated future contributions based on the grant values of the DBP 2015 and DBP 2014 and the fair value of the Performance Units/EPP granted in 2015 and 2014. These amounts also include premiums for additional accident insurance. The aggregate total of these social security and accident insurance costs for each respective year is CHF 1,106,176 for 2015 and CHF 1,145,372 for 2014.

The above table is based on the accrual principle, which means that the amounts shown are the compensation earned for the respective year. The actual payment of a portion of the amounts for the performance-related components may, however, be effected at a later date. In particular, under the DBP, a portion of the cash-based variable compensation (as described in the 'Cash-based variable compensation' section) was paid in February with the remainder being deferred over a five-year period (delivered in equal instalments each February over the following five years).

With effect from 2015 onwards, the immediately payable portion of the DBP is not paid to the recipients until shareholder approval has been granted at the AGM.

In 2015, no compensation was paid to former members of the Executive Board who left the Executive Board in 2014 or earlier that related to such members' prior function within the Executive Board. No compensation was granted to parties related to members of the Executive Board or former members of the Executive Board. No sign-on payments or severance payments to members of the Executive Board were effected in 2015 or 2014.



## COMPENSATION DISCLOSURE 2015/2014 FOR THE EXECUTIVE BOARD ACCORDING TO THE FORMER SWISS CODE OF OBLIGATIONS/TRANSPARENCY GUIDELINES (UNAUDITED)

For reasons of transparency and comparability, the Compensation Committee decided also to disclose the Executive Board members' compensation (including the CEO) according to the transparency guidelines of the former Swiss Code of Obligations, thus mirroring the Julius Baer Group's prior-year disclosure (company view).

This additional disclosure allows the shareholders to assess the Executive Board's total compensation in relation to the performance of the Group in the respective reporting year. Hence, the variable, performance-related compensation elements (DBP and EPP) are disclosed according to the Group's compensation-decision-making process. The DBP and EPP figures shown for 2015 therefore reflect the respective decisions taken by the Compensation Committee and the Board of Directors at the end of January 2016, while the DBP and EPP figures shown for 2014 reflect the decisions taken at the end of January 2015.

Under the 'Swiss Ordinance against Excessive Compensation in Listed Companies', the EPP 2015 grant as decided by the Compensation Committee

in early 2015 must be disclosed as 2015 compensation. The same was true for the EPP 2014 grant as decided by the Compensation Committee in early 2014. In the table below, however, the EPP grants 2016 allocated to the Executive Board members (including the CEO) in 2016 (subject to approval by the Annual General Meeting 2016) are shown as compensation for 2015 and the EPP grants allocated in 2015 (and approved by the AGM 2015) are shown as compensation for 2014. The performance-based equity award under the EPP 2016 was granted at fair value (CHF 37.89 for the grant date 15 February 2016, 35.07 for the grant date 15 February 2015). Although the Julius Baer Group's EPP is a purely forward-looking variable compensation element, the grants allocated in 2016 reflect the overall achievements by the Julius Baer Group in the reporting year 2015 as assessed by the Compensation Committee and the Board of Directors, while those allocated in 2015 reflect the Group's overall performance in 2014. They also reflect the shift in pay mix (from EPP towards base salary) in 2014 only (for the CEO) and in both 2014 and 2015 (for the other members of the Executive Board).

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		Variable compensation					Pension fund, social security contributions and varia CHF 1,000	Total CHF 1,000
		Deferred elements						
		DBP		EPP				
		Base salary CHF 1,000	Cash CHF 1,000	Cash CHF 1,000	Performance Units CHF 1,000			
<b>Compensation of the members of the Executive Board</b>								
<b>Total compensation (company view)</b>	<b>2015</b>	<b>4,504</b>	<b>3,029</b>	<b>2,649</b>	<b>5,173</b>	<b>1,832</b>	<b>17,187</b>	
Total compensation (company view)	2014	4,211	3,558	3,029	5,797	2,098	18,693	

Since the DBP 2015 and the EPP 2016 disclosed in the table above as compensation for 2015 are both subject to approval by the Annual General Meeting on 13 April 2016, the Compensation Committee and the Board of Directors consider this disclosure more useful from a shareholders' perspective, as it corresponds to the specific DBP and EPP requests submitted to that Annual General Meeting.

## COMPENSATION OF THE HIGHEST-PAID MEMBER OF THE EXECUTIVE BOARD (AUDITED)

Under the guidance provided in the ‘selected questions and answers for the audit of the remuneration reports in accordance with the Swiss Ordinance against Excessive Compensation in

Listed Companies’ formulated by the Swiss Expert Association for Audit, Tax and Fiduciary, the Julius Baer Group’s deferred equity-based awards must be disclosed as compensation in the year of grant.

		Variable compensation <sup>2</sup>					Pension fund, social security contributions and varia <sup>3</sup> CHF 1,000	Total CHF 1,000
		Deferred elements			Performance Units CHF 1,000			
		DBP	EPP					
		Cash CHF 1,000	Cash CHF 1,000	Cash CHF 1,000				
Base salary <sup>1</sup> CHF 1,000		Cash CHF 1,000	Cash CHF 1,000	Cash CHF 1,000	Performance Units CHF 1,000			
Details of the compensation of the highest-paid member of the Executive Board or former Executive Board, Boris F.J. Collardi, CEO								
Total compensation (in accordance with Ordinance against Excessive Compensation)	2015	1,438	939	939	2,372	475		6,162
Total compensation (in accordance with Ordinance against Excessive Compensation)	2014	1,417	1,036	1,036	1,750	490		5,729

<sup>1</sup> The amounts disclosed for 2015 and 2014 include the lump-sum expense allowance of CHF 24,000 p.a. to the CEO (unchanged from the previous year). This amount is based on full-time employment (100%) during the performance year. The increase in base salary came into effect on 1 March 2014 and remained unchanged for 2015 (the voluntary salary adjustment was effective on 1 March 2015).

<sup>2</sup> As with other members of the Executive Board, the variable compensation for the CEO for the 2015 and 2014 financial years comprised a cash component and an equity-based component. For the reporting periods 2015 and 2014, the CEO received a substantial part of his variable compensation as deferred elements (for details on the deferral see the ‘Cash-based variable compensation’ and ‘Equity-based variable compensation’ sections of this Remuneration Report). A minimum deferral of 20% of the DBP is applied starting from CHF 125,000 and the maximum deferral amounts to 50% at a DBP of CHF 1 million and above; the non-deferred amount of the DBP award is paid out in cash up front, whereas the deferral amount is deferred over a period of five years (disclosed under ‘deferred elements, cash’). In

addition to the DBP, the CEO was granted an equity-based EPP at fair value (CHF 35.07 per Performance Unit for the grant date 15 February 2015, CHF 38.79 per Performance Unit for the grant dated 15 February 2014, disclosed under ‘Performance Units’). Such awards cliff-vest in Julius Baer Group Ltd. shares at the end of year three from the grant date.

The fair value of the Performance Units was based on an equally weighted valuation of (i) the cumulative Economic Profit (cEP) component using a probabilistic model of the potential deviation of the future Group results from the strategic three-year plan, and of (ii) the relative Total Shareholder Return (rTSR) with the peer group being the STOXX Europe 600 Banks Index. The final payout of this EPP is linked to these two KPIs. Both KPIs have a payout range of 0 to 200% each, but the maximum uplift on the EPP is 50% of the number of Performance Units originally granted and is subject to full downside risk.

All deferred elements of the variable compensation of the Executive Board (including the CEO) are subject to forfeiture and clawback provisions.

The DBP for 2015 as disclosed above is subject to approval by the shareholders at the AGM in April 2016.

The Compensation Committee decided on 23 and 29 January 2015 on the cash-based variable compensation (DBP) for 2014 and the EPP 2015 grants to the CEO. The respective decisions for the cash-based variable compensation (DBP) for 2015 (disclosed above as compensation for 2015) and the EPP 2016 grant (disclosed in the company view) were taken at the Compensation Committee meeting on 25 January 2016. Due to the variability of annual performance payments and awards from equity-based elements, the ratio of base salary to total compensation can vary significantly from year to year. In 2015, the ratio of fixed to variable compensation for the CEO amounted to 25.3%:74.7%, compared to 27.0%:73.0% in 2014). 77.9% of the variable compensation of the CEO in the reporting period was deferred either for a period of five years for the DBP or three years for the EPP (72.9% in 2014).

<sup>3</sup> The amounts reported in this column include actual employer contributions to social security (AHV/ALV) for base salaries and estimated future contributions based on the grant values of the DBP 2015 and DBP 2014 and the fair value of the Performance Units/EPP granted in

2015 and 2014. These amounts also include premiums for additional accident insurance. The aggregate total of these social security and accident insurance costs for each respective year is CHF 383,753 for 2015 and CHF 392,842 for 2014.

The above table is based on the accrual principle, which means that the amounts shown are compensation earned for the respective year. The actual payment of a portion of the amounts for the performance-related components may, however, be effected at a later date. In particular, under the DBP, a portion of the cash-based variable compensation (as described in the 'Cash-based variable compensation' section) was paid each February with the remainder being deferred over a five-year period (disbursed in equal instalments each February over the following five years).

With effect from 2015 onwards, the immediately payable portion of the DBP is not paid to the recipients until shareholder approval has been granted at the AGM.

## COMPENSATION DISCLOSURE 2015/2014 OF THE HIGHEST-PAID MEMBER OF THE EXECUTIVE BOARD ACCORDING TO THE FORMER SWISS CODE OF OBLIGATIONS/ TRANSPARENCY GUIDELINES (UNAUDITED)

For reasons of transparency and comparability, the Compensation Committee decided also to disclose the CEO's compensation (as the highest-paid member of the Executive Board) according to the transparency guidelines of the former Swiss Code of Obligations, thus mirroring the Julius Baer Group's prior-year disclosure (company view).

This additional disclosure allows the shareholders to assess the CEO's total compensation in relation to the performance of the Group in the respective reporting year. Hence, the variable, performance-related compensation elements (DBP and EPP) are disclosed according to the Group's compensation-decision-making process. The DBP and EPP figures shown for 2015 therefore reflect the respective decisions taken by the Compensation Committee and the Board of Directors at the end of January 2016, while the DBP and EPP figures shown for 2014 reflect the decisions taken at the end of January 2015.

Under the 'Swiss Ordinance against Excessive Compensation in Listed Companies', the EPP grant 2015 as decided by the Compensation Committee

in early 2015 must now be disclosed as 2015 compensation. The same was true for the EPP 2014 grant as decided by the Compensation Committee in early 2014. In the table below, however, the EPP 2016 grant allocated to the CEO in 2016 (subject to approval by the Annual General Meeting in April 2016) is shown as compensation for 2015 and the EPP grant allocated in 2015 (and approved by the AGM 2015) is shown as compensation for 2014. The performance-based equity award under the EPP 2016 was granted at fair value (CHF 37.89 for the grant date 15 February 2016, CHF 35.07 for the grant date 15 February 2015). Although Julius Baer Group's EPP is a purely forward-looking variable compensation element, the EPP grant allocated in 2016 reflects the overall achievements by the Julius Baer Group in the reporting year 2015 as assessed by the Compensation Committee and the Board of Directors, while the EPP grant allocated in 2015 reflects the Group's overall performance in 2014. In the case of the CEO, the EPP grant made in 2015, in respect of 2014 performance and shown as 2014 compensation, also reflects the shift in pay mix from EPP to base salary carried out for the CEO in 2014.

		Variable compensation					Pension fund, social security contributions and varia CHF 1,000	Total CHF 1,000
		Deferred elements			Performance Units CHF 1,000			
		DBP		EPP				
		Base salary CHF 1,000	Cash CHF 1,000	Cash CHF 1,000				
Details of the compensation of the highest-paid member of the Executive Board or former Executive Board, Boris F.J. Collardi, CEO								
Total compensation (company view)	2015	1,438	939	939	2,178	462	5,956	
Total compensation (company view)	2014	1,417	1,036	1,036	2,372	548	6,408	

Since the DBP 2015 and the EPP 2016 disclosed in the table above as compensation for 2015 are both subject to approval by the Annual General Meeting on 13 April 2016, the Compensation Committee and

the Board of Directors consider this disclosure more useful from a shareholders' perspective, as it corresponds to the specific DBP and EPP requests submitted to that Annual General Meeting.

## LOANS TO THE MEMBERS OF THE EXECUTIVE BOARD (AUDITED)

		<b>31.12.2015</b>		31.12.2014
	Loans CHF 1,000	Loans to related parties CHF 1,000	Loans CHF 1,000	Loans to related parties CHF 1,000
<b>Loans to the members of the Executive Board</b>				
<b>Total</b>	<b>16,248</b>	-	7,457	465
<i>of which the highest amount: Boris F.J. Collardi</i>	<b>12,200</b>	-	4,516	-

The loans granted to the members of the Executive Board 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 at a refinancing rate plus 0.5%. Mortgage loans to employees and Executive Board members of the Group in 2015 were granted at a discount of 1% p.a.

for floating-rate mortgage loans, whereas fixed-rate mortgage loans and Libor mortgage loans were granted at a refinancing rate plus 0.5% p.a.

No loans to former members of the Executive Board (and their related parties) were outstanding at year-end 2015 or were granted in 2015 at conditions that were not in line with market conditions.

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



## SHAREHOLDINGS OF THE MEMBERS OF THE EXECUTIVE BOARD (AUDITED)

Number of shares

### Shareholdings of the members of the Executive Board<sup>1</sup>

Boris F.J. Collardi, Chief Executive Officer	<b>2015</b>	<b>205,882</b>
	2014	224,200
Dieter A. Enkelmann, Chief Financial Officer	<b>2015</b>	<b>87,719</b>
	2014	84,578
Jan A. Bielinski, Chief Communications Officer	<b>2015</b>	<b>33,511</b>
	2014	31,039
Gregory F. Gatesman, Chief Operating Officer	<b>2015</b>	<b>6,000</b>
	2014	6,000
Christoph Hiestand, General Counsel	<b>2015</b>	<b>9,469</b>
	2014	4,943
Bernhard Hodler, Chief Risk Officer	<b>2015</b>	<b>43,632</b>
	2014	28,542
Bernard Keller, Private Banking Representative (left the Executive Board in December 2014)	<b>2015</b>	<b>n.a.</b>
	2014	22,046
<b>Total</b>	<b>2015</b>	<b>386,213</b>
Total	2014	401,348

<sup>1</sup> Including shareholdings of related parties

None of the members of the Executive Board held any option positions in Julius Baer Group Ltd. shares as at year-end 2015 and 2014.

Share ownership guidelines for the members of the Board of Directors and the members of the Executive Board were introduced with effect from 2014.

The CEO is required to build up and maintain 100,000 vested shares of Julius Baer Group Ltd., the other members of the Executive Board the lower of 2.5 times base salary or 30,000 shares.

The targeted number of Julius Baer Group Ltd. shares has to be built up over a period of three years (and reached at year-end of the respective year) and maintained until the Executive Board member leaves his or her current position and/or the Julius Baer Group. The current members of the Executive Board are required to reach the targeted level by year-end 2016.

### FORMER EXECUTIVES

No member of the Executive Board of Julius Baer Group Ltd. left the Company in 2015. Therefore, no compensation was paid to former Executives in 2015. Since the only member leaving the Executive Board in 2014, Bernard Keller, did so with effect from 31 December 2014, the same was the case in 2014.

### ADDITIONAL HONORARIA, RELATED PARTIES, OTHER IMPORTANT INFORMATION

The compensation disclosed for the CEO, CFO, COO and CRO includes the compensation for the same function those members assume at the level of the Executive Board of Bank Julius Baer & Co. Ltd., the major subsidiary of Julius Baer Group Ltd.

No compensation has been granted to parties related to members of the Executive Board.

## COMPENSATION, LOANS AND SHAREHOLDINGS OF THE BOARD OF DIRECTORS (AUDITED)

This section provides the data for 2015 and 2014. It does not repeat the details of the compensation system, but describes its outcome.

		Base salary <sup>3</sup> CHF 1,000	Share-based payments <sup>4</sup> CHF 1,000	Social security contributions and varia <sup>5</sup> CHF 1,000	Total CHF 1,000
<b>Compensation of the members of the Board of Directors<sup>1</sup></b>					
Daniel J. Sauter – Chairman	<b>2015</b>	<b>325</b>	<b>600</b>	<b>124</b>	<b>1,049</b>
	2014	400	600	103	1,103
Gilbert Achermann	<b>2015</b>	<b>97</b>	<b>100</b>	<b>21</b>	<b>217</b>
	2014	112	100	27	240
Andreas Amschwand	<b>2015</b>	<b>120</b>	<b>100</b>	<b>23</b>	<b>243</b>
	2014	144	100	28	272
Heinrich Baumann	<b>2015</b>	<b>136</b>	<b>100</b>	<b>25</b>	<b>262</b>
	2014	167	100	31	298
Paul Man Yiu Chow (joined the Board in 2015)	<b>2015</b>	<b>65</b>	<b>100</b>	<b>9</b>	<b>174</b>
	2014	n.a.	n.a.	n.a.	n.a.
Leonhard H. Fischer (left the Board in 2014)	<b>2015</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
	2014	38	-	5	43
Claire Giraut	<b>2015</b>	<b>99</b>	<b>100</b>	<b>64</b>	<b>263</b>
	2014	121	100	84	305
Gareth Penny	<b>2015</b>	<b>117</b>	<b>100</b>	<b>31</b>	<b>248</b>
	2014	135	100	36	271
Charles G. T. Stonehill	<b>2015</b>	<b>138</b>	<b>100</b>	<b>39</b>	<b>278</b>
	2014	153	100	45	297
<b>Total</b>	<b>2015</b>	<b>1,097</b>	<b>1,300</b>	<b>336</b>	<b>2,734</b>
Total	2014	1,270	1,200	359	2,829

**Compensation of the Honorary Chairman  
(the Honorary Chairman function is an honorific title and Mr Baer is not a member of the Board of Directors)<sup>2</sup>**

Raymond J. Baer	<b>2015</b>	<b>80</b>	-	<b>23</b>	<b>103</b>
	2014	175	-	54	229

<sup>1</sup> The members of the Board of Directors of Julius Baer Group Ltd. assume similar director roles on the Board of Directors of Bank Julius Baer & Co. Ltd. In 2014, Andreas Amschwand, Heinrich Baumann and Claire Giraut served on additional ad hoc Board Committees at the Bank level. The remuneration for such Committee work is included in their reported base salaries for 2014. For more information on the detailed compensation components of the Board of Directors please refer to the 'Board of Directors Compensation' section of this Remuneration Report.

<sup>2</sup> Given the specific role of Raymond J. Baer besides acting as Honorary Chairman, i.e. assuming the role of Chairperson of the Special Committee of the Board of Directors of Bank Julius Baer & Co. Ltd. and thus coordinating the efforts of Bank Julius Baer & Co. Ltd. to resolve the issue with the United States, the Compensation Committee decided on a remuneration agreement effective as of 1 May 2012 in the form of a yearly base salary of CHF 250,000, which the Compensation Committee decided to reduce to CHF 160,000 with effect from 1 March 2014 and to CHF 40,000 with effect from 1 May 2015 to reflect changes in the required workload of Raymond J. Baer.

<sup>3</sup> The base salaries are disclosed on a business year basis according to the requirements of the 'Swiss Ordinance against Excessive Compensation in Listed Companies'.

<sup>4</sup> The share-based elements reflect a fixed amount in CHF (currently CHF 100,000 for Board members and CHF 600,000 for the Chairperson, rounded up to the next share) and are granted each year upon election or re-election to the Board. The share-based payments are valued at fair value at the grant date (CHF 40.74 per share of Julius Baer Group Ltd. as at 2 May 2014; CHF 50.26 per share of Julius Baer Group Ltd. as at 2 May 2015).

In 2015, Daniel J. Sauter (Chairman) Gilbert Achermann, Andreas Amschwand, Heinrich Baumann, Claire Giraut, Gareth Penny and Charles G. T. Stonehill were re-elected for a term of one year. Paul Man Yiu Chow was elected as new Board member for a one-year term.

<sup>5</sup> The amounts reported for 2015 and 2014 include Julius Baer's actual contributions to social security in the respective reporting period in accordance with the 'Swiss Ordinance against Excessive Compensation in Listed Companies', amounting to CHF 232,365 for 2015 and CHF 230,305 for 2014. Depending on the domicile of the Board member and the applicable local legislation, contributions to social security vary despite the similar level of compensation amongst members of the Board of Directors.

The value of the share-based payments shown in the above table cannot be compared with the figures in Note 28 ('Share-based payments') of the Group's 2015 Financial Statements as the latter disclose the compensation expense for the shares that has been recognised during the applicable reporting periods.

Under the forfeiture clause, the members of the Board of Directors are only entitled to the shares granted to them provided that they fulfil the entire term for which they have been elected or re-elected. Should a Board member resign between two Annual General Meetings, any unvested shares are generally forfeited. In that event the cash element will, however, be paid on a pro rata basis. In the event of dismissal of the Chairperson or a Board member by an Extraordinary General Meeting, both the cash and the share elements will be paid on a pro rata basis. In the event of disability or death, all awards granted may be retained by the Board member and no forfeiture applies.

Board members are not entitled to participate in any performance-related share or cash programme at either Group or Bank level.

No compensation was granted to parties related to members of the Board of Directors.

## LOANS TO THE MEMBERS OF THE BOARD OF DIRECTORS (AUDITED)

		<b>31.12.2015</b>		31.12.2014
	Loans CHF 1,000	Loans to related parties CHF 1,000	Loans CHF 1,000	Loans to related parties CHF 1,000
<b>Loans to the members of the Board of Directors</b>				
Daniel J. Sauter – Chairman	-	-	-	-
Gilbert Achermann	-	-	-	-
Andreas Amschwand	-	-	-	-
Heinrich Baumann	<b>5,100</b>	-	4,950	-
Paul Man Yiu Chow (joined the Board in 2015)	-	-	n.a.	n.a.
Claire Giraut	-	-	-	-
Gareth Penny	-	-	-	-
Charles G. T. Stonehill	-	-	-	-
<b>Total</b>	<b>5,100</b>	-	4,950	-

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), Libor mortgages and floating-rate mortgages (the latter two on a variable-rate basis).

The interest rates on the Lombard loans and the mortgage loans are in line with normal market rates at the time the loans were granted and do not include any preferential conditions.

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

## SHAREHOLDINGS OF THE MEMBERS OF THE BOARD OF DIRECTORS (AUDITED)

Number of shares

### Shareholdings of the members of the Board of Directors<sup>1</sup>

Daniel J. Sauter – Chairman	<b>2015</b>	<b>155,128</b>
	2014	107,192
Gilbert Achermann	<b>2015</b>	<b>7,715</b>
	2014	5,260
Andreas Amschwand	<b>2015</b>	<b>7,715</b>
	2014	5,260
Heinrich Baumann	<b>2015</b>	<b>13,442</b>
	2014	10,987
Paul Man Yiu Chow (joined the Board in 2015)	<b>2015</b>	-
	2014	n.a.
Claire Giraut	<b>2015</b>	<b>17,005</b>
	2014	14,550
Gareth Penny	<b>2015</b>	<b>20,715</b>
	2014	18,260
Charles G. T. Stonehill	<b>2015</b>	<b>18,375</b>
	2014	15,920
<b>Total</b>	<b>2015</b>	<b>240,095</b>
Total	2014	177,429

<sup>1</sup> Including shareholdings of related parties

None of the Board members held any option positions in Julius Baer Group Ltd. shares as at year-end 2015 and 2014.

Share ownership guidelines for the members of the Board of Directors and the members of the Executive Board were introduced with effect from 2014. The Chairperson of the Board of Directors is required to build up and maintain 25,000 vested shares of Julius Baer Group Ltd., the other members of the Board 7,500 each, respectively.

The targeted number of Julius Baer Group Ltd. shares has to be built up over a period of three years following election (and reached at year-end of the respective year) and maintained until the Board member leaves the Board of Directors.

Board members who were elected and/or re-elected in 2014 (i.e. all Board members except for Paul Man Yiu Chow) are required to reach the targeted number of shares by year-end 2017. Paul Man Yiu Chow is required to reach the targeted number of shares by year-end 2018.

### FORMER DIRECTORS

In 2015, no compensation was granted to Board members who left the Board in 2014 or earlier. No loans to former members of the Board of Directors (or their related parties) were outstanding at year-end 2015 or were granted in 2015 at conditions that were not in line with market rates.

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## ABBREVIATIONS

AGM	Annual General Meeting of Shareholders	ISP	Incentive Share Plan
AR	Annual Report	IWM	Bank of America Merrill Lynch's International Wealth Management business outside the US
BIS	Bank for International Settlements	Kairos	Kairos Investment Management SpA
CEO	Chief Executive Officer	KPI(s)	Key Performance Indicator(s)
cEP	Cumulative Economic Profit	LTI	Long-Term Incentive Plan
CFO	Chief Financial Officer	NOPbBT	Net operating profit before variable compensation and taxes
CoC	Cost of Capital	Ordinance	Swiss Ordinance against Excessive Compensation in Listed Companies
COO	Chief Operating Officer	PSP	Premium Share Plan
CRD IV	Capital Requirements Directive IV	rTSR	Relative Total Shareholder Return
CRO	Chief Risk Officer	SMI	Swiss Market Index
DBP	Deferred Bonus Plan	SPP	Staff Participation Plan
DCP	Deferred Cash Plan	TSR	Total Shareholder Return
EB	Executive Board		
EP	Economic Profit		
EPP	Equity Performance Plan		
IFRS	International Financial Reporting Standards		

## TERMINATION PROVISIONS OF JULIUS BAER PLANS

Award Name	Voluntary Termination	Termination without Cause	Death	Disability	Retirement	Termination for Cause	Change of Control
<b>Deferred Bonus Plan (DBP)</b>	Outstanding deferral is paid out in accordance with the original payment schedule.	Outstanding deferral is paid out in accordance with the original payment schedule.	Outstanding deferral amounts are paid out within 30 days of the notification of the event.	Outstanding deferral amounts are paid out within 30 days of termination.	Outstanding deferral is paid out in accordance with the original payment schedule.	Outstanding deferral is clawed back upon notice of termination.	Payment-schedule adjustments permissible at Board of Directors' discretion.
<b>Equity Performance Plan (EPP)</b>	Unvested awards are forfeited upon notice of termination.	Pro rata portion of unvested awards vests upon notice of termination subject to final performance multiplier assessment at the end of the plan period.	Award fully vests based on an assumed Final Multiplier of 100% and is paid out within 30 days of the notification of the event.	Award fully vests based on an assumed Final Multiplier of 100% and is paid out within 30 days of termination.	Awards fully vest on the date of retirement subject to the Final Multiplier performance assessment at the end of the plan period.	Unvested awards are forfeited upon notice of termination.	Award adjustments solely at Board of Directors' discretion. Plan allows for an intrinsic value roll-over of awards and/or early evaluation of actual performance followed by vesting.
<b>Integration Incentive Award (IIA)</b>	Unvested awards (cash and/or shares) are forfeited upon notice of termination.	Unvested awards (cash and/or shares) are forfeited upon notice of termination.	Unvested awards (cash and/or shares) vest on the date of the notification of the event.	Unvested awards (cash and/or shares) vest on the date of termination.	Unvested awards (cash and/or shares) are forfeited in full if retirement occurs prior to final cash payment. Unvested shares continue to vest if retirement occurs after final cash payment (subject to Restricted Activity covenants).	Unvested awards (cash and/or shares) are forfeited upon notice of termination.	Award adjustments solely at Compensation Committee's discretion. Intrinsic value roll-over of awards permitted.
<b>Long-Term Incentive Plan (LTI)</b>	Unvested shares are forfeited upon notice of termination.	Unvested shares are forfeited upon notice of termination.	Unvested shares vest on the date of the notification of the event.	Unvested shares vest on the date of termination.	Unvested shares vest on the date of retirement.	Unvested shares are forfeited upon notice of termination.	Award adjustments solely at Compensation Committee's discretion. Intrinsic value roll-over of awards permitted.
<b>Premium Share Plan (PSP)</b>	Unvested shares from deferral and Premium Shares are forfeited upon notice of termination.	Unvested shares from deferral vest on date of termination. Premium Shares are forfeited.	The unvested shares from deferral and Premium Shares vest and are paid out within 30 days of the notification of the event.	The unvested shares from deferral and Premium Shares vest and are paid out within 30 days of termination.	The unvested shares from deferral and Premium Shares vest and are paid out within 30 days of retirement.	Unvested shares from deferral and Premium Shares are forfeited upon termination.	Award adjustments solely at Compensation Committee's discretion. Intrinsic value roll-over of awards permitted.
<b>Deferred Cash Plan (DCP)</b>	Unvested awards are forfeited upon notice of termination.	Unvested awards vest on the date of termination.	Unvested awards vest and are paid out within 30 days of the notification of the event.	Unvested awards vest on the date of termination.	Unvested awards vest on the date of retirement.	Unvested awards are forfeited upon notice of termination.	Award adjustments solely at Compensation Committee's discretion.



## REPORT OF THE STATUTORY AUDITOR TO THE ANNUAL GENERAL MEETING OF JULIUS BAER GROUP LTD., ZURICH



**KPMG AG**  
**Financial Services**  
Badenerstrasse 172  
CH-8004 Zurich

P.O. Box  
CH-8036 Zurich

Telephone +41 58 249 31 31  
Fax +41 58 249 44 06  
Internet [www.kpmg.ch](http://www.kpmg.ch)

Report of the Statutory Auditor to the General Meeting of

**Julius Baer Group Ltd., Zurich**

We have audited pages 62 to 63, 66 to 67 and 69 to 74 of the accompanying remuneration report of Julius Baer Group Ltd. for the year ended 31 December 2015.

### *Responsibility of the Board of Directors*

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Opinion*

In our opinion, the remuneration report for the year ended 31 December 2015 of Julius Baer Group Ltd complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Philipp Rickert  
*Licensed Audit Expert*  
*Auditor in Charge*

Cataldo Castagna  
*Licensed Audit Expert*

Zurich, 7 March 2016



# III. FINANCIAL STATEMENTS

## JULIUS BAER GROUP 2015

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<b>130</b>	Due from banks	<b>188</b>	Events after the balance sheet date
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<b>131</b>	Allowance for credit losses		
<b>131</b>	Impaired loans		
<b>132</b>	Trading assets and liabilities		
<b>133</b>	Financial investments available-for-sale		
<b>133</b>	Financial investments available-for-sale – Credit ratings		
<b>134</b>	Goodwill, intangible assets and property and equipment		
<b>137</b>	Operating lease commitments		
<b>137</b>	Assets pledged or ceded to secure own commitments and assets subject to retention of title		
<b>138</b>	Financial liabilities designated at fair value		
<b>139</b>	Debt issued		
<b>142</b>	Deferred tax assets		
<b>142</b>	Deferred tax liabilities		
<b>143</b>	Provisions		
<b>148</b>	Share capital		

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED INCOME STATEMENT

	Note	2015 CHF m	2014 CHF m	Change %
Interest and dividend income		847.2	779.9	8.6
Interest expense		135.7	132.2	2.7
Net interest and dividend income	1	711.5	647.7	9.8
Commission and fee income		1,732.1	1,725.8	0.4
Commission expense		209.7	207.8	0.9
Net commission and fee income	2	1,522.4	1,518.1	0.3
Net trading income	3	435.8	327.5	33.1
Other ordinary results	4	24.7	53.4	-53.7
<b>Operating income</b>		<b>2,694.4</b>	<b>2,546.7</b>	<b>5.8</b>
Personnel expenses	5	1,236.1	1,258.6	-1.8
General expenses	6	1,100.2	609.3	80.6
Depreciation of property and equipment	12	34.5	31.1	11.0
Amortisation of customer relationships	12	126.2	126.4	-0.2
Amortisation and impairment of other intangible assets	12	58.6	51.2	14.6
<b>Operating expenses</b>		<b>2,555.6</b>	<b>2,076.5</b>	<b>23.1</b>
<b>Profit before taxes</b>		<b>138.8</b>	<b>470.2</b>	<b>-70.5</b>
Income taxes	7	16.3	102.8	-84.2
<b>Net profit</b>		<b>122.5</b>	<b>367.4</b>	<b>-66.7</b>
Attributable to:				
Shareholders of Julius Baer Group Ltd.		121.2	366.2	-66.9
Non-controlling interests		1.4	1.2	9.9
		122.5	367.4	-66.7
	Note	2015 CHF	2014 CHF	Change %
<b>Share information</b>				
Basic earnings per share (EPS)	8	0.55	1.68	-66.9
Diluted earnings per share (EPS)	8	0.55	1.68	-66.9
Dividend proposal 2015 and dividend 2014		1.10	1.00	10.0

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2015 CHF m	2014 CHF m
<b>Net profit recognised in the income statement</b>	<b>122.5</b>	367.4
Other comprehensive income (net of taxes):		
<b>Items that may be reclassified to the income statement</b>		
Net unrealised gains/(losses) on financial investments available-for-sale	-85.8	26.2
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	0.3	11.2
Translation differences	-79.6	-0.5
Realised (gains)/losses on translation differences reclassified to the income statement	0.2	15.7
<b>Items that will not be reclassified to the income statement</b>		
Remeasurement of defined benefit obligation	-98.4	-77.6
<b>Other comprehensive income for the year recognised directly in equity</b>	<b>-263.2</b>	-25.0
<b>Total comprehensive income for the year recognised in the income statement and in equity</b>	<b>-140.7</b>	342.5
Attributable to:		
Shareholders of Julius Baer Group Ltd.	-139.3	341.6
Non-controlling interests	-1.4	0.8
	<b>-140.7</b>	342.5

## CONSOLIDATED BALANCE SHEET

	Note	31.12.2015 CHF m	31.12.2014 CHF m
<b>Assets</b>			
Cash		<b>9,185.7</b>	11,201.9
Due from banks	9	<b>6,901.1</b>	8,922.6
Loans	9	<b>36,380.9</b>	33,669.1
Trading assets	10	<b>8,984.0</b>	7,424.2
Derivative financial instruments	24	<b>2,189.1</b>	3,001.9
Financial assets designated at fair value	25	<b>197.0</b>	121.8
Financial investments available-for-sale	11	<b>16,572.5</b>	14,597.3
Investments in associates	26	<b>90.3</b>	66.0
Property and equipment	12	<b>373.2</b>	382.7
Goodwill and other intangible assets	12	<b>2,316.4</b>	2,363.9
Accrued income and prepaid expenses		<b>366.2</b>	331.9
Deferred tax assets	17	<b>23.8</b>	15.3
Other assets		<b>535.4</b>	135.2
<b>Total assets</b>		<b>84,115.5</b>	82,233.8

FINANCIAL STATEMENTS JULIUS BAER GROUP 2015  
**CONSOLIDATED FINANCIAL STATEMENTS**

	Note	<b>31.12.2015</b> CHF m	31.12.2014 CHF m
<b>Liabilities and equity</b>			
Due to banks		<b>4,672.0</b>	5,190.2
Due to customers		<b>64,781.4</b>	61,820.5
Trading liabilities	10	<b>190.8</b>	116.2
Derivative financial instruments	24	<b>2,391.4</b>	3,014.9
Financial liabilities designated at fair value	15	<b>4,263.1</b>	4,399.3
Debt issued	16	<b>1,152.7</b>	1,059.8
Accrued expenses and deferred income		<b>530.1</b>	492.3
Current tax liabilities		<b>65.6</b>	115.4
Deferred tax liabilities	17	<b>41.6</b>	137.9
Provisions	18	<b>575.2</b>	89.5
Other liabilities		<b>509.7</b>	459.9
<b>Total liabilities</b>		<b>79,173.5</b>	76,896.0
Share capital	19	<b>4.5</b>	4.5
Retained earnings		<b>5,467.8</b>	5,560.3
Other components of equity		<b>-317.9</b>	-57.4
Treasury shares		<b>-218.9</b>	-178.7
Equity attributable to shareholders of Julius Baer Group Ltd.		<b>4,935.6</b>	5,328.7
Non-controlling interests		<b>6.4</b>	9.1
<b>Total equity</b>		<b>4,942.0</b>	5,337.8
<b>Total liabilities and equity</b>		<b>84,115.5</b>	82,233.8



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital CHF m	Retained earnings <sup>1</sup> CHF m
At 1 January 2014	4.5	5,235.8
Net profit	-	366.2
Unrealised gains/(losses)	-	-
Realised (gains)/losses reclassified to the income statement	-	-
Changes	-	-
Total other comprehensive income for the year recognised directly in equity	-	-
Total comprehensive income for the year recognised in the income statement and in equity	-	366.2
Capital increase	-	79.4 <sup>2</sup>
Changes in non-controlling interests	-	-
Dividends	-	-133.2
Dividend income on own shares	-	2.4
Share-based payments expensed for the year	-	53.5
Share-based payments vested	-	-44.5
Changes in derivatives on own shares	-	0.0
Acquisitions of own shares	-	-
Disposals of own shares	-	0.6
At 31 December 2014	4.5	5,560.3
<b>At 1 January 2015</b>	<b>4.5</b>	<b>5,560.3</b>
Net profit	-	121.2
Unrealised gains/(losses)	-	-
Realised (gains)/losses reclassified to the income statement	-	-
Changes	-	-
Total other comprehensive income for the year recognised directly in equity	-	-
Total comprehensive income for the year recognised in the income statement and in equity	-	121.2
Dividends	-	-223.8
Dividend income on own shares	-	4.8
Share-based payments expensed for the year	-	60.0
Share-based payments vested	-	-55.1
Changes in derivatives on own shares	-	14.2
Acquisitions of own shares	-	-
Disposals of own shares	-	-13.8
<b>At 31 December 2015</b>	<b>4.5</b>	<b>5,467.8</b>

<sup>1</sup> Retained earnings include the capital reserves of Bank Julius Baer & Co. Ltd. and the statutory capital reserve/retained earnings reserves of Julius Baer Group Ltd.

<sup>2</sup> Capital increase is related to the transfer of consideration shares (see Notes 19 and 30).

<sup>3</sup> Related to the acquisition of GPS Investimentos Financeiros e Participações S.A.

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Other components of equity						
Financial investments available-for-sale, net of taxes CHF m	Remeasurement of defined benefit obligation CHF m	Translation differences CHF m	Treasury shares CHF m	Equity attributable to shareholders of Julius Baer Group Ltd. CHF m	Non-controlling interests CHF m	<b>Total equity CHF m</b>
71.1	-45.4	-58.5	-169.5	5,037.9	0.6	5,038.6
-	-	-	-	366.2	1.2	367.4
26.2	-	-0.1	-	26.1	-0.4	25.7
11.2	-	15.7	-	26.9	-	26.9
-	-77.6	-	-	-77.6	-	-77.6
37.4	-77.6	15.6	-	-24.6	-0.4	-25.0
37.4	-77.6	15.6	-	341.6	0.8	342.5
-	-	-	-	79.4	-	79.4
-	-	-	-	-	7.6 <sup>3</sup>	7.6
-	-	-	-	-133.2	-	-133.2
-	-	-	-	2.4	-	2.4
-	-	-	-	53.5	-	53.5
-	-	-	44.5	-	-	-
-	-	-	22.8	22.8	-	22.8
-	-	-	-249.5	-249.5	-	-249.5
-	-	-	173.1	173.7	-	173.7
108.5	-123.0	-42.9	-178.7	5,328.7	9.1	5,337.8
<b>108.5</b>	<b>-123.0</b>	<b>-42.9</b>	<b>-178.7</b>	<b>5,328.7</b>	<b>9.1</b>	<b>5,337.8</b>
-	-	-	-	121.2	1.4	122.5
-85.8	-	-76.9	-	-162.6	-2.7	-165.4
0.3	-	0.2	-	0.5	-	0.5
-	-98.4	-	-	-98.4	-	-98.4
-85.4	-98.4	-76.7	-	-260.5	-2.7	-263.2
-85.4	-98.4	-76.7	-	-139.3	-1.4	-140.7
-	-	-	-	-223.8	-1.3	-225.1
-	-	-	-	4.8	-	4.8
-	-	-	-	60.0	-	60.0
-	-	-	55.1	-	-	-
-	-	-	8.9	23.2	-	23.2
-	-	-	-232.0	-232.0	-	-232.0
-	-	-	127.9	114.1	-	114.1
23.1	-221.4	-119.6	-218.9	4,935.6	6.4	4,942.0

## CONSOLIDATED STATEMENT OF CASH FLOWS

	2015 CHF m	2014 CHF m
Net profit	122.5	367.4
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	34.5	31.1
- Amortisation and impairment of intangible assets	184.8	177.5
- Allowance for credit losses	35.9	17.9
- Income from investment in associates	-5.9	-20.3
- Deferred tax expense/(benefit)	-60.3	-2.9
- Net loss/(gain) from investing activities	92.1	45.8
- Other non-cash income and expenses	60.0	53.5
Net increase/decrease in operating assets and liabilities:		
- Net due from/to banks	-981.6	-2,830.0
- Trading portfolios and derivative financial instruments	-1,295.9	-1,584.9
- Net loans/due to customers	-529.3	3,341.1
- Accrued income, prepaid expenses and other assets	-400.0	52.6
- Accrued expenses, deferred income, other liabilities and provisions	158.9	-34.9
Adjustment for income tax expenses	76.5	105.7
Income taxes paid	-125.3	-51.2
Cash flow from operating activities after taxes	-2,633.1	-331.7
Dividend of associates	4.4	6.1
Purchase of property and equipment and intangible assets	-105.9	-82.5
Disposal of property and equipment and intangible assets	0.7	1.0
Net (investment in)/divestment of financial investments available-for-sale	-2,415.1	-1,436.5
Acquisition of subsidiaries and businesses, net of cash and cash equivalents acquired	967.7	1,434.1
Acquisition of associates/increase in participation	-28.9	-55.8
Cash flow from investing activities	-1,577.1	-133.5
Net money market instruments issued/(repaid)	-0.1	-8.5
Net movements in treasury shares and own equity derivative activity	-89.9	-50.7
Dividend payments	-223.8	-133.2
Issuance and repayment of financial liabilities designated at fair value	-211.4	-520.1
Issuance of perpetual tier 1 subordinated bond	319.3	347.2
Dividend payment to non-controlling interests	-1.3	-
Cash flow from financing activities	-207.3	-365.2
<b>Total</b>	<b>-4,417.6</b>	<b>-830.3</b>

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	2015 <i>CHF m</i>	2014 <i>CHF m</i>
Cash and cash equivalents at the beginning of the year	<b>22,293.4</b>	23,336.2
Cash flow from operating activities after taxes	<b>-2,633.1</b>	-331.7
Cash flow from investing activities	<b>-1,577.1</b>	-133.5
Cash flow from financing activities	<b>-207.3</b>	-365.2
Effects of exchange rate changes	<b>252.9</b>	-212.5
<b>Cash and cash equivalents at the end of the year</b>	<b>18,128.7</b>	22,293.4

	31.12.2015 <i>CHF m</i>	31.12.2014 <i>CHF m</i>
<b>Cash and cash equivalents are structured as follows:</b>		
Cash	<b>9,185.7</b>	11,201.9
Money market instruments	<b>2,298.1</b>	2,312.1
Due from banks (original maturity of less than three months)	<b>6,645.0</b>	8,779.3
<b>Total</b>	<b>18,128.7</b>	22,293.4

	31.12.2015 <i>CHF m</i>	31.12.2014 <i>CHF m</i>
<b>Additional information</b>		
Interest received	<b>605.5</b>	654.3
Interest paid	<b>-121.2</b>	-115.1
Dividends on equities received (including associates)	<b>153.7</b>	81.7

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF ACCOUNTING

Julius Baer Group Ltd. is a Swiss corporation which is committed to the private banking business. The consolidated financial statements as at 31 December 2015 comprise those of Julius Baer Group Ltd. and all its subsidiaries (the Group). The Board of Directors approved these financial statements on 29 January 2016. In addition, they are submitted for approval at the Annual General Meeting on 13 April 2016.

Amounts in the consolidated financial statements are stated in Swiss francs. The consolidated financial statements are prepared in accordance with 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, and precious metals that are measured at fair value less costs to sell.

### 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 (determination in a business combination and measurement of recoverable amount) and contingent considerations.

### 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 addressing implemented changes in accounting policies.

#### **Business combinations**

In a business combination, the acquirer obtains control over the net assets of one or more businesses. The business combination is accounted for using the acquisition method. This involves recognising the identifiable assets, including previously unrecognised intangible assets, and liabilities of the acquired business, at acquisition-date fair value. Any excess of the consideration provided, such as assets or equity instruments issued and measured at acquisition-date fair value, over the identifiable net assets acquired, is recognised as goodwill. Transaction costs are expensed as incurred.

#### **Subsidiaries and associates**

Investees in which Julius Baer Group Ltd. exercises control are fully consolidated. The following three elements constitute control:

- power over the investee;
- exposure, or rights, to variable returns from involvement with the investee; and
- the ability to use power over the investee to affect the amount of the investor's returns.

If the Group is exposed to all three elements, it controls an investee. The assessment is based on all facts and circumstances and is reassessed as conditions may change.

A complete list of these companies is provided in Note 26. 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.

Companies in which Julius Baer Group Ltd. has the ability to exercise significant influence over the financial and operating policies are reported in the consolidated financial statements using the equity method. These associates are initially recorded at

cost as of the date of acquisition. Subsequently, the carrying amount is adjusted for the post-acquisition change in the Group's share of the associate's net assets.

The effects of all intercompany transactions and balances are eliminated on consolidation. Gains and losses resulting from transactions with associates are recognised only to the extent of the unrelated investor's interest in the associate.

### 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. When a foreign operation is disposed of such that control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

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	
	31.12.2015	31.12.2014	2015	2014
USD/CHF	<b>1.0010</b>	0.9936	<b>0.9645</b>	0.9195
EUR/CHF	<b>1.0874</b>	1.2024	<b>1.0640</b>	1.2125
GBP/CHF	<b>1.4753</b>	1.5493	<b>1.4710</b>	1.5120

### Reporting of transactions

Foreign exchange, securities and derivatives transactions are recorded in the balance sheet on trade date. All other financial instruments are recorded on settlement date. The financial instruments are assigned to one of the four categories according to IAS 39: 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. They are uniformly recognised within these categories on trade date or settlement date.

### Income recognition

Income from services provided 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.

*Specific allowances:* 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.

*Collective allowances:* 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 lending and borrowing transactions are collateralised by securities or cash. The transactions are usually conducted under standard agreements employed by the market participants; the counterparties are subject to the Group's normal credit risk process.

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.

Cash collateral received is recognised with a corresponding obligation to return it, and cash collateral provided is derecognised and a corresponding receivable reflecting the Group's right to receive it back is recognised.



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 provided or received. The transactions are generally conducted under standard agreements employed by the market participants; the counterparties are subject to the Group's normal credit risk process.

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.

Cash received is recognised with a corresponding obligation to return it, and cash provided is derecognised and a corresponding receivable reflecting the Group's right to receive it back is recognised.

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 and dividend 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 initially be 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 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 certain structured investments where the client bears all the related risks 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 fair values (fair value hedges) when transactions meet the specified criteria to obtain hedge accounting treatment. Derivatives categorised as serving such purposes on their trade 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 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.

When fair value hedge accounting is discontinued prospectively, any hedging adjustment made previously to a hedged financial instrument is amortised to the income statement over the remaining term to maturity of the hedged item.

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. The derivatives 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 measured 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 and dividend 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 liability 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 recognised in general expenses.

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.

#### **Goodwill and intangible assets**

Goodwill and 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 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 that are initially recognised at fair value at the date of acquisition. 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 (customer relationships, software) 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 are therefore 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 are recognised if a constructive obligation is incurred, which requires commencement of an approved detailed and formal

restructuring plan or the announcement of its main features to the affected employees before the balance sheet date.

### **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 are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 equity.

### **Post-employment benefits**

For defined benefit plans, the net defined benefit liability recognised in other liabilities in the balance sheet is the present value of the defined benefit

obligation less the fair value of the plan assets as of the reporting date. The Group applies the projected unit credit method to determine the present value of the defined benefit obligation and the current and past service cost. The corresponding calculations are carried out by independent qualified actuaries.

All changes in the present value of the defined benefit obligation and in the fair value of the plan assets are recognised in the financial statements immediately in the period they occur. Service costs, including past service costs, and net interest on the net defined benefit liability are recognised in the consolidated income statement. The Group determines the net interest expense based on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation. The remeasurement of the net defined benefit liability is recognised in other comprehensive income which comprises movements in actuarial gains and losses and return on plan assets (excluding net interest cost).

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

### **Share-based payments**

The Group maintains various share-based payment plans in the form of share 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. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related services and non-market performance vesting conditions are expected to be met.

Share-based payment plans that are settled in own equity instruments (i.e. Julius Baer Group Ltd. shares) result in a corresponding increase in equity and are not remeasured for subsequent changes in the fair value of the underlying equity instruments.

### **Share capital**

The share capital comprises all issued, fully paid shares of Julius Baer Group Ltd.

Incremental costs that are directly attributable to the issuance of new shares are deducted from equity.

### **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 treasury shares. Upon settlement of such contracts, the proceeds received (net of costs and any taxes) are 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 (EPS)**

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.

### **Contingent liabilities and irrevocable commitments**

Contingent liabilities and irrevocable commitments are not recognised in the balance sheet. However, if an outflow of resources becomes probable and is a present obligation from a past event that can be reliably measured, a respective liability is recognised.

## **CHANGES IN ACCOUNTING POLICIES**

In 2015, there have been no material impacts from new or revised accounting standards on the Group's consolidated 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. A number of these changes may have an impact on the Group's consolidated financial statements, as outlined below.

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

### IFRS 9 – Financial Instruments

The new standard includes the following changes to current accounting for financial instruments:

*Recognition and measurement:* The new standard uses two criteria to determine how financial assets should be classified and therefore measured: a) the entity's business model for managing the financial assets; and b) the contractual cash flow characteristics of the financial asset.

A business model refers to how an entity manages its financial assets in order to generate cash flows:

- by collecting contractual cash flows, i.e. cash flows stem primarily from interest payments and repayment of the principal;
- by selling the financial assets, i.e. cash flows stem primarily from buying and selling the financial asset; or
- by a combination of the two models above.

The additional criteria for determining the classification of a financial asset is whether the contractual cash flows are solely payments of principal and interest. Interest under this model can comprise a return not only for the time value of money and credit risk but also for other components such as return for liquidity risk, amounts to cover expenses and a profit margin.

Based on an analysis of the business model and the nature of the contractual cash flows, a financial asset is measured at amortised cost, fair value through profit or loss, or fair value through other comprehensive income (with and without recycling).

*Expected credit losses:* Contrary to the current impairment model for financial assets, the new standard requires an entity to recognise expected credit losses at inception and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. It is therefore no longer necessary for a trigger event to have occurred before credit losses are recognised.

In general, the expected credit loss model uses a dual measurement approach: if the credit risk of a financial asset has not increased significantly since its initial recognition, the financial asset will attract a loss allowance equal to 12-month expected losses. If its credit risk has increased significantly, it will attract an allowance equal to lifetime expected credit losses.

*Financial liabilities:* Financial liabilities are measured at amortised cost or fair value. 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.

*Hedge accounting:* The new standard puts in place a model that introduces significant improvements principally by aligning the accounting for hedges more closely with the underlying risk management purposes. To that effect, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Hedge qualification will be based on qualitative, forward-looking hedge effectiveness assessments, rather than on bright lines. There are also enhanced disclosure requirements about hedge accounting and risk management activities.

The new standard will be effective 1 January 2018, with early application available for certain parts. However, the Group does not intend to early apply these parts of IFRS 9. The impact of the new standard on the Group's financial statements is currently assessed.

### **IFRS 15 – Revenue Recognition**

The new standard introduces the core principle to recognise revenue to depict the transfer of services to customers in amounts that reflect the consideration (that is, payment) to which the Group expects to be entitled in exchange for those services.

The standard contains a single model that applies to contracts with customers and two approaches to recognise revenue: at a point of time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised:

- identify the contract(s) with a customer (step 1);
- identify the performance obligations in the contract (step 2);
- determine the transaction price (step 3);
- allocate the transaction price to the performance obligations in the contract (step 4);
- recognise revenue when (or as) the Group satisfies a performance obligation (step 5).

The new standard also provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. In addition, enhanced disclosures about revenue are required.

The new standard will be effective 1 January 2018 with earlier application permitted. However, the Group does not intend to early apply IFRS 15. The impact of the new standard on the Group's financial statements is currently assessed.

### **Disclosure Initiative**

The amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole

of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

The amended standard will be effective 1 January 2016 with earlier application permitted. The impact of the amendments on the presentation of the Group's financial statements will not be material.

### **Annual Improvements to IFRSs (2012–2014 Cycle)**

A number of amendments to several standards are included in the IASB's Annual Improvement Projects. The amendments will be applicable starting 1 January 2016. The amendments will not have a material impact on the Group's financial statements.

### **IFRS 16 – Leases**

The new standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability.

The new standard will be effective 1 January 2019 with earlier application permitted. However, the Group does not intend to early apply IFRS 16. The impact of the new standard on the Group's financial statements has not yet been assessed.



## COMMENT ON RISK AND CAPITAL MANAGEMENT

### RISK MANAGEMENT FRAMEWORK AND PROCESS

#### Risk types

For the purposes of this report, risk comprises both the probability of a given event occurring and its potential adverse impact in the event of a deviation from the Group's defined objectives. Risk taking is an inherent component of our day-to-day business activities. Risk management therefore constitutes an integral part of the Group's 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 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 directives, 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. Especially as far as legal and compliance risk matters are concerned, he coordinates his activities with the GC, who, as a member of the Executive Board of Julius Baer Group Ltd., is responsible for the management and control of legal and compliance risk at Group level. 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 Board of Directors delegates the supervision of operational risks to the Audit Committee, while the supervision of all other risks is entrusted to the Chairman's & Risk Committee. The responsibilities of these two committees are described in further detail in the Board of Directors section of this report.

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 financial services activities. Accordingly, its principal tasks are:

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

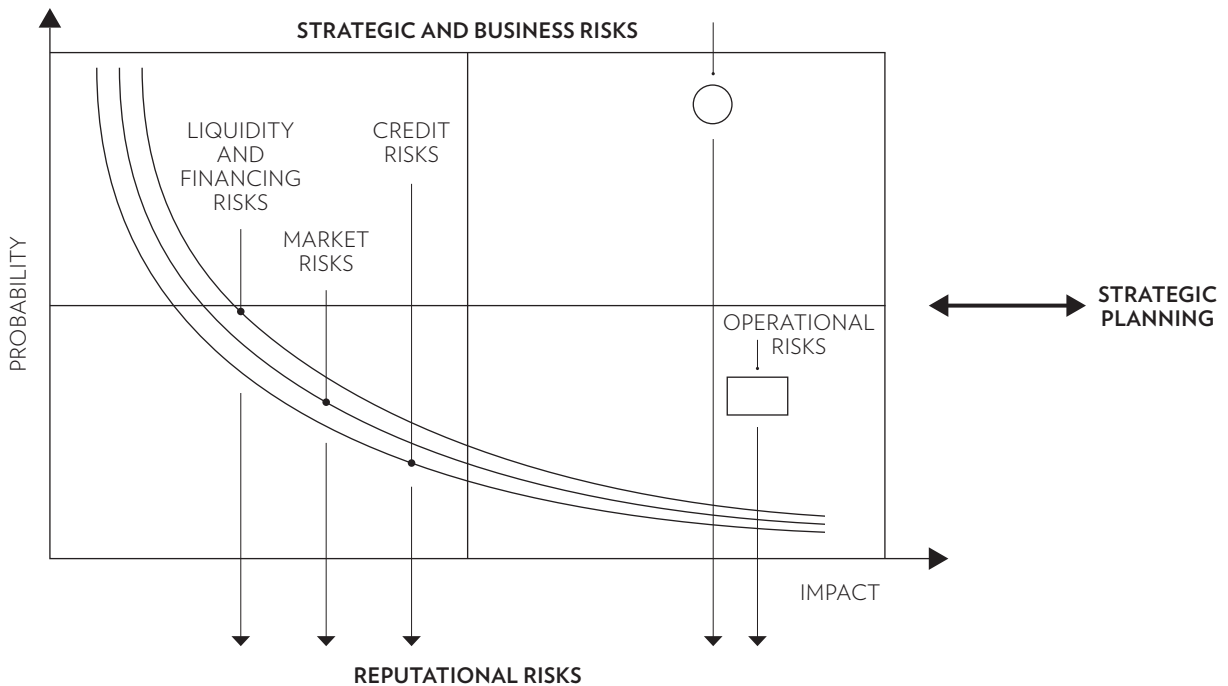
The Credit Committee of the Executive Board of Bank Julius Baer & Co. Ltd. is responsible for measuring and supervising credit risk. In particular, it is responsible for:

- 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 Information Security Committee of the Executive Board of Bank Julius Baer & Co. Ltd. is responsible both for monitoring and supervising information security risk and for related activities for the purpose of ensuring data confidentiality.

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

#### Risk landscape: illustrative diagram



## STRATEGIC AND BUSINESS RISK

Strategic and business risk comprises the danger of external or internal events or decisions resulting in strategic and day-to-day business objectives not being attained. 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 the aforementioned 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 a client or a counterparty being either unable, or only partially able, to meet an obligation owed to the Group or to an individual Group company. Such non-compliance may result in a financial loss to the Group.

The Group has a policy of lending to private clients primarily on a collateralised basis. The credit risk taken on by the Group as a result of such transactions may arise from lending or from actual or potential receivables due to the Group on client-held positions in derivatives on foreign exchange, equity, interest rate or commodity products. As part of the risk management process, clients' collateral positions are individually assessed and valued. Depending on the quality of the collateral and the degree of diversification within individual client portfolios, an advanceable value is set for each collateral position. The overwhelming majority of collateral positions is revalued every day, thus enabling the Group's credit positions to be monitored on a daily basis.

In addition, the Group engages in transactions with banks, brokers and selected institutional clients on both a secured and 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 relevant limit-granting processes and monitoring are based.

The credit risk breakdown presented below is calculated before deduction of eligible collateral and in accordance with Swiss capital adequacy requirements, which are largely based on the international guidelines contained in the Basel Committee on Banking Supervision's (BCBS) Basel III Accord. The BCBS has its registered offices at the Bank for International Settlements (BIS) in Basel, Switzerland. Differences between the total amounts and the corresponding balance sheet positions are explained in the 'Reconciliation of credit risk totals' section of this report.

In the following table the counterparty domicile serves as the fundamental basis for the geographical breakdown. For the secured portion of the credit, however, geographical allocation is shown on the

basis either of the domicile of the assets pledged, e.g. the domicile of the issuer of securities which are pledged as collateral, or the domicile of the guarantor.

### Credit risk by region

	31.12.2015					
	Switzerland CHF m	Europe CHF m	Americas CHF m	Asia/Pacific CHF m	Other countries CHF m	Total CHF m
Due from banks	1,927	1,676	482	2,152	1	<b>6,238</b>
Loans	9,217	10,714	8,398	7,652	400	<b>36,381</b>
Financial assets designated at fair value	-	149	48	-	-	<b>197</b>
Financial investments available-for-sale	68	7,328	6,437	2,607	45	<b>16,485</b>
Investments in associates	-	61	29	-	-	<b>90</b>
Derivative financial instruments	1,383	586	382	245	7	<b>2,603</b>
Contingent liabilities	102	163	169	65	13	<b>512</b>
Irrevocable commitments	188	131	64	21	1	<b>405</b>
Securities lending and repo transactions	829	2,996	486	113	6	<b>4,430</b>
<b>Total</b>	<b>13,714</b>	<b>23,804</b>	<b>16,495</b>	<b>12,855</b>	<b>473</b>	<b>67,341</b>

	31.12.2014					
	Switzerland CHF m	Europe CHF m	Americas CHF m	Asia/Pacific CHF m	Other countries CHF m	Total CHF m
Due from banks	455	5,845	672	1,748	-	8,720
Loans	8,344	10,694	7,665	6,747	241	33,691
Financial assets designated at fair value	12	107	3	-	-	122
Financial investments available-for-sale	149	8,079	3,280	2,926	45	14,479
Investments in associates	-	66	-	-	-	66
Derivative financial instruments	948	1,082	519	454	5	3,008
Contingent liabilities	148	229	179	62	21	639
Irrevocable commitments	109	93	67	30	1	300
Securities lending and repo transactions	970	1,236	705	55	5	2,971
<b>Total</b>	<b>11,135</b>	<b>27,431</b>	<b>13,090</b>	<b>12,022</b>	<b>318</b>	<b>63,996</b>

In the following table the counterparty industry code serves as the fundamental basis for the sector breakdown. For the secured portion of the credit, however, sector allocation is shown on the basis either of the industry code of the assets pledged, e.g. the industry code of the issuer of securities which are pledged as collateral, or the industry code of the guarantor.

The column headed 'Other' is used for disclosure of securities issued by companies outside the financial sector: these consist partly of proprietary positions of the Group which are reported on the balance sheet as financial investments available-for-sale and partly of the portion of the credit collateralised by securities issued by companies outside the financial sector.

### Credit risk by sector

	31.12.2015				
	Governments and agencies CHF m	Financial institutions CHF m	Private clients CHF m	Other CHF m	Total CHF m
Due from banks	-	6,238	-	-	6,238
Loans	486	4,536	24,369	6,990	36,381
Financial assets designated at fair value	-	197	-	-	197
Financial investments available-for-sale	5,975	6,102	-	4,408	16,485
Investments in associates	-	90	-	-	90
Derivative financial instruments	15	1,530	857	201	2,603
Contingent liabilities	8	56	364	84	512
Irrevocable commitments	35	118	185	67	405
Securities lending and repo transactions	675	2,914	46	795	4,430
<b>Total</b>	7,194	21,781	25,821	12,545	67,341

	31.12.2014				
	Governments and agencies CHF m	Financial institutions CHF m	Private clients CHF m	Other CHF m	Total CHF m
Due from banks	-	8,720	-	-	8,720
Loans	609	4,606	21,990	6,486	33,691
Financial assets designated at fair value	-	122	-	-	122
Financial investments available-for-sale	4,136	6,785	-	3,558	14,479
Investments in associates	-	66	-	-	66
Derivative financial instruments	27	1,378	1,348	255	3,008
Contingent liabilities	6	61	426	146	639
Irrevocable commitments	31	52	160	57	300
Securities lending and repo transactions	850	1,458	52	611	2,971
<b>Total</b>	5,659	23,248	23,976	11,113	63,996

The collateral pledged to cover Lombard loans, OTC derivatives positions and securities lending and repo transactions consists primarily of readily marketable securities. In the following table all the collateral accepted within the scope of the capital adequacy

regulations is disclosed. The haircuts applied to the collateral positions are in accordance with current Swiss regulatory requirements, which are based on the Basel III BIS standard haircuts.

#### Credit risk secured/not secured

				31.12.2015
	Secured by recognised financial collaterals <sup>1</sup> CHF m	Not secured by recognised financial collaterals CHF m		Total CHF m
Due from banks	2,426	3,812		6,238
Loans	33,764	2,617		36,381
Financial assets designated at fair value	-	197		197
Financial investments available-for-sale	-	16,485		16,485
Investments in associates	-	90		90
Derivative financial instruments	1,237	1,366		2,603
Contingent liabilities	473	39		512
Irrevocable commitments	195	210		405
Securities lending and repo transactions	3,658	772		4,430
<b>Total</b>	<b>41,753</b>	<b>25,588</b>		<b>67,341</b>

				31.12.2014
	Secured by recognised financial collaterals <sup>1</sup> CHF m	Not secured by recognised financial collaterals CHF m		Total CHF m
Due from banks	4,775	3,945		8,720
Loans	32,300	1,391		33,691
Financial assets designated at fair value	-	122		122
Financial investments available-for-sale	-	14,479		14,479
Investments in associates	-	66		66
Derivative financial instruments	1,701	1,307		3,008
Contingent liabilities	627	12		639
Irrevocable commitments	193	107		300
Securities lending and repo transactions	2,238	733		2,971
<b>Total</b>	<b>41,834</b>	<b>22,162</b>		<b>63,996</b>

<sup>1</sup> 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 classified by regulatory risk weightings. The regulatory risk weightings are in accordance with current Swiss regulatory requirements, which are based on the Basel III BIS approach. The allocation of the receivables to the risk weights depends on the

type and current rating of the counterparty or the individual rating of the specific financial investment held. The collateralised portion of receivables (other than mortgages) is allocated to the 0% risk-weight column, since no regulatory capital is required in respect of these lending positions.

### Credit risk by regulatory risk weightings

	31.12.2015							
	0%	20%	35%	50%	75%	100%	150% or greater	Total
	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m
Due from banks	2,440	3,132	-	643	-	19	4	<b>6,238</b>
Loans	24,943	42	6,677	320	631	3,764	4	<b>36,381</b>
Financial assets designated at fair value	197	-	-	-	-	-	-	<b>197</b>
Financial investments available-for-sale	4,954	5,552	-	5,647	-	315	17	<b>16,485</b>
Investments in associates	-	-	-	-	-	-	90	<b>90</b>
Derivative financial instruments	1,237	269	-	868	-	229	-	<b>2,603</b>
Contingent liabilities	472	-	-	8	-	32	-	<b>512</b>
Irrevocable commitments	195	30	-	81	-	99	-	<b>405</b>
Securities lending and repo transactions	3,658	593	-	-	-	179	-	<b>4,430</b>
<b>Total</b>	<b>38,096</b>	<b>9,618</b>	<b>6,677</b>	<b>7,567</b>	<b>631</b>	<b>4,637</b>	<b>115</b>	<b>67,341</b>

	31.12.2014							
	0%	20%	35%	50%	75%	100%	150% or greater	Total
	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m
Due from banks	4,787	3,473	-	444	-	15	1	8,720
Loans	24,221	-	6,336	45	452	2,631	6	33,691
Financial assets designated at fair value	122	-	-	-	-	-	-	122
Financial investments available-for-sale	2,990	6,035	-	5,211	-	232	11	14,479
Investments in associates	-	-	-	-	-	-	66	66
Derivative financial instruments	1,702	125	-	554	-	627	-	3,008
Contingent liabilities	626	-	-	8	-	5	-	639
Irrevocable commitments	193	27	-	14	-	66	-	300
Securities lending and repo transactions	2,238	501	-	-	-	232	-	2,971
<b>Total</b>	<b>36,879</b>	<b>10,161</b>	<b>6,336</b>	<b>6,276</b>	<b>452</b>	<b>3,808</b>	<b>84</b>	<b>63,996</b>



### **Reconciliation of credit risk totals**

The values shown in the tables above are based on the requirements of the approaches chosen in accordance with applicable Swiss regulatory requirements. These are based on the capital adequacy guidelines of the Basel Committee on Banking Supervision (the Basel III BIS approach). Balance sheet and off-balance sheet positions exposed to credit risks are disclosed, with the exception of the following balance sheet positions, which include non-financial instruments: accrued income and prepaid expenses, deferred tax assets and other assets. The list and tables below explain the differences between the total amounts according to the Basel III BIS approach and the corresponding balance sheet and off-balance sheet positions.

- The difference in the due-from-banks position is attributable to the fact that under IFRS reverse repurchase positions are recognised on the balance sheet. This differs from the Basel III BIS approach, under which reverse repurchase positions are disclosed as off-balance sheet items under securities lending and repurchase positions. The credit risk tables have been adjusted to avoid double counting.
- The difference in the loans position is due to the fact that the collective allowance as at end of 2014 is not deducted from loans under the Basel III BIS approach.
- In the financial investments available-for-sale position the unrealised gains are deducted from the market value under the Basel III BIS approach.
- The total amount of exposure in derivative financial instruments under the Basel III BIS approach corresponds to the total of the replacement values as disclosed in the balance sheet, plus calculated add-ons, minus any netting permitted under Basel III BIS. The add-on is a percentage of the notional amount of the instrument underlying 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.
- Under the Basel III BIS approach, the total contingent liabilities and irrevocable commitments off-balance sheet positions correspond to the calculated credit equivalents. The credit equivalent of each off-balance sheet position is determined by multiplying its nominal value (or current value should this be lower) 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 contingent liabilities under IFRS.
- Under the Basel III 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 III BIS approach CHF m	Balance sheet CHF m	Deviation CHF m	Comment
Due from banks	6,237.8	6,901.1	-663.3	reverse repurchase transactions of CHF 666.3 million deducted
Loans	36,380.9	36,380.9	-	
Financial assets designated at fair value	197.0	197.0	-	
Financial investments available-for-sale	16,485.0	16,572.5	-87.5	unrealised gains deducted under BIS approach (CHF 108.2 million); partly offset by transfer of securities from trading to banking book under BIS approach (CHF 20.7 million)
Investments in associates	90.3	90.3	-	
Derivative financial instruments	2,603.1	2,189.1	414.0	
<i>of which security supplement (add-ons)</i>			876.9	<i>according to add-on and netting rules under BIS approach</i>
<i>of which netting of replacement values</i>			-462.9	<i>impact of netting rules under BIS approach</i>
<b>Total 31.12.2015</b>	<b>61,994.1</b>	<b>62,330.9</b>	<b>-336.8</b>	

### Comments on off-balance sheet positions

	Basel III BIS approach CHF m	Off-balance sheet total CHF m	Deviation CHF m	Comment
Contingent liabilities	512.2	1,024.3 <sup>1</sup>	-512.1	converted in credit equivalent with factor 0.5 or 0.2
Irrevocable commitments	405.0	858.0 <sup>1</sup>	-453.0	converted in credit equivalent with factor 0.5 or 0.2
Securities lending and repo transactions	4,429.7	4,133.0	296.7	including risk premium
<b>Total 31.12.2015</b>	<b>5,346.9</b>			

<sup>1</sup> These amounts reflect the maximum payments the Group is committed to making.

Reconciliation of credit risk totals with balance sheet positions

	Basel III BIS approach CHF m	Balance sheet CHF m	Deviation CHF m	Comment
Due from banks	8,720.3	8,922.6	-202.3	reverse repurchase transactions of CHF 203.5 million deducted; collective allowance of CHF 1.2 million not deducted under BIS approach
Loans	33,690.6	33,669.1	21.5	collective allowance not deducted
Financial assets designated at fair value	121.8	121.8	-	
Financial investments available-for-sale	14,479.3	14,597.3	-118.0	unrealised gains deducted under BIS approach (CHF 136.8 million); partly offset by transfer of securities from trading to banking book under BIS approach (CHF 18.8 million)
Investments in associates	66.0	66.0	-	
Derivative financial instruments	3,007.6	3,001.9	5.7	
<i>of which security supplement (add-ons)</i>			1,003.7	<i>according to add-on and netting rules under BIS approach</i>
<i>of which netting of replacement values</i>			-998.0	<i>impact of netting rules under BIS approach</i>
Total 31.12.2014	60,085.6	60,378.7	-293.1	

Comments on off-balance sheet positions

	Basel III BIS approach CHF m	Off-balance sheet total CHF m	Deviation CHF m	Comment
Contingent liabilities	639.2	1,195.8 <sup>1</sup>	-556.6	converted in credit equivalent
Irrevocable commitments	299.7	695.5 <sup>1</sup>	-395.8	converted in credit equivalent
Securities lending and repo transactions	2,970.9	2,743.7	227.2	including risk premium under BIS approach
Total 31.12.2014	3,909.8			

<sup>1</sup> 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 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 apply mainly to banks and brokers, but also include selected non-financial institutions issuing debt securities; and b) Lombard and mortgage limits for collateralised credit exposures, which relate mainly to private clients.

In this analysis, credit exposure primarily comprises the following elements: cash exposure (such as advances, account overdrafts, cash balances with correspondent banks, etc.), derivatives exposure (replacement value plus add-on), and issuer risk from debt securities held in the Group's investment and treasury books. Exposure from reverse repo and securities lending transactions is not included in this credit exposure analysis, since these positions are

over-collateralised on a net basis and therefore do not constitute credit risk. In this context, over-collateralised on a net basis means that, in each transaction, the value of the collateral provided (without regulatory standard haircuts being applied) exceeds the value of the securities lent (without a risk premium being applied). Intraday settlement exposures are also not included in the credit exposure analysis. These are monitored separately. The credit exposure arising from the trading book, which is insignificant compared to that arising from the positions listed above, is also not included in this analysis.

For the purpose of this analysis, cash balances across different accounts are netted against each other for clients with Lombard limits. Derivatives exposures across different products, accounts and counterparties are netted against each other provided an ISDA close-out netting master agreement has been signed.

**Exposure to credit risk by credit quality**

	31.12.2015 Collateralised CHF m	31.12.2014 Collateralised CHF m	31.12.2015 Unsecured CHF m	31.12.2014 Unsecured CHF m
Neither past due nor impaired	40,843.4	38,908.3	31,165.7	30,654.9
Past due but not impaired	14.9	19.2	-	-
Impaired	65.0	47.4	-	2.9
<b>Total</b>	<b>40,923.3</b>	<b>38,974.9</b>	<b>31,165.7</b>	<b>30,657.8</b>

**Neither past due nor impaired**

R1 to R3	34,658.6	32,811.1	29,758.8	29,323.9
R4 to R6 (including temporarily unrated)	6,184.8	6,097.2	1,406.9	1,331.0
<b>Total</b>	<b>40,843.4</b>	<b>38,908.3</b>	<b>31,165.7</b>	<b>30,654.9</b>
<i>Collateral held or credit enhancement available</i>	<b>164,035.7</b>	<b>163,480.7</b>	-	-

**Past due but not impaired**

R7	14.9	19.2	-	-
<b>Total</b>	<b>14.9</b>	<b>19.2</b>	<b>-</b>	<b>-</b>
<i>Collateral held or credit enhancement available</i>	<b>12.4</b>	<b>25.7</b>	-	-

**Impaired**

R8	28.6	40.5	-	-
R9 to R10	36.4	6.9	-	2.9
<b>Total</b>	<b>65.0</b>	<b>47.4</b>	<b>-</b>	<b>2.9</b>
<i>Collateral held or credit enhancement available</i>	<b>14.8</b>	<b>14.9</b>	-	-

**Allowance for credit losses<sup>1</sup>**

Specific allowance for credit losses	65.8	33.4	-	2.9
Collective allowance for credit losses	24.3	21.5	2.3	1.2
<b>Total</b>	<b>90.1</b>	<b>54.9</b>	<b>2.3</b>	<b>4.1</b>

<sup>1</sup> The allowance for credit losses in this table includes allowances related to loans acquired in business combinations and therefore reflects the risk view. The respective amount in Note 9C does not include allowances related to acquired loans, as such loans have to be recognised net of allowances for IFRS purposes.

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 serviced, the fair value of the collateral pledged for collateralised exposures equals or exceeds the balances, and repayment of the balance is not in doubt. 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 established only for past-due interest payments. For balances in rating class R8, specific allowances for credit losses are established if it is more likely than not that a loss will arise. The credit risks in 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 theoretical 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 carrying amount.

#### Maximum exposure to credit risk

	31.12.2015 Gross maximum exposure CHF m	31.12.2014 Gross maximum exposure CHF m
Cash (excluding cash on hand)	9,155.5	11,170.7
Due from banks	6,901.1	8,922.6
Loans	36,380.9	33,669.1
Trading assets	1,155.7	945.1
Derivative financial instruments	2,189.1	3,001.9
Financial assets designated at fair value	197.0	121.8
Financial investments available-for-sale	16,475.3	14,515.6
Accrued income	326.9	282.8
Total	72,781.5	72,629.6
<b>Off-balance sheet</b>		
Irrevocable commitments <sup>1</sup>	824.9	657.0
<b>Total maximum exposure to credit risk</b>	<b>73,606.4</b>	<b>73,286.6</b>

<sup>1</sup> These amounts reflect the maximum payments the Group is committed to making.

## 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 the 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.

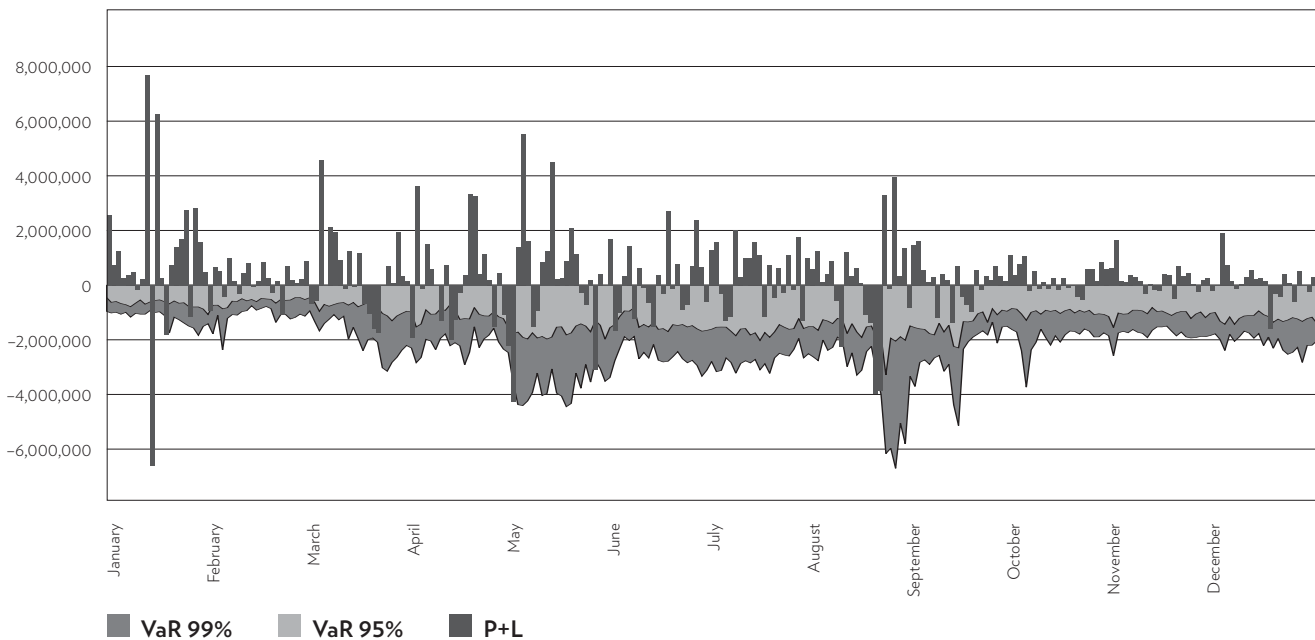
#### Market risk measurement, market risk limitation, back testing and stress testing

The following methods are used 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 1.25 million on 31 December 2015 (one-day holding period, 95% confidence interval). The maximum VaR recorded in 2015 amounted to CHF 3.29 million; the minimum

was CHF 0.45 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 2015 (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. A back-testing excession occurs when the change in overall position value resulting from the back-testing simulation is negative and its absolute value is greater than the VaR (at a confidence interval of 99%) for the relevant day's closing positions.

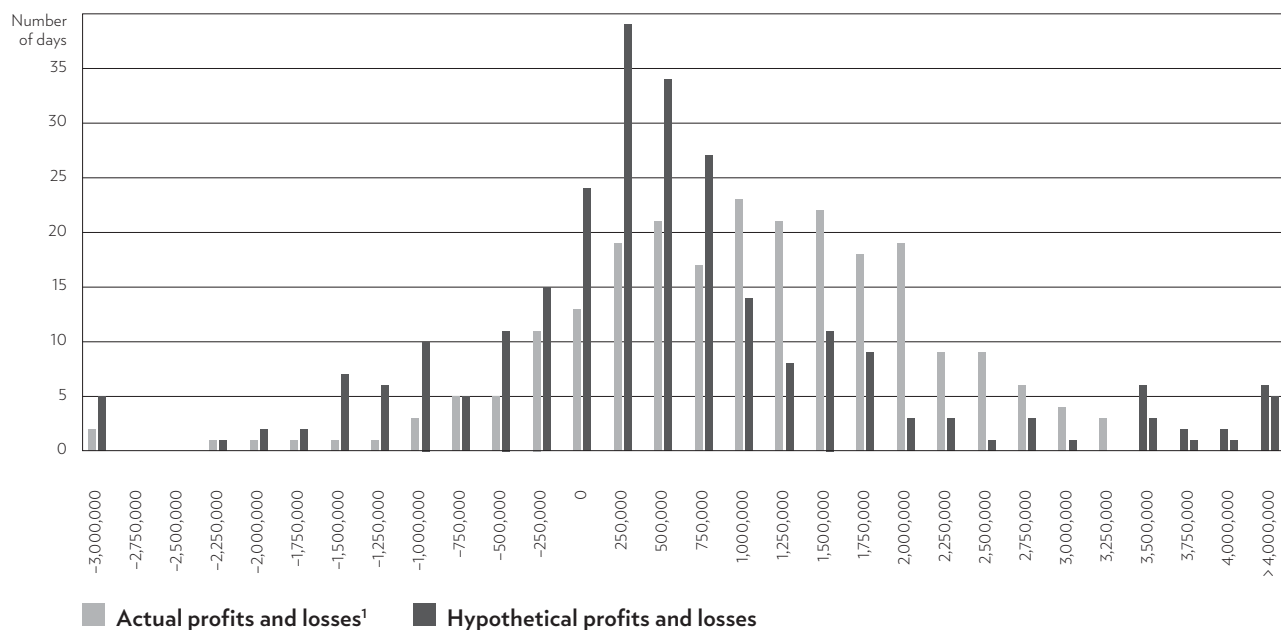
**Back testing of Julius Baer Group trading book positions in 2015 (CHF)**





The following chart compares these hypothetical revenues 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.

#### Distribution of daily revenues from trading activities of Julius Baer Group for 2015 (CHF)



<sup>1</sup> 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.

At the beginning of 2015, the preceding 12-month period contained one back-testing excession, which had occurred in 2014 and had been caused by the marked correction experienced by equity markets in December 2014. In January 2015, the decision by the Swiss National Bank to abandon its targeted floor for the EUR against the CHF resulted in a substantial appreciation of the CHF and a pronounced correction in Swiss share prices. This prompted two back-testing excessions on the USD position the Group continued to hold for the financing of its acquisition of parts of Merrill Lynch's International Wealth Management business. In May and June, weakness in the USD and the Swiss

Market Index led to two further back-testing excessions. As a result, the total number of back-testing excessions over the preceding 12-month period exceeded the permitted statistical limit and the multiplier had to be increased accordingly. In August, markedly lower share prices in China caused international equity markets to falter, which again strengthened the CHF. This resulted in two additional back-testing excessions and a further increase in the multiplier. In the course of December 2015 the amount of back-testing excessions in the preceding 12 months was reduced again due to the drop-out of an excession from the year 2014. Hence the multiplier decreased correspondingly.

All back-testing excessions are examined individually and each is reported to the Chief Executive Officer, the Chief Risk Officer, the internal and external auditors and the Swiss Financial Market Supervisory Authority (FINMA).

### 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 FINMA for use in determining the capital requirement for market risks in the trading book.

In addition to the normal VaR calculations detailed above, a so-called stress-based VaR calculation is also carried out. Instead of the historical prices observed over the last 300 trading days, this stress-based VaR calculation uses those observed during a highly volatile period in the past (the stress period). The Group's stress-based VaR amounted to CHF 1.88 million on 31 December 2015 (for a one-day holding

period and a 95% confidence interval). The maximum stress-based VaR recorded in 2015 amounted to CHF 3.47 million; the minimum was CHF 0.92 million. Under FINMA regulations, the capital requirement for market risk is the sum of the normal VaR and the stress-based VaR.

FINMA applies a multiplier to the capital requirement for market risk. Every back-testing excession over and above the statistically based maximum permitted number of excessions results in an increase in the multiplier applied to the capital requirement for market risk. Based on the above-mentioned back-testing excessions, FINMA temporarily raised the multiplier applicable to the Group. No other action was taken by FINMA in this matter.

Given the limited materiality of the positions concerned, the specific risk of the Group's fixed-income trading positions is calculated according to the standard method. The incremental risk charge and comprehensive risk-capital charge requirements are not applicable.

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 CHF m	Average CHF m	Maximum CHF m	2015 Minimum CHF m
Equities	-0.4	-0.6	-1.6	-0.2
Interest rates	-0.2	-0.2	-0.4	-0.1
Foreign exchange/precious metals	-1.0	-1.0	-2.1	-0.1
Effects of correlation	0.4			
<b>Total</b>	<b>-1.3</b>	<b>-1.2</b>	<b>-3.3</b>	<b>-0.5</b>

	At 31 December CHF m	Average CHF m	Maximum CHF m	2014 Minimum CHF m
Equities	-0.3	-0.4	-1.3	-0.1
Interest rates	-0.2	-0.2	-0.4	-0.1
Foreign exchange/precious metals	-0.4	-1.1	-2.3	-0.1
Effects of correlation	0.4			
<b>Total</b>	<b>-0.4</b>	<b>-1.1</b>	<b>-2.1</b>	<b>-0.3</b>

## FINANCING, LIQUIDITY 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 fall due. Interest rate risk is defined as the effect of potential changes in interest rates on the market value of the Group's assets and liabilities.

### Governance

The Treasury department of Bank Julius Baer & Co. Ltd. manages the Group's financing, liquidity and interest rate risks on an integrated basis, with Bank Julius Baer & Co. Ltd. acting as the Group's central liquidity provider. The Treasury department proposes the strategy for managing the financing, liquidity and interest rate risks and submits this to the Group's Asset and Liability Management Committee (ALMCO) for approval. Limits for financing, liquidity and interest rate risks are defined at Group level. These are reviewed at least once annually and approved by the Board of Directors and the Group ALMCO. The Group's consolidated exposure to financing, liquidity and interest rate risks is reported to the Group ALMCO at least once a month. The particular liquidity and interest rate risks to which Bank Julius Baer & Co. Ltd. is exposed are monitored and managed on a daily basis, as are those of the other Group companies. The Treasury Risk Control unit provides independent reports on the relevant risk positions for this purpose.

### Management of liquidity and financing risks

The objective of the Group's liquidity risk management is to maintain a healthy liquidity position which enables the Group to meet all its obligations when they fall due and to maintain sufficient flexibility to be able to react to company-specific stress situations in tight market conditions.

A liquidity stress scenario is modelled, which, over a time horizon of 30 days, essentially simulates substantial outflows of client deposits which would be stable under normal circumstances and the Group's ability to compensate for these by selling highly liquid investments and taking other appropriate measures. This scenario models an

extreme stress situation combining company-specific stress events with tight market conditions. It is calculated on a daily basis.

To complement the analysis provided by the liquidity stress scenario, a variety of early warning indicators are monitored with respect to the current liquidity position.

Switzerland's Liquidity Ordinance and FINMA's 'Liquidity Risks – Banks' circular make it a regulatory requirement for the Group to calculate and monitor its Liquidity Coverage Ratio (LCR). The LCR provides banks with a metric to assist them in ensuring that they hold a sufficient quantity of highly liquid assets to enable them to withstand a short-term (30-day) company-specific stress situation which coincides with a period of general market stress.

Basel III regulations also require publication of the LCR from 2015 onwards. This requirement is contained in the revised version of the FINMA 'Disclosure – Banks' circular, which came into effect on 1 January 2015. Additional qualitative and quantitative information relating to the LCR will be published in a separate disclosure report. This report will be available on the [www.juliusbaer.com](http://www.juliusbaer.com) website from the end of April 2016.

In managing its financing risks, the Group aims to ensure that it has access to appropriate sources of financing at all times. At present, 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 Group's liquidity risk management arrangements set out an emergency plan which forms an integral part of its global crisis concept. This emergency plan includes an overview of alternative sources of financing and liquidity metrics, as well as a range of emergency measures.

### Management of interest rate risks

One measure of interest rate 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 2015. 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 similar magnitude but with the opposite sign, though such outcomes are mitigated by the fact that the yield curves for the markets in which the Group carries out most of its activities are currently close to zero.

#### Interest-rate-sensitive positions

	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total CHF m
<b>Interest sensitivity by time bands and 100 bp parallel increase</b>						
<b>CHF</b>						
<b>2015</b>	<b>1.7</b>	<b>-5.3</b>	<b>28.3</b>	<b>52.2</b>	<b>-62.6</b>	<b>14.4</b>
2014	2.8	1.2	40.9	6.0	-46.2	4.7
<b>USD</b>						
<b>2015</b>	<b>14.4</b>	<b>-2.3</b>	<b>-3.2</b>	<b>-155.8</b>	<b>-4.7</b>	<b>-151.5</b>
2014	4.2	7.5	20.9	-124.3	-2.1	-93.8
<b>EUR</b>						
<b>2015</b>	<b>6.1</b>	<b>-2.3</b>	<b>-9.5</b>	<b>53.0</b>	<b>-3.6</b>	<b>43.7</b>
2014	2.3	1.3	9.1	-36.4	-4.5	-28.2
<b>Other</b>						
<b>2015</b>	<b>2.4</b>	<b>-2.2</b>	<b>-0.8</b>	<b>22.7</b>	<b>0.1</b>	<b>22.1</b>
2014	1.0	-0.2	4.1	-11.2	0.1	-6.2

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 12 months ahead is measured. Based on the assumptions described above, the effect on interest earnings was CHF -128.9 million at the end of 2015 (2014: CHF -32.5 million).

#### Hedging interest rate risks

The Group accepts deposits from clients at both floating and fixed rates and for various periods and either lends these funds on a collateralised basis or

invests them in high-quality assets. By consolidating the short-term money deposited by clients 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 applies fair value hedges for hedging a portion of the interest rate exposure by employing interest rate swaps. The market value of these swaps on 31 December 2015 amounted to a net CHF -72.5 million (2014: CHF -50.8 million). The fair value gain on the hedged mortgages attributable to the hedged interest rate risk amounts to CHF 70.2 million (2014: CHF 49.7 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 the nature of the position concerned indicates that expected maturity modelling will not yield useful insights.

#### 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
<b>Financial assets</b>						
Cash	9,185.7	-	-	-	-	<b>9,185.7</b>
Due from banks	-	6,679.6	201.5	20.0	-	<b>6,901.1</b>
Loans	-	29,311.0	2,477.9	2,257.1	2,335.0	<b>36,380.9</b>
Trading assets	8,984.0	-	-	-	-	<b>8,984.0</b>
Derivative financial instruments	2,189.1	-	-	-	-	<b>2,189.1</b>
Financial assets designated at fair value	197.0	-	-	-	-	<b>197.0</b>
Financial investments available-for-sale	-	2,514.7	1,943.4	11,417.1	697.3	<b>16,572.5</b>
Accrued income	-	326.9	-	-	-	<b>326.9</b>
<b>Total 31.12.2015</b>	<b>20,555.7</b>	<b>38,832.2</b>	<b>4,622.9</b>	<b>13,694.1</b>	<b>3,032.3</b>	<b>80,737.2</b>
Total 31.12.2014	21,749.8	40,015.5	5,725.6	9,923.2	1,807.6	79,221.6
<b>Financial liabilities</b>						
Due to banks	-	4,672.0	-	-	-	<b>4,672.0</b>
Due to customers	-	64,589.4	192.0	-	-	<b>64,781.4</b>
Trading liabilities	190.8	-	-	-	-	<b>190.8</b>
Derivative financial instruments	2,391.4	-	-	-	-	<b>2,391.4</b>
Financial liabilities designated at fair value	760.6	1,070.7	1,222.8	917.8	291.2	<b>4,263.1</b>
Debt issued	0.1	-	-	-	1,152.6	<b>1,152.7</b>
Accrued expenses	-	154.4	-	-	-	<b>154.4</b>
Other liabilities <sup>1</sup>	-	0.5	12.0	12.1	-	<b>24.5</b>
<b>Total 31.12.2015</b>	<b>3,342.9</b>	<b>70,486.9</b>	<b>1,426.7</b>	<b>929.9</b>	<b>1,443.8</b>	<b>77,605.8</b>
Total 31.12.2014	3,995.9	67,718.4	1,761.4	968.4	1,371.8	75,815.9

<sup>1</sup> Relates to the deferred purchase price of WMPartners Wealth Management Ltd., Fransad Gestion SA and NSC Asesores, S.C., see Notes 26B and 27.

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 called for repayment at any time, are classified as on demand. All derivative financial instruments held for trading 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
<b>Financial liabilities recognised on balance sheet</b>						
Due to banks	3,915.2	756.9	-	0.3	-	<b>4,672.4</b>
Due to customers	59,991.8	4,598.7	194.0	0.2	-	<b>64,784.8</b>
Trading liabilities	190.8	-	-	-	-	<b>190.8</b>
Derivative financial instruments	2,318.9	-	-	16.9	55.6	<b>2,391.4</b>
Financial liabilities designated at fair value	760.6	1,093.2	1,260.0	927.9	291.2	<b>4,333.0</b>
Debt issued	0.1	28.4	77.1	114.4	1,152.6	<b>1,372.6</b>
Accrued expenses	-	154.4	-	-	-	<b>154.4</b>
Other liabilities <sup>1</sup>	-	0.5	12.0	12.1	-	<b>24.5</b>
<b>Total 31.12.2015</b>	<b>67,177.5</b>	<b>6,632.1</b>	<b>1,543.1</b>	<b>1,071.7</b>	<b>1,499.4</b>	<b>77,923.8</b>
Due to banks	4,103.5	1,086.0	1.2	0.3	-	5,191.0
Due to customers	54,130.2	7,245.7	448.9	-	-	61,824.8
Trading liabilities	116.2	-	-	-	-	116.2
Derivative financial instruments	2,964.1	-	-	5.1	45.7	3,014.9
Financial liabilities designated at fair value	864.6	1,210.0	1,257.4	933.0	205.0	4,470.0
Debt issued	0.2	13.6	34.2	112.7	1,074.7	1,235.4
Accrued expenses	-	147.1	-	-	-	147.1
Other liabilities <sup>2</sup>	-	-	62.4	5.5	-	67.9
<b>Total 31.12.2014</b>	<b>62,178.8</b>	<b>9,702.4</b>	<b>1,804.1</b>	<b>1,056.6</b>	<b>1,325.4</b>	<b>76,067.3</b>
<b>Financial liabilities not recognised on balance sheet</b>						
Irrevocable commitments <sup>3</sup>	754.9	22.2	43.5	3.2	1.0	<b>824.9</b>
<b>Total 31.12.2015</b>	<b>754.9</b>	<b>22.2</b>	<b>43.5</b>	<b>3.2</b>	<b>1.0</b>	<b>824.9</b>
<b>Total 31.12.2014</b>	<b>543.9</b>	<b>24.6</b>	<b>56.7</b>	<b>29.8</b>	<b>2.0</b>	<b>657.0</b>

<sup>1</sup> Relates to the deferred purchase price of WMPartners Wealth Management Ltd., Fransad Gestion SA and NSC Asesores, S.C., see Notes 26B and 27.

<sup>2</sup> Relates to the deferred purchase price of WMPartners Wealth Management Ltd. and GPS Investimentos Financeiros e Participações S.A., see Note 27.

<sup>3</sup> These amounts reflect the maximum payments the Group is committed to making.

Exposures to risks, in addition to 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 Treasury department of Bank Julius Baer & Co. Ltd. Currency risks on the banking book are transferred to 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 also included in the Group's VaR calculations.

## OPERATIONAL RISK

Operational risk is defined as the risk of losses arising as a result either of the inadequacy or failure of internal processes, people or systems or as a consequence of external events.

### **Framework for the management of operational risk**

The framework used to manage and limit operational risk is defined by the Group Risk Management function. This framework is based on a structured approach whose objective is to apply a set of uniform standards and methodologies for identifying, evaluating, monitoring, controlling and reporting risks across the Group. A further objective is to allow individual business areas and legal entities sufficient flexibility to adapt the specific components of this framework to meet their particular needs while at the same time ensuring that Group-wide minimum standards continue to be met.

The key components of this framework are described below:

- Organisational structure: the tasks, responsibilities and processes for managing operational risk, and the relevant escalation procedures relating thereto, are set out in a series of directives, guidelines and manuals.
- Willingness to assume risk and levels of risk tolerance: operational risk appetite and the underlying level of operational risk tolerance is determined by the Board of Directors and the

Executive Board as part of their annual review of the overall risk landscape. The processes for monitoring risk appetite and the level of risk tolerance include directives, limits and defined levels of authority, which are also reflected in the Group's business strategy and personnel policy.

- Control system: the control environment which has been established to manage operational risk requires that activities are carried out in accordance with defined directives and guidelines, so that processes operate as specified. Under this approach, controls are integrated into business processes wherever possible. Key controls are carried out in a timely fashion and their results are monitored by Risk Management. In addition, the quality and completeness of certain key controls is subject to independent verification, which ensures that their specifications and effectiveness are assessed on a regular basis. In addition there are independent control functions in place that monitor certain specific operational risks.
- Register of operational risks: the individual legal entities maintain operational risk registers listing the operational risks which have been identified as inherent to their specific business activities and the measures which have been put in place to eliminate or reduce them. These operational risks are classified and evaluated according to a uniform, Group-wide risk taxonomy and a uniform quantitative risk-evaluation template charting potential risks and the probability of their occurrence.
- Record of operational risk events: Losses arising as a result of operational risk are recorded by Risk Management in a Group-wide database. Systematic evaluation of these events enables operational weaknesses to be identified so that appropriate measures can be taken to remedy them.
- Self evaluation of risks and of the quality of the control system: these self evaluations are carried out by the individual specialised areas and legal entities with the assistance of Risk Management. The process involves applying a uniform risk taxonomy to identify inherent operational risks and their causes, to evaluate the effectiveness of the controls and other risk-minimising measures in place and to determine the level of residual risk. The results of these self evaluations are



incorporated into the Group-wide risk landscape which is presented to the Executive Board, the Chairman's & Risk Committee and the Audit Committee each year.

- Risk information consolidation process: the risk managers have unrestricted access to all the information they require to identify and evaluate operational risks in the areas for which they are responsible. This includes internal and external audit reports, data on operational losses, information from risk committees, quantitative risk indicators (Key Risk Indicators), control results, complaints from clients and other internal and external risk information. The resulting operational risk evaluation and the extent to which risk-minimising measures have been implemented are regularly reviewed and updated by the risk manager and those responsible for managing the business areas concerned. A further objective of these discussions is to identify potential new risks at an early stage and to determine possible initiatives to address them.
- Reporting to senior management: a number of formal risk reports are submitted to management and the Board of Directors. These reports incorporate the key insights and developments relating to operational risks, thus ensuring that timely and appropriate action can be taken in response to operational risk events and to any activities which exceed current levels of operational risk appetite.

### **Business Continuity Management**

The objective of the Business Continuity Management (BCM) Programme is to establish and maintain the stability of the overall organisation in the event of massive disturbances to its operations and in crisis situations. The programme aims to protect the Group's reputation and to minimise any financial loss to clients, the Group and its employees. To that end, Julius Baer has formulated a BCM strategy and implemented a set of Group-wide BCM directives and guidelines, which assign BCM tasks and responsibilities across the Group and define the structure of the crisis management organisation. These directives and guidelines also define the processes for planning, analysing and assessing recovery and continuity measures, and the procedures for communication and internal training.

The BCM Programme is based on national and international standards (such as ISO standards) and on the business continuity recommendations formulated by the Swiss Bankers' Association, some of which have been defined as compulsory by FINMA. The programme also reflects local BCM requirements applicable to BCM-relevant business units outside Switzerland.

Regular crisis organisation exercises are conducted to assess the effectiveness of these measures, and regular internal and external audits are carried out to review the content of the programme.

### **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.

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.

As described in the risk governance section of this report, the General Counsel and the Chief Risk Officer coordinate the management and control of legal and compliance risk. Legal and compliance risks are regularly reported to the Board of Directors. In line with the development of the legal and regulatory environment of the industry, the Group has consistently invested in personnel and technical

resources to ensure adequate compliance coverage. A comprehensive framework of policies and regular specialised training sessions ensure that staff receive appropriate ongoing education and training in this area. Julius Baer has, for example, defined a set of standards governing the cross-border services it offers, as well as drawing up country-specific manuals for the major national markets it serves. A large-scale staff training and education concept is in place to ensure observance of the standards and compliance with the country manuals. These standards are kept under regular review and adapted in accordance with regulatory developments.

#### **Insurance**

In line with general industry practice, and in addition to controlling and minimising the operational risks described above, we also endeavour to cover or reduce their potential adverse financial impact by transferring the risk of loss in specific areas of our business activities to insurance companies.

#### **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 which Bank Julius Baer & Co. Ltd., the Group's main operating entity, has established in the course of its more than 125 years. 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 a strong external credit rating.

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 capital ratios for 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 required for each capital category, the Group's internal assessment of aggregate risk exposure requiring equity capital provision, the views of rating agencies, and comparison to peer institutions based on the Group's business mix and market presence.

In 2015, the scope of consolidation used for the calculation of capital adequacy is identical to that applied for accounting purposes. Note 26A provides an overview of the Group's consolidated companies. The Group's equity stakes in its associates Kairos and NSC Asesores are directly deducted from eligible capital.

Since 2013, when the Group changed the basis of its regulatory reporting to the international standard approach, the Group's calculations of its risk-weighted assets published in the Annual Report have been identical to those carried out for regulatory reporting purposes.

The effects of Basel III and of the changes to IAS 19 with regard to pension fund liabilities will gradually be incorporated into the Group's calculations of risk-weighted assets and eligible equity capital during the period from 2014 to 2018. Furthermore, recognition of tier 1 and tier 2 instruments which are not compliant with Basel III requirements will gradually be discontinued between 2013 and 2022.

The Basel III international standard approach requires CET1 equivalent to at least 4.5% of risk-weighted assets, plus a CET1 capital buffer of 2.5%, plus 1.5% of additional tier 1 (AT1) capital (or better-quality capital), plus 2% of supplementary tier 2 capital (or better-quality capital). In aggregate, this amounts to an overall capital requirement of at least 10.5% of risk-weighted assets. FINMA minimum capital requirements for the Group are 7.8% for CET1, 1.8% for AT1 and 2.4% for tier 2, which puts its overall minimum capital requirement at 12% of risk-weighted assets. At present, the Group is also required to hold an additional anti-cyclical CET1 capital buffer for mortgages on residential properties in Switzerland which adds a further 0.2% to its minimum capital requirement of 12% of risk-weighted assets. The capital held by the Group at 31 December 2015 and at 31 December 2014 was sufficient to meet the relevant BIS and FINMA requirements.

## Capital ratios

	31.12.2015 Basel III phase-in <sup>1</sup> CHF m	31.12.2014 Basel III phase-in <sup>1</sup> CHF m
<b>Risk-weighted positions</b>		
Credit risk	13,775.4	12,206.8
Non-counterparty-related risk	510.0	547.9
Market risk	776.5	346.6
Operational risk	4,232.9	3,876.4
<b>Total</b>	<b>19,294.8</b>	<b>16,977.7</b>
<b>Eligible capital</b>		
Tier 1 capital (= CET1 capital) <sup>2</sup>	3,534.2	3,739.6
of which hybrid tier 1 instruments <sup>3</sup>	908.0	772.8
Tier 2 capital	214.2	240.8
of which lower tier 2 instruments <sup>4</sup>	171.4	193.0
<b>Total capital</b>	<b>3,748.4</b>	<b>3,980.4</b>
Tier 1 capital ratio (= CET1 capital ratio)	18.3%	22.0%
<b>Total capital ratio</b>	<b>19.4%</b>	<b>23.4%</b>

<sup>1</sup> The Basel III effects, but also the effects of IAS 19 revised relating to pension liabilities, will be phased in between 2014 and 2018 for the calculation of the eligible capital. Furthermore, non-compatible Basel III tier 1 and tier 2 capital instruments will be phased out between 2013 and 2022.

<sup>2</sup> The BIS Basel III tier 1 capital at the end of 31 December 2015 was the same as the BIS Basel III CET1 (common equity tier 1) capital and includes additional tier 1 capital which offsets the required deductions for goodwill and other intangible assets. During the phase-in period the amount of intangibles which has to be deducted directly from CET1 increases proportionally over time and the remaining amount of intangibles which is allowed to be deducted from additional tier 1 capital decreases respectively. As soon as the remaining amount of intangibles is lower than the additional tier 1 capital the CET1 capital will be lower than the tier 1 capital and consequently disclosed on a separate line.

<sup>3</sup> The hybrid tier 1 instruments are tier 1 bonds issued by Julius Baer Group Ltd. in 2012, tier 1 bonds issued by Julius Baer Group Ltd. in 2014 and tier 1 bonds issued by Julius Baer Group Ltd. in 2015.

<sup>4</sup> The lower tier 2 instruments are the subordinated unsecured bonds issued by Julius Baer Group Ltd. in 2012.

Further details regarding tier 1 and tier 2 instruments can be found in the Regulatory Disclosures section of [www.juliusbaer.com](http://www.juliusbaer.com). Please also refer to debt issued, Note 16.

The principal adjustment to the Group's total equity under IFRS 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. In addition to the table below, a separate Basel III pillar 3 report has been prepared

which shows a full reconciliation between all components of the Group's eligible regulatory capital and its reported IFRS balance sheet as at 31 December 2015. This report, which is published in the Regulatory Disclosures section of [www.juliusbaer.com](http://www.juliusbaer.com), has been prepared in accordance with the FINMA regulations governing the disclosure of the composition of eligible regulatory capital (information will be available at the end of April 2016).

### Capital components

	31.12.2015 Basel III phase-in CHF m	31.12.2014 Basel III phase-in CHF m
Gross common equity tier 1 capital <sup>1</sup>	4,939.4	5,335.9
of which non-controlling interests	3.8	7.3
Effects of IAS19 revised relating to pension liabilities	132.8	98.4
Goodwill and other intangible assets	-1,250.9	-1,390.8
Other deductions	-287.1	-303.9
<b>Common equity tier 1 capital</b>	<b>3,534.2</b>	<b>3,739.6</b>
Tier 1 capital instruments	908.0	772.8
of which preferred securities (phase-out capital instrument)	-	180.0
of which tier 1 bond (Basel III-compliant capital instrument)	908.0	592.8
Goodwill and intangible assets, offset against tier 1 capital instruments	-908.0	-772.8
<b>Additional tier 1 capital</b>	<b>-</b>	<b>-</b>
Tier 1 capital	3,534.2	3,739.6
Tier 2 capital	214.2	240.8
of which lower tier 2 capital (phase-out capital instrument)	171.4	193.0
of which other tier 2 capital	42.8	47.8
<b>Total capital</b>	<b>3,748.4</b>	<b>3,980.4</b>

<sup>1</sup> Phase-in of 60% of non-controlling interests of CHF 6.4 million (31.12.2014 phase-in of 80% of CHF 9.1 million)

Required capital (see table below) for credit risks arising from amounts due from banks, loans, financial investments and derivative financial instruments accounts for more than 71% (2014: 72%) of the total required capital. Capital required

for non-counterparty risk (2015: 3%; 2014: 3%) and market risk (2015: 4%; 2014: 2%) is of minor significance. The capital required to cover operational risk accounts for more than 22% of total required capital (2014: 23%).

### Minimum capital requirement

	31.12.2015 Basel III phase-in CHF m	31.12.2014 Basel III phase-in CHF m
Credit risk	1,102.0	976.6
of which for equity securities in the banking book	4.4	7.7
Non-counterparty-related risk	40.8	43.8
Market risk	62.1	27.7
Operational risk	338.7	310.1
<b>Total</b>	<b>1,543.6</b>	<b>1,358.2</b>

### **Leverage ratio**

In November 2014, FINMA published a new 'Leverage Ratio' circular, which sets out the rules for calculating the leverage ratio in Switzerland. In addition to the existing requirement for banks to hold eligible capital proportionate to their risk-weighted assets, the circular defines the leverage ratio as a new, non-risk-based metric. The leverage ratio is defined as the ratio between eligible (tier 1) core capital and total exposure. Total exposure encompasses all balance-sheet and off-balance-sheet positions, and the new 'Leverage Ratio' circular defines how these are to be calculated. The Basel Committee on Banking Supervision will define the requirements which it will place on the leverage ratio from 2018 after the conclusion of an observation

period. That period will also be used to clarify a number of currently open questions regarding the calculation of total exposure. The indicative leverage ratio requirement, which is not yet binding at this stage, is three percent. This may however be subject to change once the observation period has concluded.

Basel III regulations also require publication of the leverage ratio from 2015 onwards. This requirement is contained in the revised version of the FINMA 'Disclosure – Banks' circular, which came into effect on 1 January 2015. Additional qualitative and quantitative information relating to the leverage ratio will be published in a separate disclosure report. This report will be available on the [www.juliusbaer.com](http://www.juliusbaer.com) website from the end of April 2016.

## INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

### 1 NET INTEREST AND DIVIDEND INCOME

	2015 CHF m	2014 CHF m	Change %
Interest income on amounts due from banks	38.3	36.5	5.0
Interest income on loans	444.5	405.7	9.6
Interest income on financial investments available-for-sale	191.4	171.6	11.5
Total interest income using the effective interest method	674.3	613.9	9.8
Dividend income on financial investments available-for-sale	10.3	3.9	163.0
Interest income on trading portfolios	23.6	90.3	-73.9
Dividend income on trading portfolios	139.1	71.8	93.8
Total interest and dividend income	847.2	779.9	8.6
Interest expense on amounts due to banks	8.7	3.3	160.5
Interest expense on amounts due to customers	49.5	87.8	-43.6
Interest expense on debt issued	50.7	41.0	23.7
Interest expense on financial assets <sup>1</sup>	26.8	-	
Total interest expense using the effective interest method	135.7	132.2	2.7
<b>Total</b>	<b>711.5</b>	<b>647.7</b>	<b>9.8</b>

<sup>1</sup> Interest expense on financial assets is related to negative effective interests on the respective financial instruments.

### 2 NET COMMISSION AND FEE INCOME

	2015 CHF m	2014 CHF m	Change %
Advisory and management commissions	857.8	811.0	5.8
Investment fund fees	227.3	203.0	12.0
Fiduciary commissions	6.4	6.5	-0.6
Total commission and fee income from asset management	1,091.5	1,020.5	7.0
Brokerage commissions and income from securities underwriting	551.6	561.4	-1.7
Commission income from credit-related activities	6.7	7.5	-11.0
Commission and fee income on other services	82.3	136.4 <sup>1</sup>	-39.7
Total commission and fee income	1,732.1	1,725.8	0.4
Commission expense	209.7	207.8	0.9
<b>Total</b>	<b>1,522.4</b>	<b>1,518.1</b>	<b>0.3</b>

<sup>1</sup> Including revenues related to AuM transferred from Merrill Lynch & Co., Inc. where the AuM have not been booked by the Group, see Note 30.



### 3 NET TRADING INCOME

	2015 CHF m	2014 CHF m	Change %
Debt instruments	30.0	18.8	59.7
Equity instruments	-104.0	-58.5	-77.6
Foreign exchange	509.8	367.3	38.8
<b>Total</b>	<b>435.8</b>	<b>327.5</b>	<b>33.1</b>

### 4 OTHER ORDINARY RESULTS

	2015 CHF m	2014 CHF m	Change %
Net gains/(losses) from disposal of financial investments available-for-sale	0.9	7.6	-88.6
Impairment on financial investments available-for-sale	-7.0	-	-
Income from investments in associates	5.9	20.3	-70.9
Real estate income	5.3	5.2	2.0
Other ordinary income	20.2	24.1	-16.0
Other ordinary expenses	0.5	3.7	-86.1
<b>Total</b>	<b>24.7</b>	<b>53.4</b>	<b>-53.7</b>

### 5 PERSONNEL EXPENSES

	2015 CHF m	2014 CHF m	Change %
Salaries and bonuses	988.8	981.0	0.8
Contributions to staff pension plans (defined benefits)	69.6	61.4	13.4
Contributions to staff pension plans (defined contributions)	27.0	26.2	2.9
Other social security contributions	76.1	82.0	-7.2
Share-based payments	60.0	53.5	12.1
Other personnel expenses	42.6	54.4	-21.8
Reimbursement of personnel expenses	-27.9 <sup>1</sup>	-	-
<b>Total</b>	<b>1,236.1</b>	<b>1,258.6</b>	<b>-1.8</b>

<sup>1</sup> Represents a reimbursement from Bank of America in the amount of CHF 27.9 million for certain payments related to retention plans in the acquisition of Merrill Lynch's International Wealth Management (IWM).

## 6 GENERAL EXPENSES

	2015 CHF m	2014 CHF m	Change %
Occupancy expense	83.8	85.4	-1.9
IT and other equipment expense	64.6	72.1	-10.4
Information, communication and advertising expense	162.2	168.0	-3.4
Service expense, fees and taxes	207.7	212.8	-2.4
Valuation allowances, provisions and losses	574.6 <sup>1</sup>	59.9	-
Other general expenses	7.3	11.1	-34.5
<b>Total</b>	<b>1,100.2</b>	<b>609.3</b>	<b>80.6</b>

<sup>1</sup> Including the provision in the amount of USD 547.25 million related to the agreement in principle with US Attorney's Office for the Southern District of New York with respect to a comprehensive resolution regarding its legacy U.S. cross-border business (see Note 18).

## 7 INCOME TAXES

	2015 CHF m	2014 CHF m	Change %
Income tax on profit before taxes (expected tax expense)	30.5	103.4	-70.5
Effect of tax rate differences in foreign jurisdictions	-20.4	-14.7	-
Effect of domestic tax rate differences	1.6	-4.3	-
Income subject to a reduced tax rate	-43.4	-23.2	-
Effect of utilisation of prior-year losses	-2.2	-1.3	-
Effect from not capitalised losses	7.8	18.2	-
Adjustments related to prior years	-8.3	0.1	-
Write-off of deferred tax assets	0.2	-	-
Non-deductible expenses	51.5	25.4	-
Other	-1.0	-0.8	-
<b>Actual income tax expense</b>	<b>16.3</b>	<b>102.8</b>	<b>-84.2</b>

The tax rate of Switzerland of 22% (2014: 22%) was applied as the basis for the above expected tax expenses.

Unrecognised accumulated loss carryforwards in the amount of CHF 242.9 million (2014: CHF 260.9 million) exist in the Group that do not expire.

	2015 CHF m	2014 CHF m	Change %
Domestic income taxes	2.8	84.5	-96.7
Foreign income taxes	13.5	18.3	-26.0
<b>Total</b>	<b>16.3</b>	<b>102.8</b>	<b>-84.2</b>
Current income taxes	76.5	105.7	-27.6
Deferred income taxes	-60.3	-2.9	-
<b>Total</b>	<b>16.3</b>	<b>102.8</b>	<b>-84.2</b>

**Tax effects relating to components of other comprehensive income**

			<b>2015</b>
	Before-tax amount CHF m	Tax (expense)/ benefit CHF m	Net-of-tax amount CHF m
<b>Items that may be reclassified to the income statement</b>			
Net unrealised gains/(losses) on financial investments available-for-sale	-97.4	11.6	-85.8
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	0.3	0.0	0.3
Translation differences	-79.6	-	-79.6
Realised (gains)/losses on translation differences reclassified to the income statement	0.2	-	0.2
<b>Items that will not be reclassified to the income statement</b>			
Remeasurement of defined benefit obligation	-126.1	27.7	-98.4
<b>Other comprehensive income for the year recognised directly in equity</b>	<b>-302.6</b>	<b>39.4</b>	<b>-263.2</b>

			<b>2014</b>
	Before-tax amount CHF m	Tax (expense)/ benefit CHF m	Net-of-tax amount CHF m
<b>Items that may be reclassified to the income statement</b>			
Net unrealised gains/(losses) on financial investments available-for-sale	26.1	0.1	26.2
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	11.8	-0.6	11.2
Translation differences	-0.5	-	-0.5
Realised (gains)/losses on translation differences reclassified to the income statement	15.7	-	15.7
<b>Items that will not be reclassified to the income statement</b>			
Remeasurement of defined benefit obligation	-99.1	21.5	-77.6
<b>Other comprehensive income for the year recognised directly in equity</b>	<b>-46.0</b>	<b>21.0</b>	<b>-25.0</b>

## 8 EARNINGS PER SHARE AND SHARES OUTSTANDING

	2015	2014
<b>Basic earnings per share</b>		
Net profit (CHF m)	121.2	366.2
Weighted average number of shares outstanding	218,613,533	218,451,680
Basic earnings per share (CHF)	0.55	1.68

<b>Diluted earnings per share</b>		
Net profit (CHF m)	121.2	366.2
Less (profit)/loss on equity derivative contracts (CHF m)	-0.1	-0.3
Net profit for diluted earnings per share (CHF m)	121.1	365.9
Weighted average number of shares outstanding	218,613,533	218,451,680
Dilution effect	-7,076	-33,281
Weighted average number of shares outstanding for diluted earnings per share	218,606,457	218,418,399
Diluted earnings per share (CHF)	0.55	1.68

	31.12.2015	31.12.2014
<b>Shares outstanding</b>		
Total shares issued at the beginning of the year	223,809,448	223,809,448
Less treasury shares	5,269,422	4,324,753
<b>Total</b>	<b>218,540,026</b>	<b>219,484,695</b>

## INFORMATION ON THE CONSOLIDATED BALANCE SHEET

### 9A DUE FROM BANKS

	<b>31.12.2015</b> CHF m	31.12.2014 CHF m	Change CHF m
Due from banks	<b>6,903.4</b>	8,926.7	-2,023.3
Allowance for credit losses	<b>-2.3</b>	-4.1	1.8
<b>Total</b>	<b>6,901.1</b>	8,922.6	-2,021.5

Due from banks by type of collateral:

Securities collateral	<b>1,024.6</b>	698.9	325.7
Without collateral	<b>5,876.5</b>	8,223.7	-2,347.2
<b>Total</b>	<b>6,901.1</b>	8,922.6	-2,021.5

### 9B LOANS

	<b>31.12.2015</b> CHF m	31.12.2014 CHF m	Change CHF m
Loans	<b>27,913.7</b>	25,584.6	2,329.0
Mortgages	<b>8,549.9</b>	8,132.1	417.8
Subtotal	<b>36,463.5</b>	33,716.7	2,746.8
Allowance for credit losses	<b>-82.6</b>	-47.7	-34.9
<b>Total</b>	<b>36,380.9</b>	33,669.1	2,711.9

Loans by type of collateral:

Securities collateral	<b>20,171.5</b>	19,551.1	620.4
Mortgage collateral	<b>8,640.2</b>	8,084.4	555.9
Other collateral (mainly cash and fiduciary deposits)	<b>7,450.7</b>	6,005.3	1,445.4
Without collateral	<b>118.6</b>	28.3	90.3
<b>Total</b>	<b>36,380.9</b>	33,669.1	2,711.9

## 9C ALLOWANCE FOR CREDIT LOSSES

	Specific CHF m	2015 Collective CHF m	Specific CHF m	2014 Collective CHF m
Balance at the beginning of the year	<b>29.0</b>	<b>22.8</b>	30.9	21.2
Write-offs	<b>-2.5</b>	-	-20.4	-
Increase in allowance for credit losses	<b>35.7</b>	<b>6.2</b>	17.2	4.2
Decrease in allowance for credit losses	<b>-3.6</b>	<b>-2.5</b>	-0.8	-2.7
Translation differences and other adjustments	<b>-0.1</b>	<b>-0.1</b>	2.1	-0.0
<b>Balance at the end of the year</b>	<b>58.5</b>	<b>26.3</b>	29.0	22.8

## 9D IMPAIRED LOANS

	31.12.2015 CHF m	31.12.2014 CHF m	Change CHF m
Gross loans	<b>72.2</b>	54.1	18.1
Specific allowance for credit losses	<b>-58.5</b>	-29.0	-29.5
<b>Net loans</b>	<b>13.7</b>	25.1	-11.5

## 10 TRADING ASSETS AND LIABILITIES

	<b>31.12.2015</b> CHF m	31.12.2014 CHF m	Change CHF m
<b>Trading assets</b>			
Debt instruments	<b>1,155.7</b>	945.1	210.6
<i>of which quoted</i>	<b>1,097.5</b>	882.5	215.0
<i>of which unquoted</i>	<b>58.2</b>	62.6	-4.4
Equity instruments	<b>5,802.0</b>	4,766.9	1,035.1
<i>of which quoted</i>	<b>5,389.5</b>	4,264.5	1,125.0
<i>of which unquoted</i>	<b>412.5</b>	502.4	-89.9
Precious metals (physical)	<b>2,026.3</b>	1,712.2	314.1
<b>Total</b>	<b>8,984.0</b>	7,424.2	1,559.8
<b>Trading liabilities</b>			
Short positions – debt	<b>117.2</b>	32.4	84.8
<i>of which quoted</i>	<b>116.2</b>	32.0	84.3
<i>of which unquoted</i>	<b>1.0</b>	0.4	0.6
Short positions – equity	<b>73.6</b>	83.8	-10.2
<i>of which quoted</i>	<b>54.0</b>	70.4	-16.4
<i>of which unquoted</i>	<b>19.6</b>	13.4	6.2
<b>Total</b>	<b>190.8</b>	116.2	74.6



## 11A FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	31.12.2015 CHF m	31.12.2014 CHF m	Change CHF m
<b>Money market instruments</b>	<b>2,298.1</b>	2,312.1	-14.0
Government and agency bonds	<b>3,560.1</b>	1,571.3	1,988.8
Financial institution bonds	<b>6,187.1</b>	7,055.5	-868.4
Corporate bonds	<b>4,387.7</b>	3,574.0	813.7
Other bonds	<b>42.3</b>	2.8	39.5
<b>Debt instruments</b>	<b>14,177.2</b>	12,203.5	1,973.7
<i>of which quoted</i>	<b>13,210.8</b>	10,882.7	2,328.1
<i>of which unquoted</i>	<b>966.4</b>	1,320.9	-354.5
<b>Equity instruments</b>	<b>97.2</b>	81.7	15.5
<i>of which quoted</i>	<b>15.7</b>	-	15.7
<i>of which unquoted</i>	<b>81.5</b>	81.7	-0.2
<b>Total</b>	<b>16,572.5</b>	14,597.3	1,975.2

## 11B FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE – CREDIT RATINGS

			31.12.2015 CHF m	31.12.2014 CHF m	Change CHF m
<b>Debt instruments by credit rating classes (excluding money market instruments)</b>	<b>Fitch, S&amp;P</b>	<b>Moody's</b>			
1-2	AAA – AA-	Aaa – Aa3	<b>9,122.4</b>	7,332.0	1,790.4
3	A+ – A-	A1 – A3	<b>4,662.0</b>	4,344.9	317.1
4	BBB+ – BBB-	Baa1 – Baa3	<b>286.6</b>	267.2	19.4
5-7	BB+ – CCC-	Ba1 – Caa3	<b>42.9</b>	47.2	-4.3
8-9	CC – D	Ca – C	<b>4.3</b>	3.0	1.3
Unrated			<b>59.1</b>	209.2	-150.1
<b>Total</b>			<b>14,177.2</b>	12,203.5	1,973.7

## 12 GOODWILL, 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
<b>Historical cost</b>							
Balance on 01.01.2014	1,446.9	1,162.5	467.6	3,076.9	395.2	185.4	580.6
Translation differences	-7.3	-3.1	-0.1	-10.5	-	1.2	1.2
Additions	-	-	56.2	56.2	8.0	18.3	26.3
Additions from business combinations	240.7	128.3	0.4	369.4	-	0.7	0.7
Disposals/transfers <sup>1</sup>	-	-	45.1	45.1	-	12.4	12.4
Balance on 31.12.2014	1,680.3	1,287.7	479.0	3,446.9	403.2	193.2	596.4
Translation differences	-48.7	-20.0	-1.4	-70.1	-	-1.9	-1.9
Additions	-	-	81.4	81.4	4.1	20.4	24.5
Additions from business combinations	80.8	42.3	0.0	123.1	-	2.3	2.3
Disposals/transfers <sup>1</sup>	-	-	1.8	1.8	-	6.8	6.8
Balance on 31.12.2015	1,712.5	1,309.9	557.1	3,579.4	407.3	207.2	614.5

### Depreciation, amortisation and impairment

Balance on 01.01.2014	-	684.5	265.5	950.0	74.4	120.0	194.4
Translation differences	-	-0.3	-0.1	-0.4	-	0.7	0.7
Charge for the period	-	126.4	51.2 <sup>2</sup>	177.5	7.4	23.7 <sup>2</sup>	31.1
Disposals/transfers <sup>1</sup>	-	-	44.2	44.2	-	12.4	12.4
Balance on 31.12.2014	-	810.6	272.4	1,083.0	81.8	131.9	213.7
Translation differences	-	-2.7	-0.5	-3.1	-	-0.6	-0.6
Charge for the period	-	126.2	58.6 <sup>3</sup>	184.8	9.5	25.0 <sup>3</sup>	34.5
Disposals/transfers <sup>1</sup>	-	-	1.6	1.6	-	6.4	6.4
Balance on 31.12.2015	-	934.0	329.0	1,263.1	91.3	150.0	241.3

### Book value

Balance on 31.12.2014	1,680.3	477.1	206.5	2,363.9	321.4	61.3	382.7
<b>Balance on 31.12.2015</b>	<b>1,712.5</b>	<b>375.9</b>	<b>228.0</b>	<b>2,316.4</b>	<b>316.0</b>	<b>57.2</b>	<b>373.2</b>

<sup>1</sup> Includes also derecognition of fully depreciated and amortised assets

<sup>2</sup> Includes impairment of CHF 2.0 million related to software and other property and equipment not used anymore

<sup>3</sup> Includes impairment of CHF 2.9 million related to software and other property and equipment not used anymore

### 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. Within the Group, cash inflows are not attributable to either any dimension (e.g. geographical areas, booking centres, clients or products) or group of assets. In addition, management makes operating decisions based on information on the Group level (see also Note 20 regarding the determination of the segments). Therefore, the goodwill is allocated to and tested on the level of the Group, except for GPS, which is tested on a stand-alone basis. GPS is regarded a cash-generating unit as its cash inflows are generated independently from other assets.

The acquisition of Merrill Lynch's International Wealth Management business did not change the legal or organisational structure of the Group, as the acquired businesses have been immediately fully integrated into the existing Group business organisation.

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 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. However, the Group expects in the medium and long term a favourable development of the private banking activities which is reflected in the respective growth of the key parameters, but the Group cannot exclude short-term market disruptions. 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 which are necessary to maintain the level of economic benefits expected to arise from the underlying assets in their current condition. The resulting free cash flows are discounted to present value, using a pre-tax discount rate of 8.9% (2014: 10.0%). For GPS, the pre-tax discount rate used is 21.8% (2014: 24.4%).

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 and/or started 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 long-term growth rate beyond the planning horizon for assets under management is assumed at 1% for both cash-generating units. This growth rate is considerably below the actual average rate of the last five years.

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. forecast/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 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 forecast period. Under these scenarios, the reasonably possible changes in key assumptions would not result in the carrying amount exceeding the recoverable amount. Therefore, 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.

### 13 OPERATING LEASE COMMITMENTS

	31.12.2015 CHF m	31.12.2014 CHF m
Not later than one year	62.6	61.3
Later than one year and not later than five years	168.9	171.6
Later than five years	78.5	101.5
<b>Subtotal</b>	<b>310.0</b>	334.3
Less sublease rentals received under non-cancellable leases	23.3	26.7
<b>Total</b>	<b>286.6</b>	307.6

Expenses for operating leases in the gross amount of CHF 59.7 million are included in operating expenses for the 2015 financial year (2014: CHF 60.7 million).

### 14 ASSETS PLEDGED OR CEDED TO SECURE OWN COMMITMENTS AND ASSETS SUBJECT TO RETENTION OF TITLE

	Book value CHF m	31.12.2015 Effective commitment CHF m	Book value CHF m	31.12.2014 Effective commitment CHF m
Securities	1,477.4	1,465.8	1,366.6	1,344.3
Other	16.3	14.4	12.1	10.9
<b>Total</b>	<b>1,493.7</b>	<b>1,480.1</b>	1,378.6	1,355.2

The assets are mainly pledged for Lombard limits at central banks, stock exchange securities deposits and collateral in OTC derivatives trading. Due to the

increased volatility in the securities markets, higher collaterals have been asked for compared to earlier years.

## 15 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

	2016 CHF m	2017 CHF m	2018 CHF m	2019 CHF m	2020 CHF m	2021– 2025 CHF m	2026– CHF m	un- assigned CHF m	31.12.2015 CHF m	31.12.2014 CHF m
Fixed rate	1,606.9	103.1	2.6	2.2	52.1	-	-	-	<b>1,766.9</b>	1,951.0
Interest rates (ranges in %)	0.5–48.0	1.0–12.66	3.1–4.6	3.78	1.2–2.2	-	-	-	-	-
Floating rate	686.6	401.9	144.9	143.8	67.2	284.1	7.1	760.5	<b>2,496.2</b>	2,448.2
<b>Total</b>	<b>2,293.5</b>	<b>505.0</b>	<b>147.5</b>	<b>146.0</b>	<b>119.3</b>	<b>284.1</b>	<b>7.1</b>	<b>760.5</b>	<b>4,263.1</b>	4,399.3

The table above indicates the maturities of the structured debt issues of Bank Julius Baer & Co. Ltd. with fixed interest rate coupons ranging from 0.5% up to 48.0%. 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.

As the redemption amount on the structured debt issues is linked to changes in stock prices, indices, currencies or other assets, the Group cannot

determine the difference between the carrying amount and the amount the Group would be contractually required to pay at maturity to the holder of the structured debt issues.

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.

## 16 DEBT ISSUED

	31.12.2015 CHF m	31.12.2014 CHF m
Money market instruments	0.1	0.2
Bonds	1,152.6	834.5
Preferred securities	-	225.0
<b>Total</b>	<b>1,152.7</b>	<b>1,059.8</b>

### Bonds and preferred securities

Issuer/Year of issue	Stated interest rate %		Currency	Notional amount m	31.12.2015 Total CHF m	31.12.2014 Total CHF m
<b>Julius Baer Capital (Guernsey) I Ltd.</b>						
2005	3.63	Preferred securities	CHF	225.0	-	225.0
<b>Julius Baer Group Ltd.</b>						
2011 <sup>1</sup>	4.50	Lower tier 2 bond	CHF	250.0	244.6	241.8
<b>Julius Baer Group Ltd.</b>						
2012 <sup>2</sup>	5.375	Perpetual tier 1 subordinated bond	CHF	250.0	249.3	247.8
<b>Julius Baer Group Ltd.</b>						
2014 <sup>3</sup>	4.25	Perpetual tier 1 subordinated bond	CHF	350.0	343.9	345.0
<b>Julius Baer Group Ltd.</b>						
2015 <sup>4</sup>	5.90	Perpetual tier 1 subordinated bond	SGD	450.0	314.7	-
<b>Total</b>					<b>1,152.6</b>	<b>1,059.5</b>

<sup>1</sup> Own bonds of CHF 2.9 million are offset with bonds outstanding (2014: CHF 5.3 million).

The effective interest rate amounts to 4.89%.

<sup>2</sup> No own bonds are offset with bonds outstanding (2014: CHF 1.2 million).

The effective interest rate amounts to 5.59%.

<sup>3</sup> Own bonds of CHF 2.0 million are offset with bonds outstanding (2014: CHF 0.1 million).

The effective interest rate amounts to 4.41%.

<sup>4</sup> No own bonds are offset with bonds outstanding.

The effective interest rate amounts to 6.128%.



### Preferred securities

The hybrid capital created through the issuance of the preferred securities consists of a liability – in the form of a non-cumulative perpetual subordinated note (“Note”) – of Julius Baer Group Ltd. in favour of Julius Baer Capital (Guernsey) I Limited, in exchange for which the latter issued *preferred securities* with identical terms guaranteed by Julius Baer Group Ltd. The distributions paid in respect of the preferred securities are identical, with regard to contractual terms, timing and amount, to the interest and capital payments made by Julius Baer Group Ltd. under the terms of the Note. In the statements above, these instruments and the guarantee relating to them are designated, in aggregate, as ‘preferred securities’. Statements regarding their seniority and terms resulting in a payment obligation under the preferred securities, which are designated as interest and capital payments, relate to Julius Baer Group Ltd., which is designated as the ‘Issuer’. The maturity of the preferred securities is essentially perpetual and they are subordinate to all the Issuer’s other borrowings (with the exception of its hybrid tier 1 capital, with which they share an equal claim). The preferred securities are fully paid up and devoid of any voting rights. From the date of their issuance (2 December 2005) until 2 December 2015 the preferred securities pay a fixed rate of interest of 3.63% per annum.

The preferred securities were repaid on 2 December 2015 at nominal value plus accrued interest.

### Lower tier 2 capital

Lower tier 2 capital consists of subordinated unsecured bonds (‘bonds’), fully paid up and listed on the SIX Swiss Exchange. The bonds were issued by Julius Baer Group Ltd. (the ‘Issuer’) in December 2011 in the amount of CHF 250 million. From 1 January 2013 onwards, the proportion of the issued lower tier 2 capital which may be allocated, in the form of complementary (tier 2) capital, towards meeting the Group’s capital adequacy requirements is reduced by 10% each year. These tier 2 bonds constitute valid and legally binding obligations of the Issuer enforceable in accordance with their terms and rank at least *pari passu* with all other unsecured and subordinated obligations of the Issuer. The maturity date of the bonds is 23 December 2021.

From the issue date (23 December 2011) to the reset date (23 December 2016), the bonds pay a fixed rate of interest of 4.50% per annum and during the period (reset period) commencing on the reset date and ending on the maturity date (23 December 2021) a fixed rate of interest each year equal to the sum of the benchmark rate (i.e. the five-year CHF mid-market swap rate calculated on the basis of the rate displayed on ISDAFIX page CHFSFIX at 11:00 a.m. [CET] on the date falling five business days before the reset date) and a fixed margin of 3.815%. The interest is payable annually, in arrears and on a 30/360-day basis, on 23 December (the ‘interest payment date’). Julius Baer Group Ltd. may redeem the bonds on the reset date (23 December 2016) and upon the occurrence of a capital event or a tax event as defined in the prospectus in whole but not in part at the par value per bond plus accrued but unpaid interest thereon, upon giving not less than 30 days’ notice to the holders of the bonds.

### Perpetual tier 1 subordinated bonds

The maturities of the perpetual tier 1 subordinated bonds issued by Julius Baer Group Ltd. are essentially perpetual. These bonds are unsecured, subordinate to all borrowings (with the exception of the remainder of the tier 1 capital), fully paid up, capable of sustaining losses and devoid of any voting rights. The bonds can first be redeemed, at the Issuer’s discretion, five to six years after their issue date, and at yearly intervals thereafter, provided the regulator approves such redemption. In addition, the bonds may also be redeemed upon a Regulatory Event or Tax Event, as described in the prospectus. In the case of a Viability Event occurring, i.e. at a point in time where there is a threat of insolvency (‘Point of non-viability’ or ‘PONV’), as described in Article 29 of the Capital Adequacy Ordinance of the Swiss Financial Market Supervisory Authority FINMA (CAO), all monies (including par value and any interest) due on the bonds will automatically cease to be payable and the bonds will be completely written off (i.e. their value will be written down to zero). Should a Trigger Event occur – i.e. should tier 1 common equity (under Basel III) fall below 5.125% – the value of the bonds will be written down to ensure that the Write-Down Threshold Ratio which originally triggered the event is restored to a level equal to or exceeding its trigger level. Here, too, in a worst-case scenario, all monies

due on the bonds will cease to be payable in their entirety. In the event of the monies payable on the bonds ceasing to be payable either in part or in full, no subsequent increase in the value of the bonds is envisaged or permitted. From the issue date to the reset date the bonds will pay interest at a fixed rate. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate and a margin. Interest on the bonds is payable, in arrears on a 30/360-day basis, until the bonds have either been redeemed or fully written off. Interest payments on the bonds are prohibited in the event of this being ordered by the regulator (FINMA) or should there be insufficient retained earnings on the balance sheet of Julius Baer Group Ltd. to finance the payment of interest on tier 1 capital and to make any distributions already planned in respect of the previous financial year. Once suspended, any interest payments will permanently cease to be payable. Such interest payments are not cumulative, nor will they be paid at any future date. In the event of interest payments on the bonds being suspended, the Board of Directors of Julius Baer Group Ltd. will not be permitted to recommend any dividend payments to the Annual General Meeting until such time as interest payments on the bonds are resumed. Moreover, in the event of interest payments on the bonds being suspended, Julius Baer Group Ltd. will not repurchase any of its own shares, neither directly nor indirectly.

#### *2012 issue*

The perpetual tier 1 subordinated bond was issued by Julius Baer Group Ltd. on 18 September 2012. The bonds can first be redeemed, at the Issuer's discretion, five and a half years after their issue date (i.e. on 19 March 2018). From the issue date to the

reset date (19 March 2018) the bonds will pay interest at a fixed rate of 5.375% per annum. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate (i.e. the five-year mid-market CHF swap rate) and a margin of 4.98%. Interest on the bonds is payable annually in arrears on 19 March in each year.

#### *2014 issue*

The perpetual tier 1 subordinated bond was issued by Julius Baer Group Ltd. on 5 June 2014. The bonds can first be redeemed, at the Issuer's discretion, six years after their issue date (i.e. on 5 June 2020). From the issue date to the reset date (5 June 2020) the bonds will pay interest at a fixed rate of 4.25% per annum. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate (i.e. the five-year mid-market CHF swap rate) and a margin of 3.7625%. Interest on the bonds is payable annually in arrears on 5 June in each year.

#### *2015 issue*

The perpetual tier 1 subordinated bond, which is denominated in SGD, was issued by Julius Baer Group Ltd. on 18 November 2015. The bonds can first be redeemed, at the Issuer's discretion, five years after their issue date (i.e. on 18 November 2020). From the issue date to the reset date (18 November 2020) the bonds will pay interest at a fixed rate of 5.9% per annum. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate (i.e. the five-year SGD swap offer rate) and a margin of 3.32%. Interest on the bonds is payable semi-annually in arrears on 18 May and 18 November in each year.

## 17A DEFERRED TAX ASSETS

	31.12.2015 CHF m	31.12.2014 CHF m
Balance at the beginning of the year	15.3	15.6
Income statement – credit	8.7	0.9
Income statement – charge	-1.0	-1.2
Acquisition of subsidiaries	0.1	-
Recognised directly in equity	1.1	-
Translation differences and other adjustments	-0.3	-0.0
<b>Balance at the end of the year</b>	<b>23.8</b>	<b>15.3</b>

The components of deferred tax assets are as follows:

Operating loss carryforwards	18.9	11.8
Employee compensation and benefits	4.4	2.8
Property and equipment	0.1	0.3
Valuation adjustments on loans	0.5	0.3
<b>Total</b>	<b>23.8</b>	<b>15.3</b>

## 17B DEFERRED TAX LIABILITIES

	31.12.2015 CHF m	31.12.2014 CHF m
Balance at the beginning of the year	137.9	142.8
Income statement – charge	1.5	1.0
Income statement – credit	-54.1	-4.2
Acquisition of subsidiaries	0.0	20.1
Recognised directly in equity	-38.3	-21.0
Translation differences and other adjustments	-5.4	-0.8
<b>Balance at the end of the year</b>	<b>41.6</b>	<b>137.9</b>

The components of deferred tax liabilities are as follows:

Provisions	1.4	55.2
Property and equipment	15.4	15.5
Financial investments available-for-sale	19.6	23.3
Intangible assets	47.7	61.5
Other	11.6	10.9
Deferred tax liability before set-off	95.7	166.4
Offset of pension liability taxes	-54.1	-28.6
<b>Total</b>	<b>41.6</b>	<b>137.9</b>

## 18 PROVISIONS

	Restructuring CHF m	Legal risks CHF m	Other CHF m	2015 Total CHF m	2014 Total CHF m
Balance at the beginning of the year	0.0	57.3	32.2	89.5	72.1
Utilised during the year	-	-35.1	-30.5	-65.6	-12.0
Provisions made during the year	-	532.9 <sup>1</sup>	1.3	534.1	34.8
Provisions reversed during the year	-0.0	-7.4	-0.1	-7.5	-6.8
Acquisition of subsidiaries	-	-	0.4	0.4	-
Translation differences	-	24.2	-	24.2	1.6
<b>Balance at the end of the year</b>	<b>-</b>	<b>571.9</b>	<b>3.2</b>	<b>575.2</b>	<b>89.5</b>

<sup>1</sup> Including the provision in the amount of USD 547.25 million related to the agreement in principle with US Attorney's Office for the Southern District of New York with respect to a comprehensive resolution regarding its legacy U.S. cross-border business.

### Maturity of provisions

Up to one year	-	552.3	1.3	553.7	57.7
Over one year	-	19.6	1.9	21.5	31.8

### Introduction

The Group operates in a legal and regulatory environment that exposes it to significant litigation, compliance, reputational and other risks arising from disputes and regulatory proceedings.

Non-compliance with regulatory requirements may result in regulatory authorities taking enforcement action or initiating criminal proceedings against the Group and its employees. Possible sanctions could include the revocation of licences to operate certain businesses, the suspension or expulsion from a particular jurisdiction or market of any of the Group's business organisations or their key personnel and the imposition of fines and censures on companies and employees. Regulators in certain markets may determine that industry practices, e.g. regarding the provision of services to clients, are or have become inconsistent with their interpretations of existing local laws and regulations.

The risks described below may not be the only risks to which the Group is exposed. The additional risks not presently known or risks and proceedings currently deemed immaterial may also impair the Group's future business, results of operations, financial condition and prospects. The realisation of one or more of these risks may individually or

together with other circumstances materially adversely affect the Group's business, results of operations, financial condition and prospects.

### Legal proceedings/contingent liabilities

The Group is involved in various legal, regulatory and administrative proceedings concerning matters arising within 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 liability on the part of the Group and if the amount of such obligation or loss can already be reasonably estimated.

In rare cases in which the amount cannot be estimated reliably due to the early stage of the proceedings, the complexity of the proceedings and/or other factors, no provision is recognised but the case is disclosed as a contingent liability as of 31 December 2015. The contingent liabilities might

have a material effect on the Group or for other reasons might be of interest for investors and other stakeholders.

In 2010 and 2011, litigation was commenced against 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 fraudulent investment schemes. In the direct claims against the Bank, the liquidators of the Fairfield funds are seeking to recover a total amount of approximately USD 64 million in the courts of New York (including USD 17 million that relates to redemption payments made to clients of ING Bank (Suisse) SA, which merged with the Bank in 2010, and USD 26.5 million that relates to redemption payments made to clients of Merrill Lynch Bank (Suisse) SA, which merged with the Bank in 2013, such claims being subject to acquisition-related representation and warranties provisions). The proceedings in the courts of the British Virgin Islands, where an amount of approximately USD 8.5 million have been claimed from the Bank, were finally dismissed in favour of the Bank with a ruling of the Privy Council, the highest court of appeals for the British Virgin Islands. In addition to the direct claims against the Bank, the liquidators of the Fairfield funds have made combined claims in the amount of approximately USD 1.8 billion against more than 80 defendants. Only a fraction of this amount is sought against the Bank and its beneficial owners. The combined claims aggregate the damages asserted against all defendants, such that a reliable allocation of the claimed amounts between the Bank and the other defendants cannot be made at this time. Finally, the trustee of Madoff's broker-dealer company seeks to recover over USD 83 million in the courts of New York (including USD 46 million that relates to redemption payments made to clients of Merrill Lynch Bank (Suisse) SA, which merged with the Bank in 2013, such claims being subject to acquisition-related representation and warranties provisions), largely in relation to the same redemption payments which are the subject matter of the claims asserted by the liquidators of the Fairfield funds. As most of the aforementioned litigation remains in the preliminary procedural stages, a meaningful assessment of the potential outcome is not yet possible. The Bank is challenging

these actions on procedural and substantive grounds and has taken further measures to defend and protect its interests. The favourable ruling by the Privy Council may impact some of the claims pending in the United States. In particular, because the underlying facts in these actions are basically the same, the United States courts may apply the reasoning by the Privy Council to the claims at issue in the US Litigation. In addition, as the BVI Commercial Court oversees the Fairfield Funds' liquidation proceedings, the Bank introduced an application in the BVI Commercial Court challenging the Fairfield Liquidator's authority to pursue the US Litigation. In view of this pending application in the BVI, the Fairfield cases pending in the courts of New York remain and a meaningful assessment of the potential outcome is not yet possible. In addition, the District Court for the Southern District of New York ('District Court') has issued a number of preliminary decisions in the cases brought by the Madoff trustee, and the cases have been returned to the bankruptcy court for further proceedings. The District Court decisions and/or decisions from the bankruptcy court are likely to be appealed by the Madoff trustee.

In 2011, the Swiss authorities informed Bank Julius Baer & Co. Ltd. that US authorities had named it as one of several Swiss banks being investigated in connection with their cross-border US private banking services. Since then, the Bank has been in an ongoing, constructive dialogue with the US authorities. It has cooperated with the US authorities in full compliance with Swiss law and in coordination with Swiss authorities with the aim of reaching a resolution of the US investigation. In the context of its cooperation, the Bank has provided the US authorities with information pertaining to its legacy US cross-border private banking business. In addition, in 2013, the US authorities filed a request under the Switzerland/US Double Taxation Treaty for US taxpayer information to which the Bank responded in coordination with Swiss authorities. In parallel, in August 2013, the US Department of Justice ('DOJ') announced a programme for Swiss banks to resolve their US law exposure in connection with their US cross-border private banking business (the 'DOJ Programme'). However, the DOJ Programme is expressly inapplicable to banks under investigation prior to

the announcement of the DOJ Programme. The Bank received notification from the DOJ that it falls within this category of banks and will continue with its individual cooperation and settlement efforts. On 23 June 2015, the Bank further announced its decision to take a provision of USD 350 million reflecting the Bank's then current understanding of the state of the preliminary discussions with the DOJ regarding an eventual settlement with the DOJ regarding its legacy US cross-border business, with the amount remaining subject to change. Based on an agreement in principle reached with the US Attorney's Office for the Southern District of New York with respect to a comprehensive resolution regarding its legacy US cross-border business, the Bank announced on 30 December 2015 that it had taken an additional provision of USD 197.25 million to supplement its preliminary provision of USD 350 million in June 2015 (resulting in a total provision of USD 547.25 million) and that it anticipates the execution of a resolution with the DOJ, and subject to final approval within the DOJ, in the first quarter of 2016.

In a landmark decision on so-called retrocessions, the Swiss Federal Supreme Court ruled in 2012 that the receipt of fund trailer fees by a bank in connection with a Discretionary Portfolio Management mandate may create a potential conflict of interest in the execution of the mandate. The Court considered that by receiving trailer fees in the context of such mandate, a bank may be inclined not to act in the best interest of the client. Therefore, based on applicable Swiss mandate law a bank shall not only account for fund trailer fees obtained from third parties in connection with a client's mandate, but also be obliged to forward respective amounts to a client, provided the client has not validly waived to reclaim such fees. Bank Julius Baer & Co. Ltd. has been assessing the Court decision, the mandate structures to which the Court decision might be applicable and the documentation as well as the impact of respective waivers and the communicated bandwidths having been introduced some years ago, and implemented appropriate measures to address the matter.

Based on the withholding tax treaty between Switzerland and the UK and due to significantly lower than anticipated client regularisation

payments under the treaty, as the amount of undeclared assets held by UK citizens and liable for the payment remained substantially below the initial expectations, Bank Julius Baer & Co. Ltd. in January 2015 paid its share of approximately CHF 30.4 million in the total compensation amount of CHF 500 million in accordance with the allocation key as provided by Federal Law. Given such allocation key may still be challenged, the amount remains subject to amendment and change. The amount related to Merrill Lynch Bank (Suisse) SA has not been recognised in the income statement as it is subject to acquisition-related representations and warranties. The amount (approximately CHF 2.3 million) paid relating to Merrill Lynch Bank (Suisse) SA has been reimbursed to Julius Baer under an acquisition-related Covenant Clause.

Bank Julius Baer & Co. Ltd. is confronted with a claim by the liquidator of a foreign corporation arguing that the Bank did not prevent two of its clients from embezzling assets of the foreign corporation. In this context, the liquidator in 2013 presented a draft complaint for an amount of EUR 12 million (plus accrued interest from 2009) and filed a payment order ('Betreibungsbegehren') against the Bank in the amount of CHF 422 million (plus accrued interest from 2009). In June 2014, the liquidator presented another amended draft complaint for an amount of EUR 290 million (plus accrued interest as of September 2009). The Bank has formally repelled the payment order and is contesting the claim whilst taking appropriate measures to defend its interests.

A writ of summons (together with a statement of claim) (the 'Writ') filed by two former clients of the Bank (together, the 'Plaintiffs') in the High Court of Singapore naming Bank Julius Baer & Co. Ltd. Singapore branch and a former relationship manager as defendants respectively was served on the Bank on 25 September 2013. The Plaintiffs' claim stems from a dispute over alleged damages/losses incurred by the Plaintiffs arising from share accumulator transactions in 2007 and 2008. The Plaintiffs claim they suffered damages/losses due to (i) alleged breach of fiduciary duties, (ii) alleged breach of duty of care and/or warranty, (iii) alleged breach of contractual and common law duties of skill and care and/or warranty and/or (iv) alleged misrepresen-

tations (whether fraudulently or negligently made). Due to these alleged breaches and misrepresentations, the Plaintiffs are, among other things, claiming rescission or damages in lieu of rescission, damages/losses amounting to approximately SGD 89 million and HKD 213 million as well as losses arising from loss of use of funds to be assessed at an interest rate of 5.33% p.a. (alternatively, damages to be assessed by the court) plus interests and costs. The Bank is contesting the claim whilst taking appropriate measures to defend its interests.

On 31 March 2014, the Swiss Competition Commission ('COMCO') opened an investigation regarding possible collusion in foreign exchange trading against several banks amongst which also Bank Julius Baer & Co. Ltd. According to its media release of 28 September 2015, the COMCO in addition opened an investigation regarding potential collusive behaviour in precious metal trading. Subject to these investigations are Swiss and foreign financial institutes which are active in foreign exchange and precious metal trading, including Julius Baer. The aim of the investigations, which are part of respective international inquiries, is to clarify possible unlawful collusion amongst market participants and possible violation of market behaviour regulations. Julius Baer, with its primary focus on foreign exchange and precious metals trading for private clients, constructively continues to support the investigation of the COMCO and related inquiries of other authorities in Switzerland and abroad.

Bank Julius Baer & Co. Ltd. has received payment orders ('Betreibungsbegehren') by the Bundesanstalt für vereinigungsbedingte Sonderaufgaben ('BvS'), the German authority responsible for managing the assets of the former German Democratic Republic ('GDR'), in the amount of CHF 110 million plus accrued interest from 2009. BvS claims that the former Bank Cantrade Ltd., which the Bank acquired through its acquisition of Bank Ehinger & Armand von Ernst AG from UBS AG in 2005, allowed unauthorised withdrawals between 1989 and 1992 from the account of a foreign trade company established by former officials of the GDR. Against this background, in September 2014, the BvS has initiated legal pro-

ceedings in Zurich, claiming CHF 97 million plus accrued interests from 1994. The Bank is contesting the claims of BvS and has taken and will take appropriate measures to defend its interests. In addition, the claim has been notified under the 2005 transaction agreement with regard to representations and warranties granted in respect of the acquired entities.

In the context of an investigation against a former client regarding alleged participation in a tax fraud in France, a formal procedure ('mise en examen') into suspected lack of due diligence in financial transactions has been initiated against Bank Julius Baer & Co. Ltd. in June 2014. In October 2014, the Bank precautionary made the required security deposit in the amount of EUR 3.75 million with the competent French court. The Bank is cooperating with the French authorities within the confines of applicable laws to clarify the situation and to protect its interests.

In April 2015, Bank Julius Baer & Co. Ltd. was served with 62 claims in Geneva totalling approximately CHF 20 million plus accrued interest. The claimants, being part of a larger group of former clients of an external asset manager claiming damages in a total amount of approximately CHF 40 million, argue lack of due diligence on the part of the Bank in the context of the late external asset manager allegedly having used his personal account and company account with the Bank for flow-through client transactions and pooling of client funds. On 16 October 2015, such claims have been formalized by 51 claimants, claiming a total amount of CHF 11.7 million plus accrued interest. The Bank is contesting the claim and has taken appropriate measures to defend its interests.

Bank Julius Baer & Co. Ltd. is confronted with a claim by a former client arguing that the Bank initiated transactions without appropriate authorisations and that the Bank has not adhered to its duties of care, trust, information and warnings. In April 2015, the client presented a complaint for an amount of USD 70 million (plus accrued interest) and BRL 24 million. The Bank is contesting the claim whilst taking appropriate measures to defend its interests.



In November 2014, Bank Julius Baer & Co. Ltd. was served in Geneva with a claim by an investment fund, acting on its behalf and on behalf of three other funds, that were former clients of Bank of China (Suisse) S.A. having been acquired by Bank Julius Baer & Co. Ltd., in the total amount of USD 29 million (plus accrued interests). Additionally, in October 2015, the claimant filed an amendment of claim in court, by which additionally USD 39 million is claimed. The claimant argues that Bank of China (Suisse) S.A. acted not only as a custodian bank, but also as secured creditor and manager of the funds, and tolerated excess in leverage. It claims that the funds suffered a severe loss consequently to the liquidation of almost the entire portfolio of their assets in May 2010, arguing that this liquidation was performed by Bank of China (Suisse) SA without the consent of the funds' directors and was ill-timed, disorderly and occurred in exceptionally unusual market conditions. The Bank is contesting the claim whilst taking appropriate measures to defend its interests. In addition, such claims are subject to acquisition-related representations and warranties.

In October 2015, Bank Julius Baer & Co. Ltd. was served with a claim by a former client in Zurich in the amount of CHF 1 million plus accrued interests since 2008. The claimant claims losses in the context with foreign exchange transactions and argues that the Bank has breached its duties with respect to diligence, disclosure and information duties. The claimant filed a partial claim, i.e. reserved the right to increase the claimed amount to approximately CHF 121 million arguing that the total

loss incurred with foreign exchange transactions amounts to CHF 441 million in total. The Bank is contesting the claim whilst taking appropriate measures to defend its interests.

In October 2015, Julius Baer International Ltd., UK, has been presented a complaint by three associated clients claiming failings with respect to the suitability of investments made on their behalf, obtaining appropriate instructions, the provision of appropriate information and the monitoring processes. As a consequence, the clients claim a loss of approximately USD 37 million. Julius Baer International Ltd. is handling and reporting this case in line with local rules and regulations.

Bank Julius Baer & Co. Ltd. has received inquiries from authorities investigating corruption and bribery allegations surrounding Fédération Internationale de Football Association (FIFA) in Switzerland and the USA. These requests focus on persons named in the so-called 'FIFA Indictment' of 20 May 2015 (Indictment filed in United States v. Webb [E.D.N.Y. 15 CR 0252 (RJD)(RML)]) and in the respective superseding indictment of 25 November 2015. The authorities in Switzerland and abroad are, in addition to the corruption and bribery allegations, investigating whether financial institutions failed to observe due diligence standards as applied in financial services and in particular in the context of anti-money laundering laws in relation to suspicious and potentially illegal transactions. The Bank is supporting the investigations and cooperating with the authorities on this matter.

## 19 SHARE CAPITAL

	Registered shares (CHF 0.02 par)	
	<i>Number</i>	<i>CHF m</i>
Balance on 01.01.2014	223,809,448	<b>4.5</b>
<i>of which entitled to dividends</i>	221,803,359	<b>4.4</b>
Balance on 31.12.2014	223,809,448	<b>4.5</b>
<i>of which entitled to dividends</i>	223,809,448	<b>4.5</b>
<b>Balance on 31.12.2015</b>	223,809,448	<b>4.5</b>
<i>of which entitled to dividends</i>	223,809,448	<b>4.5</b>

The following movements apply to the financial years 2013 and 2014:

As of 24 January 2013, Julius Baer Group Ltd. increased its capital by 7,102,407 shares. These shares have been used to partially finance the acquisition of Merrill Lynch's International Wealth Management business (the consideration shares, see Note 30) and are held by Julius Baer Group Ltd. until used as consideration.

Up to 31 December 2014, all shares have been used as consideration and therefore have been transferred to Merrill Lynch & Co., Inc.

The consideration shares were transferred as follows:

Total for 2013: 5,096,318 shares

Total for 2014: 2,006,089 shares

As at 1 January 2013, in total 17,183,715 shares were authorised. 7,102,407 of these shares have been used to partially finance the acquisition of Merrill Lynch's International Wealth Management business. The remaining 10,081,308 shares are not authorised anymore.

## ADDITIONAL INFORMATION

### 20 REPORTING BY SEGMENT

Julius Baer Group engages exclusively in private banking activities primarily in Switzerland, Europe, Asia and South America. This focus on pure-play private banking includes certain internal supporting functions which serve entirely the core business activities. Revenues from private banking activities primarily encompass commissions 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, which is responsible for allocating resources and assesses the financial performance of the business. The Executive Board of the Group has been identified as the chief operating decision maker, as this board is responsible for the implementation of the overall strategy and the operational management of the whole Group. The Executive Board of the Group as at 31 December 2015 is composed of the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Risk Officer, Chief Communications Officer and General Counsel.

Various management reports with discrete financial information are prepared at regular intervals for various management levels. However, the Executive

Board of the Group reviews and uses for its management decisions the consolidated financial reports 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 Group consists of the single reportable segment Private Banking. This is in line with the strategy and business model of the Group and reflects the management structure and the use of information by management in making operating decisions. The acquired Merrill Lynch International Wealth Management business did not change the management structure, as it has been fully integrated into the existing structures of the Group. Although GPS represents a separate cash-generating unit for the purpose of the goodwill impairment testing (refer to Note 12 for details), it does not constitute a segment on its own.

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

	31.12.2015	31.12.2014	2015	2014	2015	2014
	Total assets CHF m	CHF m	Operating income CHF m	CHF m	Investments CHF m	CHF m
Switzerland	<b>69,605</b>	71,866	<b>1,814</b>	1,751	<b>113</b>	120
Europe (excl. Switzerland)	<b>17,595</b>	21,033	<b>406</b>	381	<b>5</b>	93
Americas	<b>1,565</b>	1,525	<b>142</b>	164	<b>13</b>	212
Asia and other countries	<b>19,385</b>	18,767	<b>532</b>	501	<b>101</b>	28
Less consolidation items	<b>24,034</b>	30,957	<b>200</b>	250		
<b>Total</b>	<b>84,116</b>	82,234	<b>2,694</b>	2,547	<b>231</b>	453

The information about geographical areas is based on the domicile of the reporting entity. This geographical information does not reflect the way the Group is managed.

## 21 RELATED PARTY TRANSACTIONS

	31.12.2015 CHF m	31.12.2014 CHF m
<b>Key management personnel compensation<sup>1</sup></b>		
Salaries and other short-term employee benefits	12.8	13.8
Post-employment benefits	0.6	0.7
Share-based payments	6.6	6.1
<b>Total</b>	<b>20.0</b>	<b>20.6</b>
<b>Receivables from</b>		
key management personnel	21.5	13.1
<b>Total</b>	<b>21.5</b>	<b>13.1</b>
<b>Liabilities to</b>		
key management personnel	7.9	17.7
own pension funds	7.2	4.2
<b>Total</b>	<b>15.1</b>	<b>21.9</b>
<b>Credit guarantees to</b>		
key management personnel	0.4	0.4
<b>Total</b>	<b>0.4</b>	<b>0.4</b>
<b>Income from services provided to</b>		
key management personnel	0.3	0.2
<b>Total</b>	<b>0.3</b>	<b>0.2</b>

<sup>1</sup> Key management personnel consists of the Board of Directors and the Executive Board of Julius Baer Group Ltd.

The Executive Board of the Group company consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Communications Officer, the Chief Operating Officer, the General Counsel and the Chief Risk Officer in 2015.

The Executive Board of the Group company consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Communications Officer, the Chief Operating Officer, the General Counsel, the Chief Risk Officer and the Private Banking Representative in 2014.

For shareholdings of the Board of Directors and Executive Board, see section Financial Statements Julius Baer Group Ltd. 2015.

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 adjusted for reduced credit risk.

## 22 PENSION PLANS AND OTHER EMPLOYEE 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 under the Swiss pension law. Employees and pensioners or their survivors receive statutorily determined benefits upon leaving the Group or retiring as well as in the event of death or invalidity. These benefits are the result of the conversion rate applied on the accumulated balance of the individual plan participant's pension account at the retirement date. The accumulated balance equals the sum of the regular employer's and employee's contribution that have been made during the employment period, including the accrued interest on these amounts. However, these plans do not fulfil all the criteria of a defined contribution pension plan according to IAS 19 and are therefore treated as defined benefit pension plans for the purpose of the Group's financial statements.

The pension obligations are largely covered through pension plan assets of pension funds that are legally separated and independent from the Group. In case the plans become significantly underfunded over an extended time period according to the Swiss pension law basis, the Group and the employees share the risk of additional payments into the pension fund. The pension funds are managed by a board of trustees consisting of representatives of the employees and the employer. Management of the pension funds includes the pursuit of a medium- and long-term consistency and sustainability between the pension plans' assets and liabilities, based on a diversified investment strategy correlating with the maturity of the pension obligations. The organisation, management, financing and investment strategy of the pension plans comply with the legal requirements, the foundation charters and the applicable pension regulations.

	2015 CHF m	2014 CHF m
<b>1. Development of pension obligations and assets</b>		
Present value of defined benefit obligation at the beginning of the year	-2,417.7	-2,140.1
Acquisitions	-	-12.3
Current service cost	-63.3	-58.6
Employees' contributions	-34.6	-34.5
Interest expense on defined benefit obligation	-32.0	-46.1
Past service cost, curtailments, settlements, plan amendments	-1.4	-0.9
Benefits paid (including benefits paid directly by employer)	41.4	85.8
Transfer payments in/out	-0.0	-0.7
Experience gains/(losses) on defined benefit obligation	-47.2	-6.6
Actuarial gains/(losses) arising from change in demographic assumptions	75.9	-4.0
Actuarial gains/(losses) arising from change in financial assumptions	-124.4	-195.8
Translation differences	5.5	-3.8
Present value of defined benefit obligation at the end of the year	-2,597.9	-2,417.7
<i>whereof due to active members</i>	-1,689.2	-1,631.9
<i>whereof due to deferred members</i>	-71.7	-74.7
<i>whereof due to pensioners</i>	-836.9	-711.1
Fair value of plan assets at the beginning of the year	2,283.3	2,091.4
Acquisitions	-	9.8
Interest income on plan assets	30.9	46.2
Employees' contributions	34.6	34.5
Employer's contributions	78.7	74.9
Curtailments, settlements, plan amendments	-2.9	-1.0
Benefits paid by fund	-41.4	-83.5
Transfer payments in/out	0.0	0.7
Administration cost (excluding asset management cost)	-0.9	-1.0
Return on plan assets (excluding interest income)	-30.8	107.5
Translation differences	-5.0	3.7
Fair value of plan assets at the end of the year	2,346.6	2,283.3
	31.12.2015 CHF m	31.12.2014 CHF m
<b>2. Balance sheet</b>		
Fair value of plan assets	2,346.6	2,283.3
Present value of defined benefit obligation	-2,597.9	-2,417.7
Net defined benefit asset/(liability)	-251.3	-134.4

	2015 CHF m	2014 CHF m
<b>3. Income statement</b>		
Current service cost	-63.3	-58.6
Interest expense on defined benefit obligation	-32.0	-46.1
Past service cost, curtailments, settlements, plan amendments	-4.3	-1.9
Interest income on plan assets	30.9	46.2
Administration cost (excluding asset management cost)	-0.9	-1.0
Defined benefit cost recognised in the income statement	-69.6	-61.4
<i>whereof service cost</i>	-68.5	-61.5
<i>whereof net interest on the net defined benefit/(liability) asset</i>	-1.1	0.1
<b>4. Movements in net assets</b>		
Net defined benefit asset/(liability) at the beginning of the year	-134.4	-48.7
Acquisitions	-	-2.4
Translation differences	0.4	-0.1
Defined benefit cost recognised in the income statement	-69.6	-61.4
Benefits paid by employer	0.0	2.3
Employer's contributions	78.7	74.9
Remeasurements of the net defined benefit liability/(asset)	-126.6	-98.9
<b>Amount recognised in the balance sheet</b>	<b>-251.3</b>	<b>-134.4</b>
<b>Remeasurements of the net defined benefit liability/(asset)</b>		
Actuarial gains/(losses) of defined benefit obligation	-95.7	-206.5
Return on plan assets (excluding interest income)	-30.8	107.5
<b>Total recognised in other comprehensive income</b>	<b>-126.6</b>	<b>-98.9</b>
<b>5. Composition of plan assets</b>		
Cash	44.7	47.1
Debt instruments	747.2	795.2
Equity instruments	775.1	799.1
Real estate	344.9	272.7
Other	434.6	369.2
<b>Total</b>	<b>2,346.6</b>	<b>2,283.3</b>



	2015 <i>in %</i>	2014 <i>in %</i>
<b>6. Aggregation of plan assets – quoted market prices in active markets</b>		
Cash	1.9	2.1
Debt instruments	30.5	33.5
Equity instruments	33.1	35.0
Real estate	7.5	5.1
Other	11.3	11.4
<b>Total</b>	<b>84.3</b>	87.0

	2015 <i>CHF m</i>	2014 <i>CHF m</i>
<b>7. Sensitivities</b>		
Decrease of discount rate - 0.25%		
Effect on defined benefit obligation	-72.7	-66.0
Effect on service cost	-2.3	-2.2
Increase of discount rate + 0.25%		
Effect on defined benefit obligation	68.7	62.4
Effect on service cost	2.1	2.1
Decrease of salary increase - 0.25%		
Effect on defined benefit obligation	5.5	5.2
Effect on service cost	0.5	0.5
Increase of salary increase + 0.25%		
Effect on defined benefit obligation	-5.4	-5.2
Effect on service cost	-0.6	-0.5

### **Actuarial calculation of pension assets and obligations**

The latest actuarial calculation was carried out as at 31 December 2015. The actuarial assumptions are based on local economic conditions and are as follows for Switzerland which accounts for about 96% (2014: 96%) of all benefit obligations and plan assets:

	2015	2014
Discount rate	<b>0.75%</b>	1.25%
Average future salary increases	<b>1.00%</b>	1.00%
Future pension increases	<b>0.00%</b>	0.00%

### **Investment in Julius Baer Group Ltd. shares**

The pension plan assets are invested in accordance with local laws and do not include shares of Julius Baer Group Ltd.

### **Expected employer contributions**

The expected employer contributions for the 2016 financial year related to defined benefit plans are estimated at CHF 71.9 million.

### **Outstanding liabilities to pension plans**

The Group had outstanding liabilities to various pension plans in the amount of CHF 7.2 million (2014: CHF 4.2 million).

### **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 27.0 million for the 2015 financial year (2014: CHF 26.2 million).

## 23 SECURITIES TRANSACTIONS

### Securities lending and borrowing transactions / repurchase and reverse repurchase transactions

	31.12.2015 CHF m	31.12.2014 CHF m
<b>Receivables</b>		
Receivables from cash provided in securities borrowing transactions	17.3	-
<i>of which recognised in due from banks</i>	17.3	-
Receivables from cash provided in reverse repurchase transactions	866.2	312.9
<i>of which recognised in due from banks</i>	646.0	203.6
<i>of which recognised in loans</i>	220.2	109.3
<b>Obligations</b>		
Obligations to return cash received in securities lending transactions	1,028.4	121.0
<i>of which recognised in due to banks</i>	1,028.4	11.7
<i>of which recognised in due to customers</i>	-	109.3
Obligations to return cash received in repurchase transactions	307.7	306.4
<i>of which recognised in due to banks</i>	307.7	306.4
<b>Securities collateral</b>		
Own securities lent as well as securities provided as collateral for borrowed securities under securities borrowing and repurchase transactions	2,026.5	608.9
<i>of which securities the right to pledge or sell has been granted without restriction</i>	2,026.5	608.9
<i>of which recognised in trading assets</i>	1,580.1	470.6
<i>of which recognised in financial investments available-for-sale</i>	446.4	138.3
Securities borrowed as well as securities received as collateral for loaned securities under securities lending and reverse repurchase transactions	2,841.8	2,296.4
<i>of which repledged or resold securities</i>	1,432.3	1,716.1

The Group enters into fully collateralised securities borrowing and securities lending transactions and reverse repurchase and repurchase agreements that may result in credit exposure in the event that the counterparty may be unable to fulfil the contractual obligations. Generally, the transactions are carried out under standard agreements employed by market participants (e.g. Global Master Securities Lending Agreements or Global Master Repurchase

Agreements). The related credit risk exposures are controlled by daily monitoring and adjusted collateralisation of the positions. The financial assets which continue to be recognised are typically transferred in exchange for cash or other financial assets. The related liabilities can therefore be assumed to be approximately the same as the carrying amount of the transferred financial assets.

## 24 DERIVATIVE FINANCIAL INSTRUMENTS

### Derivatives held for trading

	Contract/ Notional amount CHF m	Positive replacement value CHF m	Negative replacement value CHF m
<b>Foreign exchange derivatives</b>			
Forward contracts	58,882.4	593.2	485.6
Futures	39.8	0.0	0.0
Cross-Currency Swaps	263.8	0.4	0.1
Unmatured Spot Contracts	0.7	-	-
Options (OTC)	46,755.9	417.8	314.3
<b>Total foreign exchange derivatives 31.12.2015</b>	<b>105,942.6</b>	<b>1,011.4</b>	<b>800.1</b>
Total foreign exchange derivatives 31.12.2014	119,640.3	2,215.0	2,008.9
<b>Interest rate derivatives</b>			
Swaps	6,865.8	101.3	101.5
Futures	1,781.5	2.2	3.4
Options (OTC)	1,119.8	8.4	6.1
<b>Total interest rate derivatives 31.12.2015</b>	<b>9,767.1</b>	<b>112.0</b>	<b>111.0</b>
Total interest rate derivatives 31.12.2014	7,850.0	92.0	93.0
<b>Precious metals derivatives</b>			
Forward contracts	1,016.9	9.7	17.8
Futures	20.6	1.0	-
Options (OTC)	1,903.3	148.9	19.0
<b>Total precious metals derivatives 31.12.2015</b>	<b>2,940.9</b>	<b>159.6</b>	<b>36.9</b>
Total precious metals derivatives 31.12.2014	5,953.7	178.7	86.1
<b>Equity/indices derivatives</b>			
Futures	1,464.1	22.3	20.2
Options (OTC)	7,512.6	204.6	295.6
Options (traded)	10,761.5	668.2	1,045.3
<b>Total equity/indices derivatives 31.12.2015</b>	<b>19,738.1</b>	<b>895.2</b>	<b>1,361.1</b>
Total equity/indices derivatives 31.12.2014	16,029.9	492.2	774.5
<b>Other derivatives</b>			
Futures	127.8	10.3	-
<b>Total other derivatives 31.12.2015</b>	<b>127.8</b>	<b>10.3</b>	<b>-</b>
Total other derivatives 31.12.2014	162.8	23.2	-

**Derivatives held for trading (continued)**

	Contract/ Notional amount CHF m	Positive replacement value CHF m	Negative replacement value CHF m
<b>Credit derivatives</b>			
Credit default swaps	123.9	-	9.9
Total return swaps	56.6	0.6	-
<b>Total credit derivatives 31.12.2015</b>	<b>180.5</b>	<b>0.6</b>	<b>9.9</b>
Total credit derivatives 31.12.2014	49.0	0.8	1.6
<b>Total derivatives held for trading 31.12.2015</b>	<b>138,697.1</b>	<b>2,189.1</b>	<b>2,318.9</b>
Total derivatives held for trading 31.12.2014	149,685.7	3,001.9	2,964.1

**Derivatives held for hedging**

**Derivatives designated as fair value hedges**

Interest rate swaps	1,442.5	-	72.5
<b>Total derivatives held for hedging 31.12.2015</b>	<b>1,442.5</b>	<b>-</b>	<b>72.5</b>
Total derivatives held for hedging 31.12.2014	1,145.0	-	50.8
<b>Total derivative financial instruments 31.12.2015</b>	<b>140,139.6</b>	<b>2,189.1</b>	<b>2,391.4</b>
Total derivative financial instruments 31.12.2014	150,830.7	3,001.9	3,014.9

## 25A FINANCIAL INSTRUMENTS BY CATEGORY

### Financial assets

	Book value CHF m	31.12.2015 Fair value CHF m	Book value CHF m	31.12.2014 Fair value CHF m
<b>Cash, loans and receivables</b>				
Cash	9,185.7	9,185.7	11,201.9	11,201.9
Due from banks	6,901.1	6,909.0	8,922.6	8,930.3
Loans	36,380.9	36,850.6	33,669.1	34,104.7
Accrued income	326.9	326.9	282.8	282.8
<b>Total</b>	<b>52,794.6</b>	<b>53,272.2</b>	<b>54,076.4</b>	<b>54,519.7</b>
<b>Held for trading</b>				
Trading assets	6,957.7	6,957.7	5,712.0	5,712.0
Derivative financial instruments	2,189.1	2,189.1	3,001.9	3,001.9
<b>Total</b>	<b>9,146.8</b>	<b>9,146.8</b>	<b>8,713.9</b>	<b>8,713.9</b>
<b>Designated at fair value</b>				
Financial assets designated at fair value	197.0	197.0	121.8	121.8
<b>Total</b>	<b>197.0</b>	<b>197.0</b>	<b>121.8</b>	<b>121.8</b>
<b>Available-for-sale</b>				
Financial investments available-for-sale	16,572.5	16,572.5	14,597.3	14,597.3
<b>Total</b>	<b>16,572.5</b>	<b>16,572.5</b>	<b>14,597.3</b>	<b>14,597.3</b>
<b>Total financial assets</b>	<b>78,710.9</b>	<b>79,188.5</b>	<b>77,509.4</b>	<b>77,952.7</b>

## Financial liabilities

	Book value CHF m	31.12.2015 Fair value CHF m	Book value CHF m	31.12.2014 Fair value CHF m
<b>Financial liabilities at amortised costs</b>				
Due to banks	4,672.0	4,672.3	5,190.2	5,189.4
Due to customers	64,781.4	64,782.8	61,820.5	61,824.1
Debt issued	1,152.7	1,191.8	1,059.8	1,121.2
Accrued expenses	154.4	154.4	147.1	147.1
<b>Total</b>	<b>70,760.5</b>	<b>70,801.3</b>	<b>68,217.6</b>	<b>68,281.8</b>
<b>Held for trading</b>				
Trading liabilities	190.8	190.8	116.2	116.2
Derivative financial instruments	2,318.9	2,318.9	2,964.1	2,964.1
<b>Total</b>	<b>2,509.7</b>	<b>2,509.7</b>	<b>3,080.3</b>	<b>3,080.3</b>
<b>Derivatives designated as hedging instruments</b>				
Derivative financial instruments	72.5	72.5	50.8	50.8
<b>Total</b>	<b>72.5</b>	<b>72.5</b>	<b>50.8</b>	<b>50.8</b>
<b>Designated at fair value</b>				
Financial liabilities designated at fair value	4,263.1	4,263.1	4,399.3	4,399.3
Other liabilities	24.5 <sup>1</sup>	24.5	67.9 <sup>2</sup>	67.9
<b>Total</b>	<b>4,287.6</b>	<b>4,287.6</b>	<b>4,467.2</b>	<b>4,467.2</b>
<b>Total financial liabilities</b>	<b>77,630.3</b>	<b>77,671.1</b>	<b>75,815.9</b>	<b>75,880.1</b>

<sup>1</sup> Relates to the deferred purchase price of WMPartners Wealth Management Ltd., Fransad Gestion SA and NSC Asesores, S.C., see Notes 26B and 27.

<sup>2</sup> Relates to the deferred purchase price of WMPartners Wealth Management Ltd. and GPS Investimentos Financeiros e Participações S.A., see Note 27.



The following methods are used in measuring 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. Generally, the Libor rate is used to calculate the net present value of the loans and mortgages, as these assets are fully collateralised and therefore the specific counterparty risk has no material impact on the fair value measurement.

**Trading assets and liabilities, financial investments available-for-sale, derivative financial instruments and financial liabilities designated at fair value**

Refer to Note 25B for details regarding the valuation of these instruments.

## 25B FINANCIAL INSTRUMENTS – FAIR VALUE DETERMINATION

### Level 1

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

### Level 2

For financial instruments for which quoted market prices are not directly available or are not derived from active markets, 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. This is the case for the majority of OTC derivatives, most unquoted financial instruments, and other items that are not traded in active markets. The main pricing models and valuation techniques applied to these financial instruments include forward pricing and swap models using present-value calculations, and option models such as the Black-Scholes 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.

### Level 3

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.

*Financial investments available-for-sale:* The Group holds certain equity instruments, which are required for the operation of the Group and are reported as financial instruments available-for-sale, with changes in the fair value recognised in other comprehensive income. The determination of the fair value is based on the published net asset value of the investees. The net asset values are adjusted by management for any necessary impacts from events which may

have an influence on the valuation (adjusted net asset method). In 2015, dividends related to these investments in the amount of CHF 10.3 million have been recognised in the income statement.

*Financial instruments designated at fair value:* As of 2014, the Group started to issue to its private clients certain specific structured notes, which are intended to be fully invested in private equity investments. Since the notes may not be fully invested in private equity as from the beginning, the portion currently not yet invested is placed in money market instruments, short-term debt funds, or held in cash. Although the clients contractually bear all the related risks and rewards from the underlying investments, these financial instruments are not derecognised from the Group's balance sheet due to the strict derecognition criteria required by IFRS. Therefore, the private equity investments as well as the money market instruments are recorded as financial assets designated at fair value. Any changes in the fair value or any other income from the private equity investments, as well as any income related to the money market instruments, are recorded in the income statement. However, as the clients are entitled to all rewards related to the investments, these amounts net out in the respective line item in the income statement. Hence, any change in the valuation inputs has no impact on the Group's income statement or shareholders' equity.

To measure the fair values of the private equity investments, the Group generally relies on the valuations as provided by the respective private equity funds managing the investments. These funds in turn use their own valuation techniques, such as market approaches or income approaches, including their own input factors into the applied models. Therefore, the private equity investments are reported in level 3 of the fair value hierarchy, as the fair values are determined based on models with unobservable market inputs. The related issued notes are reported as financial liabilities designated at fair value and classified as level 3 instruments, due to the related private equity investments being part of the valuation of the notes.

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

				31.12.2015
	Quoted market price Level 1 CHF m	Valuation technique market- observable inputs Level 2 CHF m	Valuation technique non-market- observable inputs Level 3 CHF m	Total CHF m
<b>Assets and liabilities measured at fair value</b>				
Trading assets – debt instruments	773.6	382.1	-	1,155.7
Trading assets – equity instruments	5,388.1	413.9	-	5,802.0
<b>Total trading assets</b>	<b>6,161.7</b>	<b>795.9</b>	<b>-</b>	<b>6,957.7</b>
Foreign exchange derivatives	5.0	1,006.4	-	1,011.4
Interest rate derivatives	2.2	109.8	-	112.0
Precious metal derivatives	1.0	158.6	-	159.6
Equity/indices derivatives	22.3	872.9	-	895.2
Credit derivatives	-	0.6	-	0.6
Other derivatives	10.3	-	-	10.3
<b>Total derivative financial instruments</b>	<b>40.8</b>	<b>2,148.3</b>	<b>-</b>	<b>2,189.1</b>
<b>Financial assets designated at fair value</b>	<b>121.8</b>	<b>27.0</b>	<b>48.2</b>	<b>197.0</b>
Financial investments available-for-sale – money market instruments	-	2,298.1	-	2,298.1
Financial investments available-for-sale – debt instruments	10,395.2	3,782.0	-	14,177.2
Financial investments available-for-sale – equity instruments	15.7	7.2	74.3	97.2
<b>Total financial investments available-for-sale</b>	<b>10,410.9</b>	<b>6,087.3</b>	<b>74.3</b>	<b>16,572.5</b>
<b>Total assets</b>	<b>16,735.2</b>	<b>9,058.5</b>	<b>122.5</b>	<b>25,916.2</b>
Short positions – debt instruments	81.2	36.0	-	117.2
Short positions – equity instruments	54.0	19.6	-	73.6
<b>Total trading liabilities</b>	<b>135.2</b>	<b>55.6</b>	<b>-</b>	<b>190.8</b>
Foreign exchange derivatives	4.8	795.2	-	800.1
Interest rate derivatives	3.4	180.0	-	183.5
Precious metal derivatives	0.0	36.9	-	36.9
Equity/indices derivatives	20.2	1,340.9	-	1,361.1
Credit derivatives	-	9.9	-	9.9
Other derivatives	0.0	-	-	0.0
<b>Total derivative financial instruments</b>	<b>28.5</b>	<b>2,362.9</b>	<b>-</b>	<b>2,391.4</b>
<b>Financial liabilities designated at fair value</b>	<b>-</b>	<b>4,059.7</b>	<b>203.4</b>	<b>4,263.1</b>
<b>Total liabilities</b>	<b>163.7</b>	<b>6,478.2</b>	<b>203.4</b>	<b>6,845.3</b>

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				31.12.2014
	Quoted market price Level 1 CHF m	Valuation technique market- observable inputs Level 2 CHF m	Valuation technique non-market- observable inputs Level 3 CHF m	Total CHF m
Assets and liabilities measured at fair value				
Trading assets – debt instruments	882.5	62.6	-	945.1
Trading assets – equity instruments	4,264.5	502.4	-	4,766.9
Total trading assets	5,147.0	565.0	-	5,712.0
Foreign exchange derivatives	7.9	2,207.1	-	2,215.0
Interest rate derivatives	0.7	91.3	-	92.0
Precious metal derivatives	1.1	177.6	-	178.7
Equity/indices derivatives	323.4	168.8	-	492.2
Credit derivatives	-	0.8	-	0.8
Other derivatives	23.2	-	-	23.2
Total derivative financial instruments	356.3	2,645.6	-	3,001.9
Financial assets designated at fair value	100.5	17.9	3.4	121.8
Financial investments available-for-sale – money market instruments	-	2,312.1	-	2,312.1
Financial investments available-for-sale – debt instruments	10,882.6	1,320.9	-	12,203.5
Financial investments available-for-sale – equity instruments	-	2.4	79.2	81.7
Total financial investments available-for-sale	10,882.6	3,635.4	79.2	14,597.3
Total assets	16,486.4	6,864.0	82.6	23,433.0
Short positions – debt instruments	32.0	0.4	-	32.4
Short positions – equity instruments	70.4	13.4	-	83.8
Total trading liabilities	102.4	13.8	-	116.2
Foreign exchange derivatives	9.3	1,999.6	-	2,008.9
Interest rate derivatives	1.6	142.2	-	143.8
Precious metal derivatives	-	86.1	-	86.1
Equity/indices derivatives	537.8	236.7	-	774.5
Credit derivatives	-	1.6	-	1.6
Other derivatives	-	-	-	-
Total derivative financial instruments	548.7	2,466.2	-	3,014.9
Financial liabilities designated at fair value	1,464.8	2,787.7	146.8	4,399.3
Total liabilities	2,116.0	5,267.7	146.8	7,530.4

The fair value of financial instruments disclosed at fair value is determined as follows:

				31.12.2015
	Quoted market price Level 1 CHF m	Valuation technique market- observable inputs Level 2 CHF m	Valuation technique non-market- observable inputs Level 3 CHF m	Total CHF m
<b>Assets and liabilities disclosed at fair value</b>				
Cash	9,185.7	-	-	9,185.7
Due from banks	-	6,909.0	-	6,909.0
Loans	-	36,850.6	-	36,850.6
Accrued income	-	326.9	-	326.9
<b>Total assets</b>	<b>9,185.7</b>	<b>44,086.5</b>	<b>-</b>	<b>53,272.2</b>
Due to banks	-	4,672.3	-	4,672.3
Due to customers	-	64,782.8	-	64,782.8
Debt issued	1,191.8	-	-	1,191.8
Accrued expenses	-	154.4	-	154.4
Other liabilities	-	24.5	-	24.5
<b>Total liabilities</b>	<b>1,191.8</b>	<b>69,634.0</b>	<b>-</b>	<b>70,825.8</b>

				31.12.2014
	Quoted market price Level 1 CHF m	Valuation technique market- observable inputs Level 2 CHF m	Valuation technique non-market- observable inputs Level 3 CHF m	Total CHF m
<b>Assets and liabilities disclosed at fair value</b>				
Cash	11,201.9	-	-	11,201.9
Due from banks	-	8,930.3	-	8,930.3
Loans	-	34,104.7	-	34,104.7
Accrued income	-	282.8	-	282.8
<b>Total assets</b>	<b>11,201.9</b>	<b>43,317.8</b>	<b>-</b>	<b>54,519.7</b>
Due to banks	-	5,189.4	-	5,189.4
Due to customers	-	61,824.1	-	61,824.1
Debt issued	1,121.2	-	-	1,121.2
Accrued expenses	-	147.1	-	147.1
Other liabilities	-	67.9	-	67.9
<b>Total liabilities</b>	<b>1,121.2</b>	<b>67,228.5</b>	<b>-</b>	<b>68,349.7</b>

## 25C FINANCIAL INSTRUMENTS – TRANSFERS BETWEEN LEVEL 1 AND LEVEL 2

	<b>31.12.2015</b> <i>CHF m</i>	31.12.2014 <i>CHF m</i>
<b>Transfers from level 1 to level 2</b>		
Trading assets	121.7	1.5
Derivative financial instruments	106.2	-
Financial investments available-for-sale	2,187.0	50.2
Trading liabilities	4.7	-
Derivative financial instruments	313.0	-
Financial liabilities designated at fair value	321.5	-
<b>Transfers from level 2 to level 1</b>		
Trading assets	38.5	36.6
Financial investments available-for-sale	580.0	27.8
Trading liabilities	0.5	0.1

The transfers between level 1 and 2, and vice versa, occurred due to changes in the direct availability of quoted market prices. Transfers between the levels are deemed to have occurred at the end of the reporting period.

In 2015, the Group implemented a revised method regarding the application of the fair value classification criteria by using a higher threshold for the financial instruments being traded in an active market. Due to this new method, financial instruments have been transferred from level 1 to level 2 in the fair value hierarchy, and to a slighter extent from level 2 to level 1.

## 25D FINANCIAL INSTRUMENTS – OFFSETTING

In order to control the credit exposure and reduce the credit risk related to certain transactions, the Group applies credit mitigation strategies in the ordinary course of business. The Group enters into master netting agreements with counterparties to mitigate the credit risk of securities lending and borrowing transactions, repurchase and reverse repurchase transactions and over-the-counter derivative transactions. Such arrangements include Global Master Securities Lending Agreements or Global Master Repurchase Agreements, as well as ISDA Master Agreements for derivatives.

The majority of exposures to securities transactions and over-the-counter derivative transactions are collateralised, with the collateral being prime financial instruments or cash.

However, under IFRS, to be able to offset transactions with the same counterparty on the balance sheet, the right of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable for all counterparties in the event of default, insolvency or bankruptcy. As the Group's arrangements may not fulfil the strict offsetting

criteria as required by IFRS, the Group does not offset the respective amounts related to these transactions on the balance sheet.

Therefore, the cash collateral provided (CHF 866.2 million) and received (CHF 1,336.1 million) in the securities transactions as disclosed in Note 23 are not offset with the respective counterparty positions in the balance sheet.

The majority of the over-the-counter derivatives in the total amount of CHF 779.7 million (positive replacement values) and CHF 635.0 million (negative replacement values) are subject to an enforceable netting agreement. Transactions with other banks are generally collateralised with other financial instruments (derivatives) which are recognised on the Group's balance sheet. With non-banking counterparties, the collateral recognised is generally cash balances. None of these balances related to the derivatives transactions are offset on the balance sheet.

Refer to the Credit Risk section for a detailed analysis of the Group's credit risk strategies and exposure.

## 26A COMPANIES CONSOLIDATED AS AT 31 DECEMBER 2015

### Listed company which is consolidated

	Place of listing	Head Office	Currency	Share capital m	Capitalisation as at 31.12.2015 m
Julius Baer Group Ltd.	SIX Swiss Exchange	Zurich	CHF	4.5	10,891

Swiss securities number: 10 248 496, Bloomberg: BAER VX, Reuters: BAER.VX

### Unlisted operational companies which are consolidated

	Head Office	Currency	Share capital m	Equity interest %
Bank Julius Baer & Co. Ltd.	Zurich	CHF	575.000	100
<i>Branches in Basle, Berne, Crans-Montana, Geneva, Guernsey, Hong Kong, Lausanne, Lucerne, Lugano, Singapore, Sion, St. Gallen, St. Moritz, Verbier, Zug, Zurich Representative Offices in Abu Dhabi, Dubai, Istanbul, Moscow, Panama City, Santiago de Chile, Shanghai, Tel Aviv including</i>				
Bank Julius Baer Nominees (Singapore) Pte. Ltd.	Singapore	SGD	0.000	100
Arpese SA	Lugano	CHF	0.400	100
Bank Julius Bär Europe AG	Frankfurt	EUR	15.000	100
<i>Branches in Duesseldorf, Hamburg, Kiel, Mannheim, Munich, Stuttgart, Würzburg including</i>				
Julius Bär Capital GmbH	Frankfurt	EUR	0.026	100
Bank Julius Baer (Monaco) S.A.M.	Monaco	EUR	60.000	100
Fransad Gestion SA	Geneva	CHF	1.000	100
Julius Baer Investment Ltd.	Zurich	CHF	0.100	100
<i>including</i>				
Julius Baer Consultores S.A.	Caracas	BSF	2.150	100
Julius Baer Trust Company (Singapore) Ltd.	Singapore	SGD	2.812	100



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	Head Office	Currency	Share capital <i>m</i>	Equity interest <i>%</i>
JB Participações Brasil Ltda. <i>including</i>	São Paulo	BRL	394.016	100
GPS Investimentos Financeiros e Participações S.A. <i>including</i>	São Paulo	BRL	0.280	80
CFO Administração de Recursos Ltda.	São Paulo	BRL	0.064	100
GPS Planejamento Financeiro Ltda.	São Paulo	BRL	0.207	100
<i>Branches in Rio de Janeiro, Belo Horizonte</i>				
JB Participations Ltd.	Zurich	CHF	15.000	100
Julius Baer Advisory S.A.E.	Cairo	EGP	12.847	100
Julius Baer Advisory (Uruguay) S.A.	Montevideo	UYU	0.087	100
Julius Baer Agencia de Valores, S.A.U.	Madrid	EUR	0.902	100
Julius Baer Capital (Guernsey) I Ltd.	Guernsey	CHF	0.000	100
Julius Baer Consultores (Chile) SpA	Santiago de Chile	CLP	498.928	100
Julius Baer Consultores (Peru) S.A.C.	Lima	PEN	4.164	100
Julius Baer Family Office & Trust Ltd. <i>including</i>	Zurich	CHF	0.100	100
Julius Baer Trust Company (New Zealand) Limited	Auckland	CHF	0.105	100
Julius Baer Fiduciaria S.r.l.	Milan	EUR	0.100	100
Julius Baer Financial Services (Channel Islands) Ltd.	Jersey	GBP	0.025	100
Julius Baer Financial Services (Israel) Ltd.	Tel Aviv	ILS	11.000	100
Julius Baer Gestión, SGIIC, S.A.U.	Madrid	EUR	2.100	100
Julius Baer International Advisory (Uruguay) S.A.	Montevideo	USD	1.600	100
Julius Baer International Limited <i>Branch in Dublin</i>	London	GBP	74.300	100
Julius Baer International Panama Inc. <i>including</i>	Panama City	CHF	19.383	100
Julius Baer Bank & Trust (Bahamas) Ltd. <i>including</i>	Nassau	CHF	20.000	100
Julius Baer Trust Company (Bahamas) Ltd.	Nassau	CHF	2.000	100

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	Head Office	Currency	Share capital m	Equity interest %
Julius Baer Investment Advisory GesmbH	Vienna	EUR	0.050	100
Julius Baer Investment Services S.à r.l.	Luxembourg	EUR	1.250	100
Julius Baer Investments S.A.S. (in liquidation)	Paris	EUR	3.811	100
Julius Baer Investments (Panama) S.A.	Panama City	USD	22.630	100
Julius Bär Lizenzverwertungsgesellschaft AG	Zug	CHF	0.100	100
Julius Baer Portfolio Managers Limited	London	GBP	0.054	100
Julius Baer Trust Company (Channel Islands) Limited	Guernsey	CHF	0.200	100
Julius Baer Wealth Advisors (India) Private Limited <i>Branches in Bangalore, Chennai, Kolkata, New Delhi including</i>	Mumbai	INR	10,081.410	100
<i>Julius Baer Capital (India) Private Limited</i>	<i>Mumbai</i>	<i>INR</i>	<i>2,334.350</i>	<i>100</i>
<i>Julius Baer Trustees (India) Limited</i>	<i>Mumbai</i>	<i>INR</i>	<i>49.000</i>	<i>100</i>
Julius Bär Wealth Management AG <i>Branch in Tokyo</i>	Erlenbach	CHF	0.700	60
Julius Baer Wealth Management (Monaco) S.A.M.	Monaco	EUR	0.465	100
Julius Baer (Bahrain) B.S.C. (c)	Manama	BHD	1.000	100
Julius Baer (Hong Kong) Limited (in liquidation)	Hong Kong	HKD	273.894	100
Julius Baer (Lebanon) S.A.L.	Beirut	LBP	2,000.000	100
Julius Baer (Middle East) Ltd.	Dubai	USD	22.000	100
Julius Baer (Netherlands) B.V.	Amsterdam	EUR	0.000	100
Julius Baer (Uruguay) S.A.	Montevideo	UYU	25.169	100
PINVESTAR AG	Zug	CHF	0.100	100
PT Julius Baer Advisors Indonesia	Jakarta	IDR	2,000.000	100
URSA Company Ltd. (in liquidation)	Grand Cayman	CHF	0.500	100
WMPartners Wealth Management Ltd.	Zurich	CHF	1.000	100

	Head Office	Currency	Share capital <i>m</i>	Equity interest <i>%</i>
Aktiengesellschaft formerly Waser Söhne & Cie, Werdmühle Altstetten	Zurich	CHF	2.260	100
LOTECO Foundation	Zurich	CHF	0.100	100

**Major changes in the companies consolidated:**

- Julius Bear Wealth Advisors Private Limited, Mumbai, new
- Julius Baer Capital (India) Private Limited, Mumbai, new
- Julius Baer Trustees (India) Limited, Mumbai, new
- Fransad Gestion SA, Geneva, new
- TFM Asset Management AG, Erlenbach, renamed into Julius Bär Wealth Management AG, Erlenbach

## 26B INVESTMENTS IN ASSOCIATES

	Head Office	Currency	Share capital m	Equity interest %
<b>Associates</b>				
Kairos Investment Management SpA	Milan	EUR	2.355	20
NSC Asesores, S.C., Asesor en Inversiones Independiente	Mexico City	MXN	1.884	40
			<b>31.12.2015</b>	31.12.2014
			CHF m	CHF m
Balance at the beginning of the year			<b>66.0</b>	102.6
Additions			<b>28.9</b>	-
Disposals			-	-66.9 <sup>1</sup>
Income			<b>5.9</b>	36.0 <sup>2</sup>
Dividend paid			<b>-4.4</b>	-6.1
Translation differences			<b>-6.1</b>	0.4
<b>Balance at the end of the year</b>			<b>90.3</b>	66.0

<sup>1</sup> Relates to the increase of the Group's participation in GPS, see Note 27.

<sup>2</sup> Includes the revaluation to fair value of GPS.

The total comprehensive income of the associated companies amounts to CHF 26.1 million (2014: CHF 27.6 million for Kairos Investment Management SpA).

### NSC Asesores

On 6 November 2015, the Group acquired 40% of the Mexico City-based NSC Asesores, S.C., Asesor en Inversiones Independiente, which is specialised in discretionary portfolio management and advisory services for high net worth individuals. The Group

paid half of the consideration in the amount of CHF 14.5 million in cash for this interest, which was fully funded by existing excess capital of the Group. The Group agreed on two equal additional payments on 6 November 2016 and 2017, respectively, for the outstanding purchase price. The Group also received two options to acquire additional interests of 30% per option in NSC Asesores at a predetermined relative price. The options will be exercisable in 2018 and 2021, respectively.

## 26C UNCONSOLIDATED STRUCTURED ENTITIES

The Group is involved in the set-up and operation of a limited number of structured entities such as segregated portfolio companies, private equity feeder funds, umbrella funds and similar vehicles in the legal form of limited partnerships (L.P.), which are invested in segregated portfolios or feeder funds. All the L.P. serve as investment vehicles for the Group's clients. The Group generally acts as investment manager and custodian bank and also holds the management shares of the L.P. These shares are

equipped with voting rights, but do not provide any participating rights in the underlying investments. The Group receives a market-based fixed fee for its services and has no interests in the underlying segregated portfolios or feeder funds. Therefore, due to the missing exposure, or rights, to variable returns from its involvement with the segregated portfolios or feeder funds, the Group does not have control over the underlying investments, but only consolidates the limited partnerships.

## 27 ACQUISITIONS

Apart from the acquisition of Merrill Lynch's International Wealth Management business (see Note 30 for details), the following transactions were executed:

### **GPS Investimentos Financeiros e Participações S.A.**

On 25 March 2014, the Group acquired an additional 50% interest in São Paulo-based GPS Investimentos Financeiros e Participações S.A., which includes GPS Planejamento Financeiro Ltda. and CFO Administração de Recursos Ltda. ('GPS'). This transaction increased the Group's participation in GPS to 80% from the 30% acquired in May 2011. On 25 March 2014, the Group paid half of the consideration in the amount of CHF 55.8 million in cash for this additional interest which was fully funded by existing excess capital of the Group. In addition, the Group agreed on two additional payments on

25 March 2015 and 10 December 2015, which were performed. As part of the transaction, the Group realised a net gain in the amount of CHF 14.8 million on the revaluation to fair value of the 30% interest previously held as an investment in associates, including foreign exchange translation losses, which was recognised in other ordinary results in 2014. The Group also holds a forward contract to acquire the remaining 20% interest in GPS at a predetermined relative price.

GPS is specialised in discretionary portfolio management and advisory services. The acquisition supports the Group's strategic intention to build its wealth management business in one of the most attractive and promising domestic wealth management markets. GPS continues to operate under its well-established and respected brand.

The assets and liabilities of GPS were recorded as follows:

	Fair value CHF m
<b>Purchase price</b>	
in cash	55.8
contribution of the 30% interest (at fair value)	66.9
deferred purchase price (liabilities)	55.8
<b>Total</b>	178.5
<b>Assets acquired</b>	
Due from banks	4.7
All other assets	7.3
<b>Total</b>	12.0
<b>Liabilities assumed</b>	
Deferred tax liabilities	18.5
All other liabilities	13.2
<b>Total</b>	31.7
<b>Goodwill and other intangible assets and non-controlling interests</b>	
Goodwill	151.4
Customer relationships	54.4
Non-controlling interests	7.6
<b>Total</b>	198.2

### Leumi Private Bank AG

On 21 July 2014, the Group announced a strategic cooperation with Bank Leumi. Under this agreement, Leumi will refer clients with international private banking needs to the Group, while the Group will refer clients to Leumi's domestic banking services. As part of the agreement, the Group acquired Leumi's international private banking clients in Switzerland in the form of a business transfer. The cost of the transaction was CHF 11.9 million

in cash and is recognised as client relationships and goodwill. The transaction has been executed in the first half of 2015 and the purchase price was fully funded by existing excess capital of the Group.

The business acquired has been fully integrated into the existing Group structure. Therefore the Group is not able to disclose any income statement impacts of the acquired Leumi business on the Group's financial statements.

The assets and liabilities of Bank Leumi were recorded as follows:

	Fair value CHF m
<b>Purchase price</b>	
in cash	11.9
<b>Total</b>	11.9
Due from banks	992.5
Loans <sup>1</sup>	441.1
All other assets	28.7
<b>Assets acquired</b>	1,462.3
Due to banks	225.7
Due to customers	1,207.9
All other liabilities	28.7
<b>Liabilities assumed</b>	1,462.3
<b>Goodwill and other intangible assets</b>	
Goodwill	1.9
Customer relationships	10.0
<b>Total</b>	11.9

<sup>1</sup> At the acquisition date, the gross contractual amount of loans acquired was CHF 441.1 million.

### Fransad Gestion SA

On 3 November 2015, the Group acquired the Swiss independent wealth manager Fransad Gestion SA which is based in Geneva. Fransad will complement the Group's existing independent wealth management business and strengthen the Group's position in French-speaking Switzerland.

The purchase price, including the deferred portion due in March 2018, of CHF 16.6 million has been and will be paid in cash and is fully funded by existing excess capital of the Group. Fransad's contribution to the 2015 profit of the Group was not material.

The assets and liabilities of Fransad Gestion SA were recorded provisionally as follows:

	Fair value CHF m
<b>Purchase price</b>	
in cash	12.1
deferred purchase price (liabilities)	4.5
<b>Total</b>	16.6
Due from banks	3.9
All other assets	2.6
<b>Assets acquired</b>	6.5
All other liabilities	3.4
<b>Liabilities assumed</b>	3.4
<b>Goodwill and other intangible assets</b>	
Goodwill	5.1
Customer relationships	8.3
<b>Total</b>	13.5



## 28 SHARE-BASED PAYMENTS AND OTHER COMPENSATION PLANS

The programmes described below reflect the plan landscape as at 31 December 2015. All plans are reviewed annually to reflect any regulatory changes and/or market conditions. The Group's overall compensation landscape is described in the chapter Remuneration Report of this Annual Report.

The Group hedges its liabilities from share-based payments by purchasing the shares from the market on grant date through the Loteco Foundation. Until vesting, the granted shares are administered by the foundation.

### **Deferred variable compensation plans**

#### *Cash-based variable compensation –*

##### *Deferred Cash Plan*

The Deferred Cash Plan (DCP) promotes sound business activities by remaining subject to clawback while having inherent lower pay volatility than shares. The DCP is determined on an annual basis as part of the annual variable compensation awarded to the individual concerned. This deferred cash vests in equal one-third tranches over a three-year plan period subject to continued employment. Where share-based plans are not permissible under local legislation, employee annual awards are fully deferred through the DCP.

#### *Equity-based variable compensation –*

##### *Premium Share Plan*

The Premium Share Plan (PSP) is designed to link a portion of the employee's variable compensation to the long-term success of the Group through its share price. A PSP grant is made once a year as part of the annual variable compensation awarded to the individual concerned and participation is determined on an annual basis. The employee is granted a number of shares equal in value to the deferred element. These shares vest in equal one-third tranches over a three-year plan period. At the end of the plan period, subject to continued employment, the employee then receives an additional share award representing a further one-third of the number of shares granted to him or her at the beginning of the plan period.

#### *Equity-based variable compensation –* *Equity Performance Plan*

The Equity Performance Plan (EPP) is a key element of the Julius Baer compensation model. One of the Compensation Committee's objectives was to create a robust long-term incentive mechanism for key employees. The EPP is an equity plan which seeks to create a retention element for key employees and to link executive compensation to the future performance of the entire Julius Baer Group.

Eligibility for the EPP is based on various factors, which include nomination by the CEO, overall role within Julius Baer and total variable compensation. All members of the Executive Board, key employees, and employees defined as risk takers by virtue of their function within the organisation are considered for the EPP based on their specific role. The size of the grant awarded to each individual varies based on factors which include, but are not limited to, seniority, contribution to Julius Baer and level of responsibility.

The EPP is an annual rolling equity grant (made in February each year) that awards Performance Units to eligible executives subject to service and performance-based requirements. The EPP award reflects the value of the employee for the future success of the business and more closely links an individual's compensation to his or her contribution to the future performance of the Julius Baer Group.

The goal of the EPP is to incentivise participants in two ways:

- Firstly, by the nature of its construction, the ultimate value of the award to the participants fluctuates with the market value of Julius Baer shares.
- Secondly, the Performance Units are contingent on continued service and two key performance indicators (KPIs), cumulative Economic Profit (cEP) and relative Total Shareholder Return (rTSR). The service condition requires that the participant remains with Julius Baer for three

years after the grant (through a cliff-vesting mechanism). The performance of the two KPIs determines the number of shares the participant ultimately receives.

The number of shares delivered under the EPP is between 0% and 150% of the number of Performance Units granted in any given year (with each individual KPI being capped at a maximum multiplying factor of 200%). The cap serves to limit EPP awards so as to avoid any unforeseen outcome of the final EPP multiplier resulting in unintentionally high or excessive levels of compensation. A high level of performance is required to attain a maximum share delivery (creating a maximum uplift of 50% of the Performance Units granted), with low-level performance leading to potential nil compensation.

The KPI targets are set based on the strategic three-year budget/plan that is approved by the Board of Directors on an annual basis. Extremely high (and, thus, unrealistic) performance targets are avoided, so as not to incentivise excessive risk taking by executives and other managerial staff.

*Integration Incentive Award (for former Bank of America Merrill Lynch relationship managers)*  
As part of Julius Baer's integration of Bank of America Merrill Lynch's IWM business, key relationship managers from IWM were offered participation in the Integration Incentive Award (a cash- and share-based plan) which was designed to incentivise individuals to join Julius Baer and move clients and assets to the Group. In 2015, new grants under the Integration Incentive Award were solely in conjunction with the final transfer of the business in India.

The Integration Incentive Award plan runs for a maximum of five years, with cash being paid out on a rolling six-month basis over the first three years and shares being delivered to participants on the fourth and fifth anniversaries of the grant date. At the end of the plan period, subject to continued employment, the employee receives an additional share award representing one-third of the number of shares granted to him or her at the beginning of the plan period.

In the event of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested cash and/or shares are forfeited.

*Cash-based integration programmes*

As part of its integration of Bank of America Merrill Lynch's International Wealth Management business, the Group established two cash-based programmes.

The first programme, the Replacement Award, is a programme which provides cash compensation in lieu of awards that were forfeited as a result of the corporate acquisition. The actual value of forfeiture is paid out in up to four tranches (depending on the size of the award) over a period of up to 18 months.

The second programme, the Asset Transfer Award, is a performance-based programme offered to relationship managers transferring to the Group. The Asset Transfer Award, which is geared towards further accelerating the transfer of assets under management to the Group, offered the participants a cash payment upon reaching specific asset-transfer hurdles (as measured on the basis of assets under management).

*Incentive Share Plan (ISP, applied as part of the variable compensation for 2012)*

At the start of the plan period, 15% to 40% (the maximum deferral percentage applies to variable compensation of CHF 1 million and above or the local currency equivalent) of the executives' 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 tranches over the three-year plan period, subject to continued employment.

Participants in the ISP 2012 are granted a pre-fixed number of incentive shares, which cliff-vest at the end of the three-year plan period, subject to continued employment. The number of incentive shares granted is determined based on the number of shares from bonus deferral: members of the Executive Board were eligible for twice the number of additional shares in comparison to participants who are not members of the Executive Board.

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.

*Long-Term Incentive Plan (LTI)*

In certain specific situations the Group may also offer incentives outside the annual compensation cycle. Actions such as compensating new hires for deferred awards they have forfeited by resigning from their previous employer or making retention payments to key employees during extraordinary or critical circumstances may be carried out by granting individuals an equity-based LTI.

An LTI granted in these circumstances generally runs over a three-year plan period. The Group currently operates two different vesting schedules for this plan: (1) three equal one-third tranches vesting over a three-year period, (2) cliff-vesting of all granted shares in one single tranche at the end of the three-year period.

The shares are transferred to participants at the time of vesting, subject to continued employment and any other conditions set out in the plan rules. All grants made in 2014 and 2015 are free from restrictions upon vesting.

*Staff Participation Plan (SPP)*

The SPP is offered to most of the Group's global employee population. Some individuals or employees in specific locations are excluded from participating because, for example, the employees concerned are participants in another Group equity-based plan or because the SPP cannot be offered in a particular jurisdiction for legal or regulatory reasons. Under this plan, eligible participants may voluntarily purchase Julius Baer shares at the prevailing market price and for every three shares so purchased they will receive one additional share free of charge. These free shares vest after three years, subject to continued employment. Purchases under the SPP only occur once a year.

The objective of this plan is to strengthen the employee's identification with the Group, to encourage entrepreneurial spirit, to generate greater interest in the business through ownership, and to provide employees with financial recognition for their long-term dedication to the Group.

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

		<b>31.12.2015</b>		31.12.2014
	Number of units Economic Profit	Number of units Relative Share Price	Number of units Economic Profit	Number of units Relative Share Price
<b>Equity Performance Plan</b>				
Unvested units outstanding, at the beginning of the year	<b>233,545</b>	<b>233,545</b>	-	-
Granted during the year	<b>322,455</b>	<b>322,455</b>	233,880	233,880
Forfeited during the year	<b>-1,468</b>	<b>-1,468</b>	-335	-335
Unvested units outstanding, at the end of the year	<b>554,532</b>	<b>554,532</b>	233,545	233,545

	<b>31.12.2015</b>	31.12.2014
<b>Premium Share Plan</b>		
Unvested shares outstanding, at the beginning of the year	<b>830,261</b>	556,013
Granted during the year	<b>734,474</b>	490,195
Vested during the year	<b>-353,645</b>	-172,386
Forfeited during the year	<b>-63,034</b>	-43,561
Unvested shares outstanding, at the end of the year	<b>1,148,056</b>	830,261
Weighted average fair value per share granted (CHF)	<b>43.84</b>	40.79
Fair value of outstanding shares at the end of the year (CHF 1,000)	<b>55,864</b>	38,034

	<b>31.12.2015</b>	31.12.2014
<b>Incentive Share Plan</b>		
Unvested shares outstanding, at the beginning of the year	<b>671,118</b>	966,772
Vested during the year	<b>-190,629</b>	-292,970
Forfeited during the year	<b>-7,944</b>	-2,684
Unvested shares outstanding, at the end of the year	<b>472,545</b>	671,118
Fair value of outstanding shares at the end of the year (CHF 1,000)	<b>22,994</b>	30,744

		<b>31.12.2015</b>		31.12.2014
	Number of units Economic Profit	Number of units Relative Share Price	Number of units Economic Profit	Number of units Relative Share Price
<b>Incentive Share Plan</b>				
Unvested units outstanding, at the beginning of the year	<b>125,781</b>	<b>125,781</b>	248,826	248,826
Exercised during the year	<b>-124,867</b>	<b>-124,867</b>	-121,242	-121,242
Forfeited during the year	<b>-914</b>	<b>-914</b>	-1,803	-1,803
Unvested units outstanding, at the end of the year	-	-	125,781	125,781

	<b>31.12.2015</b>	31.12.2014
<b>Integration Incentive Award</b>		
Unvested shares outstanding, at the beginning of the year	<b>751,893</b>	703,143
Granted during the year	<b>19,035</b>	76,839
Forfeited during the year	<b>-56,319</b>	-28,089
Unvested shares outstanding, at the end of the year	<b>714,609</b>	751,893
Weighted average fair value per share granted (CHF)	<b>46.79</b>	42.67
Fair value of outstanding shares at the end of the year (CHF 1,000)	<b>34,773</b>	34,444

	<b>31.12.2015</b>	31.12.2014
<b>Long-Term Incentive Plan</b>		
Unvested shares outstanding, at the beginning of the year	<b>390,647</b>	508,876
Granted during the year	<b>243,916</b>	180,508
Vested during the year	<b>-197,535</b>	-251,753
Forfeited during the year	<b>-60,987</b>	-46,984
Unvested shares outstanding, at the end of the year	<b>376,041</b>	390,647
Weighted average fair value per share granted (CHF)	<b>47.74</b>	41.86
Fair value of outstanding shares at the end of the year (CHF 1,000)	<b>18,298</b>	17,896

	31.12.2015	31.12.2014
<b>Staff Participation Plan</b>		
Unvested shares outstanding, at the beginning of the year	113,384	72,557
Granted during the year	36,135	45,124
Vested during the year	-36,099	-1,715
Forfeited during the year	-3,154	-2,582
Unvested shares outstanding, at the end of the year	110,266	113,384
Weighted average fair value per share granted (CHF)	45.94	41.40
Fair value of outstanding shares at the end of the year (CHF 1,000)	5,366	5,194

Compensation expense recognised for the various share plans are:

	31.12.2015 CHF m	31.12.2014 CHF m
<b>Compensation expense</b>		
Equity Performance Plan	13.1	5.5
Premium Share Plan	23.3	15.5
Incentive Share Plan	6.5	15.0
Integration Incentive Award	8.5	8.0
Long-Term Incentive Plan	6.9	8.1
Staff Participation Plan	1.6	1.4
<b>Total</b>	<b>60.0</b>	<b>53.5</b>

## 29 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 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 which are managed by or deposited with associates of the Group are not considered assets managed by or deposited with the Group and are therefore not included in the respective numbers.

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

**Assets under management**

	2015 CHF m	2014 CHF m	Change %
Assets with discretionary mandate	<b>45,420</b>	45,563	-0.3
Other assets under management	<b>254,267</b>	245,034	3.8
<b>Total assets under management (including double counting)</b>	<b>299,687</b>	290,597	3.1
<i>of which double counting</i>	<b>4,884</b>	4,361	12.0
Change through net new money	<b>12,070</b>	12,691	
Change through market and currency impacts	<b>-10,413</b>	17,204	
Change through acquisition	<b>8,017<sup>1</sup></b>	6,288 <sup>2</sup>	
Change through divestment	<b>-584<sup>3</sup></b>	-	
Client assets	<b>385,490</b>	396,388	-2.7
<i>of which double counting<sup>4</sup></i>	<b>21,709</b>	23,091	-6.0

<sup>1</sup> In March 2015, the Group acquired the business of Leumi Private Bank Ltd.

On 21 September 2015, the Group acquired the business of Merrill Lynch's International Wealth Management (IWM) in India.

In November 2015, the Group acquired Fransad Gestion SA, Geneva.

<sup>2</sup> On 14 February 2014, 11 April 2014, 9 May 2014, 13 June 2014, 11 July 2014, 5 September 2014, 26 September 2014, 8 November 2014 and 5 December 2014, the Group acquired businesses of Merrill Lynch's International Wealth Management (IWM) in Hong Kong, Singapore, Switzerland, Guernsey, Monaco, Israel, the Netherlands, Ireland and Jersey.

On 25 March 2014, the Group increased its interest in GPS Investimentos Financeiros e Participações S.A., Brazil, to 80%.

On 1 October 2014, the Group acquired Merrill Lynch, Pierce, Fenner & Smith S.A.S. (France), Paris.

<sup>3</sup> Relates to the asset outflow at Julius Baer Investments S.A.S., Paris, which was acquired as part of Merrill Lynch's International Wealth Management (IWM) business and that Group management decided to close.

<sup>4</sup> Including assets which are counted as assets under management and assets under custody.



### Breakdown of assets under management

	2015 %	2014 %
<b>By types of investment</b>		
Equities	27	26
Bonds (including convertible bonds)	19	19
Investment funds	23	24
Money market instruments	4	4
Client deposits	21	21
Structured products	5	5
Other	1	1
<b>Total</b>	<b>100</b>	<b>100</b>
<b>By currencies</b>		
CHF	12	13
EUR	21	22
USD	46	43
GBP	4	5
SGD	2	2
HKD	3	2
RUB	-	1
CAD	1	1
Other	11	11
<b>Total</b>	<b>100</b>	<b>100</b>

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.

### 30 ACQUISITION OF MERRILL LYNCH'S INTERNATIONAL WEALTH MANAGEMENT BUSINESS

#### Transaction summary

On 13 August 2012, the Group announced to acquire Merrill Lynch's International Wealth Management (IWM) business outside the US from Bank of America. The acquisition was structured as a combination of legal entity acquisitions and business transfers. Principal closing occurred on 1 February 2013. Since then, legal entity purchases and asset transfers have happened during the integration period which ended in the first quarter of 2015. However, the final transfers in India were completed in the second half of 2015.

The income and expenses related to the AuM which are booked with the Group were recorded according to the Group's accounting policies. In addition, the Group received from Merrill Lynch & Co., Inc. the revenues related to the AuM reported (i.e. the AuM transferred to the Group but not yet booked by the Group) and was charged with platform and other central service costs by Merrill Lynch & Co., Inc. These revenues were recognised in commission income with the related cost expensed through other general expenses. Any other expenses were also recorded according to the Group's accounting policies.

#### Purchase price

The consideration payable in USD to Merrill Lynch & Co., Inc. was 1.2% of AuM, payable as and when AuM were transferred to a Julius Baer booking platform. In addition, the Group paid CHF-for-CHF for any net asset value of the companies and businesses that were transferred in the acquisition, as and when the companies and businesses to which the net asset value was attributable were transferred.

#### Financing of the transaction

The Group put the following funding in place:

- the issuance of the consideration shares out of authorised share capital to Merrill Lynch & Co., Inc. in the amount of CHF 243 million at a predetermined share price (see Note 19 for details);
  - the issuance of shares through a public rights offering in the amount of CHF 492 million in October 2012;
  - existing excess capital in the amount of CHF 488 million; and
  - the issuance of perpetual tier 1 subordinated bonds in the amount of CHF 250 million in September 2012 (see Note 16 for details).
- Consideration was transferred as follows:
- first USD 150 million in cash;
  - subsequent USD 500 million payable 50% in cash and 50% in shares of Julius Baer Group Ltd.; and
  - remainder in cash.
- #### Final status as at 31 December 2015
- As at 31 December 2015, AuM in the amount of CHF 58.6 billion (fair value as of the respective acquisition date) have been booked with the Group, whereof CHF 2.3 billion have been reclassified to assets under custody.
- The transaction resulted in the recognition of goodwill and intangible assets (customer relationships) in the amount of CHF 813.2 million. This amount consists of the following components:
- the contractual consideration of 1.2% of the AuM booked;
  - adjustments due to the remeasurement to fair value of the assets acquired and the liabilities assumed in the process of the purchase price allocation;
  - the increase in the fair value as compared to the contractually agreed value of USD 35.20 for the shares of Julius Baer Group Ltd. provided as part of the consideration; and
  - foreign exchange fluctuations.
- Therefore, the purchase price of CHF 982.1 million was paid for goodwill and intangible assets and net asset values of the acquired legal entities.

The legal entities as well as the business acquired have been fully integrated into the existing Group structure (including rebranding of the continued legal entities). Therefore the Group is not able to

disclose any income statement impacts of the acquired IWM business on the Group's financial statements.

The assets and liabilities of the acquired IWM entities and businesses were recorded as follows:

	31.12.2015 Total Acquisitions Fair value CHF m	31.12.2015 Acquisitions in 2015 Fair value CHF m	31.12.2014 Acquisitions till 2014 Fair value CHF m
<b>Purchase price</b>			
in cash	690.5	98.8	591.7
in shares of Julius Baer Group Ltd.	291.6	-	291.6
<b>Total</b>	<b>982.1</b>	<b>98.8</b>	<b>883.3</b>
<b>Assets acquired</b>			
Cash	271.5	-	271.5
Due from banks	8,298.0	19.6	8,278.4
Loans <sup>1</sup>	4,000.5	67.0	3,933.4
Deferred tax assets	0.1	0.1	0.1
All other assets	158.3	8.9	149.4
<b>Total</b>	<b>12,728.4</b>	<b>95.6</b>	<b>12,632.8</b>
<b>Liabilities assumed</b>			
Due to banks	3,589.5	48.1	3,541.4
Due to customers	8,726.5	41.1	8,685.4
Deferred tax liabilities	26.6	0.0	26.6
All other liabilities	217.0	5.3	211.7
<b>Total</b>	<b>12,559.5</b>	<b>94.5</b>	<b>12,465.0</b>
<b>Goodwill and other intangible assets related to legal entity acquisitions and to business transfers</b>			
Goodwill	481.0	73.8	407.2
Customer relationships	332.2	23.9	308.3
<b>Total</b>	<b>813.2</b>	<b>97.7</b>	<b>715.5</b>

<sup>1</sup> At the acquisition date, the gross contractual amount of loans acquired was CHF 3,933.4 million.

### 31 REQUIREMENTS OF SWISS BANKING LAW

The Group is subject to supervision by the Swiss Financial Market Supervisory Authority (FINMA), which requires Switzerland-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) which are relevant to the Group:

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.

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

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.

Swiss GAAP allows the application of IAS 19 for the accounting for defined benefit plans. However, the remeasurement of the net defined benefit liability is recognised in the income statement and comprises movements in actuarial gains and losses and return on plan assets (excluding net interest cost). Under IFRS, these components are recognised directly in equity.

### 32 EVENTS AFTER THE BALANCE SHEET DATE

The following material acquisitions have been announced in 2015 and will have an impact on future financial statements:

#### **Kairos**

In November 2015, the Group agreed to exercise its option and to increase its stake in Kairos Investment Management SpA by acquiring an additional 60.1% interest of the Milan-based company, following its initial purchase of 19.9% in 2013. Kairos is specialised in wealth and asset management, including investment solutions and advice. The Group and Kairos have agreed to list Kairos in a subsequent step through an offering of a minority percentage of Kairos' share capital. The transaction is expected to close in the course of 2016, subject to regulatory approval.

#### **Commerzbank International SA Luxembourg**

In December 2015, the Group agreed to acquire Commerzbank International SA Luxembourg, a fully licensed private bank. This transaction will significantly strengthen the Group's presence in Luxembourg, and in addition will provide the Group with further strategic flexibility for its European business. Closing of the transaction is expected to take place in mid-2016, subject to regulatory approval.

There are no events to report that had an influence on the balance sheet or the income statement for the 2015 financial year.

## REPORT OF THE STATUTORY AUDITOR TO THE ANNUAL GENERAL MEETING OF JULIUS BAER GROUP LTD., ZURICH



**KPMG AG**  
**Audit Financial Services**  
Badenerstrasse 172  
CH-8004 Zurich

P.O. Box  
CH-8036 Zurich

Telephone +41 58 249 31 31  
Fax +41 58 249 44 06  
Internet [www.kpmg.ch](http://www.kpmg.ch)

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

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### **Report of the Statutory Auditor on the Consolidated Financial Statements**

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 80 to 188) for the year ended 31 December 2015.

#### *Board of Directors' Responsibility*

The board of directors is responsible for the preparation 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 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 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 2015 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.



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

### **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

A handwritten signature in black ink, appearing to read 'Rickert'.

Philipp Rickert  
*Licensed Audit Expert  
Auditor in Charge*

A handwritten signature in black ink, appearing to read 'Castagna'.

Cataldo Castagna  
*Licensed Audit Expert*

Zurich, 29 January 2016

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## INCOME STATEMENT

	2015 CHF m	2014 CHF m
Interest income	21.4	11.7
Interest expense	49.4	41.7
Result from interest	-28.0	-30.0
Income from participations	115.4	181.8
Revaluation of participations	6.0	-
Depreciation of participations	131.3	33.9
Result from participations	-9.9	147.9
Other ordinary income	104.9	116.8
<b>Operating income</b>	<b>67.0</b>	<b>234.7</b>
Personnel expenses	15.7	16.0
General expenses	25.1	44.3
<b>Operating expenses</b>	<b>40.8</b>	<b>60.3</b>
<b>Gross profit</b>	<b>26.2</b>	<b>174.3</b>
Extraordinary income	2.7	0.0
Taxes	6.6	0.7
<b>Net profit</b>	<b>22.3</b>	<b>173.7</b>



## BALANCE SHEET

	31.12.2015 CHF m	31.12.2014 CHF m
<b>Assets</b>		
Due from banks	604.6	1,050.8
Other financial investments	-	29.9
Other assets	27.9	9.0
Accrued income and prepaid expenses	123.7	192.9
<b>Total current assets</b>	<b>756.3</b>	<b>1,282.5</b>
Other financial investments	480.3	180.0
Participations	3,749.5	3,649.7
<b>Total non-current assets</b>	<b>4,229.8</b>	<b>3,829.7</b>
<b>Total assets</b>	<b>4,986.0</b>	<b>5,112.2</b>
Due from Group companies	1,085.5	1,088.3
<b>Liabilities and equity</b>		
Due to banks	-	28.1
Accrued expenses and deferred income	35.6	29.0
<b>Total short-term liabilities</b>	<b>35.6</b>	<b>57.1</b>
Debt issued	1,167.5	1,075.0
Other liabilities	21.6	17.2
<b>Total long-term liabilities</b>	<b>1,189.1</b>	<b>1,092.2</b>
<b>Total liabilities</b>	<b>1,224.7</b>	<b>1,149.4</b>
Share capital	4.5	4.5
Statutory capital reserve	2,098.0	2,321.9
<i>of which tax-exempt capital contribution reserve</i>	<i>2,098.0</i>	<i>2,321.9</i>
Statutory retained earnings reserve	230.2	0.8
<i>of which reserve for treasury shares</i>	<i>229.4</i>	<i>-</i>
Voluntary retained earnings reserve	1,403.8	1,458.2
Profit carried forward	2.5	3.8
Net profit	22.3	173.7
<b>Total equity</b>	<b>3,761.3</b>	<b>3,962.8</b>
<b>Total liabilities and equity</b>	<b>4,986.0</b>	<b>5,112.2</b>
Due to Group companies	-	253.1

## NOTES

	31.12.2015 CHF m	31.12.2014 CHF m
<b>Contingent liabilities</b>		
Surety and guarantee obligations and assets pledged in favour of third parties	<b>2,455.1</b>	2,367.6

## BASIS OF ACCOUNTING

The stand-alone financial statements of Julius Baer Group Ltd. are prepared in accordance with the guidelines of the Swiss Code of Obligations.

The financial statements 2015 have been prepared for the first time according to the revised Swiss Code of Obligation. In order to provide comparability, the previous year's balance sheet and income statement have been adjusted to the new structure.

## PARTICIPATIONS

Refer to the consolidated financial statements, Note 26A, for a complete list of the participations.

Income from participations is recorded based on an economic standpoint, i.e. at the same time as the corresponding income is recorded at the subsidiary.

## STATUTORY CAPITAL RESERVE

The statutory capital reserve represents the additional proceeds (premium) received from the issue of shares by Julius Baer Group Ltd. The redemption of this statutory capital reserve is exempt from taxation, similar to the share capital.

## TREASURY SHARES

In the statutory financial statements of Julius Baer Group Ltd., treasury shares held by Julius Baer Group Ltd. itself are deducted directly from equity. For treasury shares held by other Group companies, a reserve for treasury shares is stated in equity. While Julius Baer Group Ltd. did not hold any treasury shares in 2015 and 2014, different Group entities held 5,269,422 treasury shares in 2015 (2014: 4,324,753).

## DEBT ISSUED

Refer to the consolidated financial statements, Note 16, for a complete list of the debt issued.

Debts issued are recorded at nominal value. Any agios are recognised in other liabilities and amortised up to the maturity date or the first possible redemption date, respectively.

## AUTHORISED CAPITAL

Refer to consolidated financial statements, Note 19.

## NOTES

## FEES PAID TO AUDITOR

	2015 CHF m	2014 CHF m
<b>Fees paid to auditor</b>		
Audit services	1.3	1.1
Other services	0.3	0.2
<b>Total</b>	<b>1.5</b>	<b>1.3</b>

## SHARE-BASED PAYMENTS

	Number Equity securities	2015 Value Equity securities CHF m	Number Equity securities	2014 Value Equity securities CHF m
<b>Equity plans</b>				
Total granted during the year	27,052	1.4	31,638	1.3
of which members of executive bodies	25,870	1.3	29,457	1.2
of which employees	1,182	0.1	2,181	0.1

	Number Units	2015 Value Units CHF m	Number Units	2014 Value Units CHF m
<b>Plans based on units</b>				
Total granted during the year	53,669	2.1	38,063	1.5
of which members of executive bodies	48,249	1.9	34,713	1.3
of which employees	5,420	0.2	3,350	0.1

## NOTES

## FULL-TIME EQUIVALENTS

The annual average number of full-time equivalents for the reporting year, as well as the previous year, did not exceed 50.

## SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

There are no events to report that had an influence on the balance sheet or income statement for the 2015 year.

SIGNIFICANT SHAREHOLDERS/  
PARTICIPANTS

Based on notifications received by Julius Baer Group Ltd., each of the following shareholders/participants held 3% or more of the voting rights in Julius Baer Group Ltd. as at 31 December 2015:<sup>1</sup>

Shareholder/participant <sup>3</sup>	Disclosure of purchase positions <sup>2</sup>	Disclosure of sale positions <sup>2</sup>
MFS Investment Management <sup>4</sup>	9.98%	
BlackRock, Inc. <sup>5</sup>	5.95%	0.0036%
Harris Associates L.P. <sup>6</sup>	5.33%	
Wellington Management Group LLP <sup>7</sup>	4.92%	
Bank of America Corporation <sup>8</sup>	3.76%	

<sup>1</sup> 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. Please note that the above figures are based on reports made before respectively after the following events: a) capital increase by way of rights offering completed on 17 October 2012 with the issuance of 20,316,285 newly registered shares of Julius Baer Group Ltd.; b) capital increase out of authorised share capital completed on 24 January 2013 with the issuance of 7,102,407 newly registered shares of Julius Baer Group Ltd.

<sup>2</sup> 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).  
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).  
The implementing provisions on disclosure law have been integrated into the new FINMA Financial Market Infrastructure Ordinance (FMIO-FINMA), which has entered into force on 1 January 2016. Purchase positions must be disclosed pursuant to art. 14 para. 1 a FMIO-FINMA and sales positions pursuant to art. 14 para. 1 b FMIO-FINMA.

<sup>3</sup> Please note that a change in the holding of voting rights within reportable thresholds does not trigger a notification duty. Further details on individual shareholdings can be found on [www.juliusbaer.com/shareholders](http://www.juliusbaer.com/shareholders) or on [www.six-exchange-regulation.com](http://www.six-exchange-regulation.com) in the section Publications > Significant Shareholders, Julius Bär Gruppe AG

<sup>4</sup> MFS Investment Management, Boston/USA, and its subsidiaries (reported on 30 December 2013)

<sup>5</sup> BlackRock, Inc., New York/USA, and its subsidiaries (reported on 26 June 2015)

<sup>6</sup> Harris Associates L.P., Chicago/USA (reported on 3 September 2013)

<sup>7</sup> Wellington Management Group LLP, Boston/USA (reported on 26 August 2015)

<sup>8</sup> Bank of America Corporation, Charlotte/USA, and its directly and indirectly held subsidiaries (reported on 16 August 2012)

## SHAREHOLDINGS OF THE BOARD OF DIRECTORS AND EXECUTIVE BOARD

Number of shares

### Shareholdings of the members of the Board of Directors<sup>1</sup>

Daniel J. Sauter – Chairman	<b>2015</b>	<b>155,128</b>
	2014	107,192
Gilbert Achermann	<b>2015</b>	<b>7,715</b>
	2014	5,260
Andreas Amschwand	<b>2015</b>	<b>7,715</b>
	2014	5,260
Heinrich Baumann	<b>2015</b>	<b>13,442</b>
	2014	10,987
Paul Man Yiu Chow (joined the Board in 2015)	<b>2015</b>	-
	2014	n.a.
Claire Giraut	<b>2015</b>	<b>17,005</b>
	2014	14,550
Gareth Penny	<b>2015</b>	<b>20,715</b>
	2014	18,260
Charles G. T. Stonehill	<b>2015</b>	<b>18,375</b>
	2014	15,920
<b>Total</b>	<b>2015</b>	<b>240,095</b>
<b>Total</b>	2014	177,429

<sup>1</sup> Including shareholdings of related parties

None of the Board members held any option positions in Julius Baer Group Ltd. shares as at year-end 2015 and 2014.

Share ownership guidelines for the members of the Board of Directors and the members of the Executive Board were introduced with effect from 2014. The Chairman of the Board of Directors is required to build up and maintain 25,000 vested shares of Julius Baer Group Ltd., the other members of the Board 7,500 each, respectively.

The targeted number of Julius Baer Group Ltd. shares has to be built up over a period of three years following election (and reached at year-end of the respective year) and maintained until the Board member leaves the Board of Directors.

Board members who were elected and/or re-elected in 2014 (i.e. all Board members except for Paul Man Yiu Chow) are required to reach the targeted number of shares by year-end 2017. Paul Man Yiu Chow is required to reach the targeted number of shares by year-end 2018.

Number of shares

**Shareholdings of the members of the Executive Board<sup>1</sup>**

Boris F.J. Collardi, Chief Executive Officer	<b>2015</b>	<b>205,882</b>
	2014	224,200
Dieter A. Enkelmann, Chief Financial Officer	<b>2015</b>	<b>87,719</b>
	2014	84,578
Jan A. Bielinski, Chief Communications Officer	<b>2015</b>	<b>33,511</b>
	2014	31,039
Gregory F. Gatesman, Chief Operating Officer	<b>2015</b>	<b>6,000</b>
	2014	6,000
Christoph Hiestand, General Counsel	<b>2015</b>	<b>9,469</b>
	2014	4,943
Bernhard Hodler, Chief Risk Officer	<b>2015</b>	<b>43,632</b>
	2014	28,542
Bernard Keller, Private Banking Representative (left the Executive Board in December 2014)	<b>2015</b>	<b>n.a.</b>
	2014	22,046
<b>Total</b>	<b>2015</b>	<b>386,213</b>
<b>Total</b>	<b>2014</b>	<b>401,348</b>

<sup>1</sup> Including shareholdings of related parties

None of the members of the Executive Board held any option positions in Julius Baer Group Ltd. shares as at year-end 2015 and 2014.

Share ownership guidelines for the members of the Board of Directors and the members of the Executive Board were introduced with effect from 2014.

The CEO is required to build up and maintain 100,000 vested shares of Julius Baer Group Ltd., the other members of the Executive Board the lower of 2.5 times the base salary or 30,000 shares.

The targeted number of Julius Baer Group Ltd. shares has to be built up over a period of three years (and reached at year-end of the respective year) and maintained until the Executive Board member leaves his/her current position and/or the Julius Baer Group. The current members of the Executive Board are required to reach the targeted level by year-end 2016.

## PROPOSAL OF THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING ON 13 APRIL 2016

The Board of Directors proposes to the Annual General Meeting that the disposable profit for the 2015 financial year of CHF 24,737,040, consisting of net profit for the financial year in the amount of CHF 22,276,551 plus CHF 2,460,488 of profit carried forward, be distributed as follows:

- Allocation to statutory retained earnings reserve:  
CHF 68,715
- Allocation to voluntary retained earnings reserve:  
CHF 23,000,000
- Profit carried forward:  
CHF 1,668,325
  
- Dividend of CHF 1.10  
per share at CHF 0.02 par value
- Total dividends on the 223,809,448 shares  
entitled to dividends:  
CHF 246,190,393  
Total distribution, fully charged to statutory  
capital reserve

## DIVIDENDS

## DIVIDENDS

	Gross CHF	35% withholding tax CHF	Net CHF
<b>On approval of this proposal, the dividends amount to:</b>			
Dividend per share	1.10	-	1.10

The dividends will be paid from 19 April 2016.

On behalf of the Board of Directors

The Chairman



Daniel J. Sauter



## REPORT OF THE STATUTORY AUDITOR TO THE ANNUAL GENERAL MEETING OF JULIUS BAER GROUP LTD., ZURICH



**KPMG AG**  
**Audit Financial Services**  
Badenerstrasse 172  
CH-8004 Zurich

P.O. Box  
CH-8036 Zurich

Telephone +41 58 249 31 31  
Fax +41 58 249 44 06  
Internet [www.kpmg.ch](http://www.kpmg.ch)

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

---

### **Report of the Statutory Auditor on the Financial Statements**

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 192 to 199) for the year ended 31 December 2015.

#### *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 2015 comply with Swiss law and the company's articles of incorporation.



*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

A handwritten signature in black ink, appearing to read 'Rickert'.

Philipp Rickert  
*Licensed Audit Expert  
Auditor in Charge*

A handwritten signature in black ink, appearing to read 'Castagna'.

Cataldo Castagna  
*Licensed Audit Expert*

Zurich, 29 January 2016



## CORPORATE CONTACTS

### **Group Communications**

Jan A. Bielinski  
Chief Communications Officer  
Telephone +41 (0) 58 888 5777

### **Investor Relations**

Alexander C. van Leeuwen  
Telephone +41 (0) 58 888 5256

### **International Banking Relations**

Kaspar H. Schmid  
Telephone +41 (0) 58 888 5497



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JULIUS BAER GROUP LTD.  
Bahnhofstrasse 36  
P.O. Box  
8010 Zurich  
Switzerland  
Telephone +41 (0) 58 888 1111  
Fax +41 (0) 58 888 5517  
[www.juliusbaer.com](http://www.juliusbaer.com)

The Julius Baer Group  
is present in more than  
50 locations worldwide,  
including Zurich (Head Office),  
Dubai, Frankfurt, Geneva,  
Hong Kong, London, Lugano,  
Monaco, Montevideo, Moscow,  
Mumbai, Singapore and Tokyo.

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**ANNEX B**  
**JULIUS BAER GROUP LTD. ANNUAL REPORT 2016**





Julius Bär

# ANNUAL REPORT 2016

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JULIUS BAER GROUP LTD.



Front cover:

Basle has been a melting pot ever since the Renaissance and the Age of Enlightenment. Symbolised by the oldest university of the Swiss Confederation, the city's liberal and outward-looking stance greatly fostered its economic rise, with the Rhine's connection to the world an obvious contributor to this development. Yet the term 'city' deeply understates what the trinational Basle metropolitan area represents today. It is home of world-renowned chemical and pharmaceutical companies, hub of major international logistics and transportation companies as well as location of the Bank for International Settlements and the Basel Committee on Banking Supervision. Julius Baer has been present in Basle since the year 2000.

Including integration and restructuring expenses as well as the amortisation of intangible assets related to previous acquisitions or divestitures, the net profit achieved in 2016 amounted to CHF 622 million. Excluding these items, the adjusted net profit for 2016 amounted to CHF 706 million. Further information on this basis can be found in the presentation and the media release on the 2016 financial results and the Business Review 2016.

## KEY FIGURES

	2016	2015	
Return on equity (ROE)	12.1%	2.4%	-
Return on tangible equity (ROTE) <sup>1</sup>	28.2%	10.2%	-
Cost/income ratio <sup>2</sup>	72.2%	73.5%	-
Cost/income ratio <sup>3</sup>	68.9%	67.2%	-
	31.12.2016	31.12.2015	Change %
<b>Consolidated balance sheet</b>			
Total assets (CHF m)	96,207.2	84,115.5	14.4
Total equity (CHF m)	5,353.9	4,942.0	8.3
BIS CET1 capital ratio	16.4%	18.3%	-
BIS total capital ratio	17.5%	19.4%	-
<b>Client assets (CHF bn)</b>			
Assets under management	336.2	299.7	12.2
Total client assets	391.6	363.8	7.7
<b>Personnel</b>			
Number of employees (FTE)	6,026	5,364	12.3
<i>of whom in Switzerland</i>	3,237	3,064	5.7
<i>of whom abroad</i>	2,789	2,300	21.2
Number of relationship managers	1,383	1,217	13.6

<sup>1</sup> Net profit of the shareholders of Julius Baer Group Ltd. less integration and restructuring expenses as well as amortisation of intangible assets/(half-yearly) average shareholders' equity less goodwill and other intangible assets

<sup>2</sup> Excluding valuation allowances, provisions and losses

<sup>3</sup> Excluding valuation allowances, provisions and losses, and integration and restructuring expenses as well as amortisation of intangible assets

### Listing

Zurich, Switzerland	SIX Swiss Exchange under the securities number 10 248 496 Member of the Swiss Market Index SMI
---------------------	---

### Ticker symbols

Bloomberg	BAER.VX
Reuters	BAER.VX

	2016	2015	Change %
<b>Information per share (CHF)</b>			
Equity (book value, as at 31.12.)	25.0	23.0	8.5
EPS	2.85	0.55	
Share price (as at 31.12.)	45.23	48.66	-7.0
<b>Market capitalisation (CHF m, as at 31.12.)</b>	10,123	10,891	-7.0
<b>Moody's long-term deposit rating Bank Julius Baer &amp; Co. Ltd.</b>	Aa2	Aa2	-
<b>Capital structure (as at 31.12.)</b>			
Number of shares, par value CHF 0.02	223,809,448	223,809,448	-
Weighted average number of shares outstanding	217,404,899	218,613,533	-
Share capital (CHF m)	4.5	4.5	-

---

## DEAR READER

With improving growth prospects for the world economy, continuing supply of liquidity by central banks and a rising number of outright political shocks, investor focus shifted from deflation fear to political fear in 2016. These developments were met by volatile but relatively resilient financial markets and gave us ample opportunity to guide and advise our clients. Prevailing uncertainty kept client activity subdued, which continued to weigh on margins.

We took full advantage of the ongoing industry consolidation and competitive dynamics in 2016 by hiring a very substantial number of experienced relationship managers, particularly in Asia. This successful hiring highlights the benefits of our focused business model, high brand recognition and strong standing in our chosen markets. Our much enlarged relationship manager base has already made a noticeable contribution and is expected to further firmly contribute to our Group's growth prospects and support its future profitability. Continued net new money inflows, added investments into our European presence, i.e. in Italy (Kairos) and Luxembourg (Commerzbank International S.A. Luxembourg), as well as positive market performance contributed to record-high assets under management of CHF 336 billion at the end of 2016.

The realignment of our organisation, announced in mid-July of 2016, was successfully implemented and resulted in well-defined regionalisation of our Group. All top management changes were staffed from within the organisation, underlining the Group's strong talent pool. The strengthening of our regional setup is a consistent step following the significant increase of our geographic footprint over the past ten years. Together with the ongoing investments in advisory services, investment management expertise and the Group's technology transformation, the stronger regional orientation will further support us in our aim to deliver a seamless client experience and at the same time allow for further efficiency gains.

Even after taking into account the impact of the aforementioned investments, Julius Baer remains well capitalised. On 5 February 2016, we were able to announce the final settlement with the US Department of Justice in connection with the Group's legacy US cross-border business. Already provisioned for in 2015, it had no impact on the financial result or capital ratios of 2016. In view of the forthcoming Basel III capital requirements, fully effective from the beginning of 2018, we continued to further strengthen Julius Baer Group's capital structure. All of the outstanding Basel III-non-compliant lower tier 2 subordinated unsecured bonds 2011–2021 were redeemed in December 2016. This redemption had been funded by the successful placement of the Group's second SGD-denominated, fully Basel III-compliant Additional Tier 1 securities

in the amount of SGD 325 million. As a result, the Group's BIS total capital ratio at year end 2016 stood at 17.5% and the BIS CET1 capital ratio at 16.4%, well above both the Group's own defined and the required regulatory levels. The Board of Directors intends to propose to the Annual General Meeting on 12 April 2017 an increased dividend of CHF 1.20 per share. The total proposed dividend payout amounts to CHF 269 million, up from CHF 246 million in 2016.

We are convinced that Julius Baer is very well positioned to benefit from a business environment favouring specialisation and a clear, well-executed strategy. In order to further foster our stakeholders' understanding of Julius Baer's overarching business mission, we detailed our strategic framework for long-term value creation in a separate section on page 23f. In conclusion, our client-centric business model solely focused on pure private banking and our innovative range of products and services make us the private banking provider of choice for existing and prospective clients, a rewarding place to work for ambitious employees and an attractive long-term investment for equity and bond investors. We thank all our stakeholders for their trust and continued support.



Daniel J. Sauter  
*Chairman*

A handwritten signature in dark ink, appearing to read 'D. Sauter', written in a cursive style.



Boris F.J. Collardi  
*Chief Executive Officer*

A handwritten signature in dark ink, appearing to read 'B. Collardi', written in a cursive style.

Zurich, March 2017

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This Annual Report also appears in German. The English version is prevailing.





# I. CORPORATE GOVERNANCE

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Corporate governance is a decisive part of business management. Shareholders, clients and staff are usually considered the key stakeholder groups within the context of corporate governance. Moreover, the focus of Julius Baer Group Ltd. (the Company) on achieving sustained success and consistency in the Group'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.

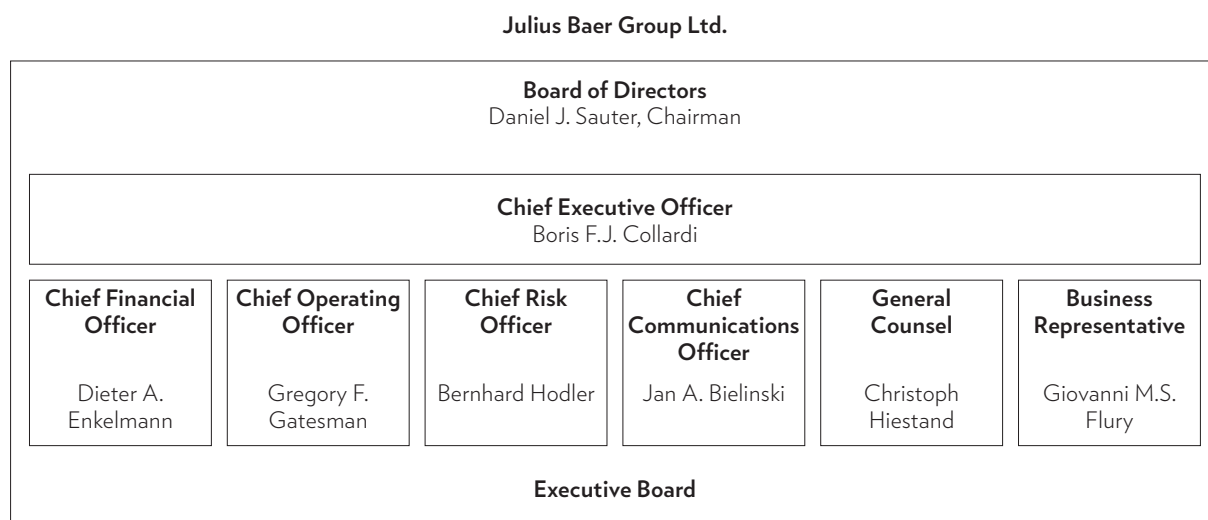
The corporate governance information of the Company is presented in accordance with the Corporate Governance Directive of the SIX Swiss Exchange (revised effective 1 April 2016), with the guidelines and recommendations of the 'Swiss Code of Best Practice for Corporate Governance' of the Swiss business federation *economiesuisse* (in its current version dated 29 February 2016) and the Federal Council's 'Ordinance against excessive compensation in listed companies' (in force effective 1 January 2014).

⇒ The Group's overall compensation framework including compensation governance, compensation elements and their application in the period under review is described in detail in chapter II, *Remuneration Report* of this Annual Report.

The following information corresponds to the situation as at 31 December 2016 unless indicated otherwise.

## GROUP STRUCTURE AND SHAREHOLDERS

### Operational Group structure of Julius Baer Group Ltd. as at 31 December 2016



The consolidated Group companies are disclosed in Note 26A.

## SIGNIFICANT SHAREHOLDERS/ PARTICIPANTS

Based on notifications received by Julius Baer Group Ltd., each of the following shareholders/participants held 3% or more of the voting rights in Julius Baer Group Ltd. as at 31 December 2016<sup>1</sup>:

Shareholder/participant <sup>3</sup>	Disclosure of purchase positions <sup>2</sup>	Disclosure of sale positions <sup>2</sup>
MFS Investment Management <sup>4</sup>	9.98%	
Harris Associates L.P. <sup>5</sup>	4.95%	
BlackRock Inc. <sup>6</sup>	4.51%	0.04%
Bank of America Corporation <sup>7</sup>	3.76%	
Wellington Management Group LLP <sup>8</sup>	3.06%	
Invesco Ltd. <sup>9</sup>	3.02%	

<sup>1</sup> 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. Please note that the above figures are based on reports made before respectively after the following events: a) capital increase by way of rights offering completed on 17 October 2012 with the issuance of 20,316,285 newly registered shares of Julius Baer Group Ltd.; b) capital increase out of authorised share capital completed on 24 January 2013 with the issuance of 7,102,407 newly registered shares of Julius Baer Group Ltd.

<sup>2</sup> 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).  
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).  
The implementing provisions on disclosure law have been integrated into the new FINMA Financial Market Infrastructure Ordinance (FMIO-FINMA), which has entered into force on 1 January 2016. Purchase positions must be disclosed pursuant to art. 14 para. 1 a FMIO-FINMA and sales positions pursuant to art. 14 para. 1 b FMIO-FINMA.

<sup>3</sup> Please note that a change in the holding of voting rights within reportable thresholds does not trigger a notification duty. Further details on individual shareholdings can be found on [www.juliusbaer.com/shareholders](http://www.juliusbaer.com/shareholders) or on [www.six-exchange-regulation.com](http://www.six-exchange-regulation.com) in the section Publications > Significant Shareholders, Issuer Julius Bär Gruppe AG

<sup>4</sup> MFS Investment Management, Boston/USA, and its subsidiaries (reported on 30 December 2013)

<sup>5</sup> Harris Associates L.P., Chicago/USA (reported on 30 November 2016)

<sup>6</sup> BlackRock Inc., New York/USA, and its subsidiaries (reported on 22 July 2016)

<sup>7</sup> Bank of America Corporation, Charlotte/USA, and its directly and indirectly held subsidiaries (reported on 16 August 2012)

<sup>8</sup> Wellington Management Group LLP, Boston/USA (reported on 22 November 2016)

<sup>9</sup> Invesco Ltd., Hamilton/Bermuda (reported on 25 January 2016)

The individual reports that were published during the year under review can be accessed on the reporting and publication platform of the Disclosure Office of SIX Swiss Exchange at the address [www.six-exchange-regulation.com](http://www.six-exchange-regulation.com) in the section Publications > Significant Shareholders, Issuer Julius Bär Gruppe AG.

## 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 4,476,188.96 as at 31 December 2016. It is fully paid up and divided into 223,809,448 registered shares (shares) with a par value of CHF 0.02 each. The shares (Swiss securities no. 10 248 496; ISIN CH 010 2484968) are listed on the SIX Swiss Exchange and are member 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 200,000.00 through the exercise of conversion or warrant rights in connection with bonds issued by the Company or its subsidiaries. Existing shareholders are excluded from subscription rights. 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 4.4ff. of the Articles of Incorporation.

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

Important reasons can be the securing of optimal conditions in issuing the bonds and ensuring equal treatment of shareholders domestically and abroad. 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 in chapter *III. Financial Statements Julius Baer Group* of this Annual Report. For information about changes of capital in periods three or more years back please visit [www.juliusbaer.com/reports](http://www.juliusbaer.com/reports)

### SHARES AND PARTICIPATION CERTIFICATES

#### Shares

	2016	2015
Number of shares with par value of CHF 0.02 as at 31 December	<b>223,809,448</b>	223,809,448
(dividend entitlement, see Note 19)		

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 2016)

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 a 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 registered 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 securities, 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 Meeting of Shareholders 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 discloses to the Company the name, address, nationality or registered office and shareholdings of any person or legal entity for whose account it holds 0.5% or more of the share capital. Fiduciaries/nominees who are affiliated with other fiduciaries/nominees by means of ownership structure or voting rights, or who 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.



## 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 in identical responsibilities as the Board of Directors of Julius Baer Group Ltd.

### MEMBERS OF THE BOARD OF DIRECTORS

**Daniel J. Sauter** (born 1957), Swiss citizen; Swiss Certified Banking Expert, 1983. Gewerbank, 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, 2001–2012. Julius Baer Holding Ltd., member of the Board of Directors, 2007–2009; Bank Julius Baer & Co. Ltd., member of the Board of Directors since 2007 and its Chairman since 2012; Julius Baer Group Ltd., member of the Board of Directors since 2009; Chairman of the Board of Directors of Julius Baer Group Ltd. since 2012 (term of office until 2017).

**Gilbert Achermann** (born 1964), Swiss citizen; Bachelor of Business Administration, University of Applied Sciences (HWW), St. Gallen, 1988; Executive MBA, IMD Lausanne, 2000. UBS Investment Banking, 1988–1998: Graduate trainee programme Trading & Sales, 1988–1989; Associate Corporate Finance / Capital Markets; Assistant to Regional Head North America, 1990–1994; Director Corporate Finance Advisory, 1995–1998; Straumann Group since 1998: Chief Financial Officer and Deputy CEO, 1998–2001; Chief Executive Officer, 2002–2010; Chairman of the Board of Directors since 2010; Board member of the ITI Association and ITI Foundation since 2002. Vitra Group, 2012–2015: Chairman of the Board of Directors from July 2013 until December 2015; Co-CEO from July 2014 until December 2015. Member of

the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 2012 (2017).

**Ann Almeida** (born 1956), British and Irish citizen; Master of Arts in Economics, Cambridge University, UK, 1979; Master of Business Administration, Imperial College, London, UK, 1989. Price Waterhouse, London, Trainee Chartered Accountant, 1979–1982; Qubus, Consultant, technology multinationals, 1983–1988; Merrill Lynch Europe, Reward Manager, 1990–1992; HSBC Holdings, 1992–2015: James Capel, Head of Reward, 1992–1995; James Capel, Head of Human Resources, 1995–1996; Director Human Resources, Corporate, Investment Banking & Markets, Private Banking, Asset Management, Islamic Banking, Transaction Banking, 1996–2007; Group Head of Human Resources, 2007–2010; Group Managing Director of Human Resources & Corporate Sustainability and Member of the Group Executive Board, 2008–2015. Member of the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 1 June 2016 (2017).

**Andreas Amschwand** (born 1960), Swiss citizen; Bachelor of Business Administration, University of Applied Sciences (HWW), 1986. Credit Suisse Group, apprenticeship and subsequent further education in Lausanne, 1976–1981; UBS AG, 1986–2011: Balance Sheet Management, 1986–1991; Money Market, 1992–2000; Forex and Money Market, Investment Bank, Global Head Forex and Money Market, Head Investment Banking Switzerland, member of the Investment Bank Executive Committee, 2001–2008; Investment Products and Services Wealth Management and Swiss Bank, Global Head Investment Products and Services, member of the Wealth Management Executive Committee, 2010–2011. Member of the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 2012 (2017).

**Heinrich Baumann** (born 1951), Swiss citizen; PhD in Management, Technology and Economics, Swiss Federal Institute of Technology (ETH), Zurich, 1985. UBS AG, 1975–1998: COO Singapore Branch and Deputy Branch Manager, 1985–1987; Chief of Staff International Division and Section Head Management Support, 1987–1990; member of the Regional Management Committee (New York),

Chief Operating Officer Region North America, 1990–1994; Department Head Finance and Controlling on Group level, 1994–1998; independent Management Consultant, 1998–1999; HSBC Guyerzeller Bank Ltd., 1999–2009: Chief Operating Officer, 1999–2002; Vice-President of the Executive Committee/Chief Operating Officer, 2003–2005; Chief Executive Officer, 2006–2009; independent Management Consultant since 2009. Member of the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 2011 (2017).

**Paul Man Yiu Chow** (born 1946), Chinese (Hong Kong SAR) citizen; University of Hong Kong: Bachelor of Science in Mechanical Engineering, 1970, Diploma in Management Studies, 1979, Master of Business Administration, 1982; Diploma in finance, Chinese University of Hong Kong, 1987; Doctor h.c. of Social Science, the Open University of Hong Kong, 2010. Hong Kong Government, Executive Officer II, 1970–1971; IBM World Trade Corporation, Hong Kong, Associate Systems engineer, 1971–1973; Sun Hung Kai Group, Hong Kong, 1973–1988: Sun Hung Kai Securities Limited, Executive Director, 1982–1983; Sun Hung Kai Bank Limited, Executive Director, Deputy General Manager and Chief Financial Officer, 1983–1985, Sun Hung Kai & Co. Ltd., Chief Administration & Financial Officer, and Sun Hung Kai Securities Limited, Executive Director, 1985–1988; Chinese University of Hong Kong, lecturer in finance, 1988–1989; The Stock Exchange of Hong Kong Limited, 1989–1997: Director of Operations and Technology, 1989–1990; Hong Kong Securities Clearing Company Ltd., Chief Executive Officer, 1990–1991; Chief Executive, 1991–1997; HSBC Asset Management, Asia Pacific (ex Japan) Region, Chief Executive Officer; HSBC Asset Management Group, member of the Global Management Committee; HSBC Insurance Company Limited, Hong Kong, Non-executive Director, 1997–2003; Hong Kong Exchanges & Clearing Limited, Chief Executive Officer and Executive Director, 2003–2010. Member of the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 2015 (2017).

**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; Ipsen Group, Paris, Chief Financial Officer and member of the Executive Committee, 2003–2011; Europcar Groupe S.A., Guyancourt, France, Chief Financial Officer, 2011–2012; bioMérieux, Marcy l'Etoile, France, Corporate Vice-President Purchasing and Information Systems since September 2013, Chief Financial Officer since January 2014. Member of the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 2010 (2017).

**Gareth Penny** (born 1962), dual South African and British citizen; Master of Arts in Philosophy, Politics and Economics, Oxford University (Rhodes Scholar), UK, 1985. Anglo American Corporation, Johannesburg, Head of Anglo American & De Beers Small Business Initiative, 1988–1991; De Beers Group, 1991–2010: Teemane Manufacturing Company, Botswana, Project Manager, 1991–1993; Diamond Trading Company De Beers, various functions, 1993–2006, incl. Managing Director, 2004–2006; De Beers SA, Luxembourg, member of the Board of Directors, 2003–2010; De Beers SA, Luxembourg, Group Managing Director, 2006–2010; AMG Advanced Metallurgical Group N.V., London, Chief Executive mining business, 2011–2012; New World Resources Plc, London, Executive Chairman of the Board of Directors, 2012–2016; Norilsk Nickel, Moscow, Non-executive Chairman of the Board of Directors since April 2013; Pangolin Diamonds Corp., Toronto, Canada, Non-executive Chairman of the Board of Directors since August 2016. 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 (2017).

**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; Gulfsands Petroleum, Non-executive Director, 2005–2006; Panmure Gordon Plc., Chairman of the Board of Directors, 2006–2008; The London Metal Exchange Ltd., Independent Director from 2005 until August 2009; Better Place, Palo Alto, USA, Chief Finance Officer, 2009–2011; Green & Blue Advisors LLC, New York, co-founder and partner since 2011; RSR Partners, New York, Managing Director, 2012–2013; TGG Group, New York, Advisor, 2014–2015. 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 (2017).

## HONORARY CHAIRMAN

The Honorary Chairman has no active function in 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., 1988: Head of the Swiss Capital Market Group, Zurich, 1988; New York branch, Deputy Branch Manager, 1990–1993; Zurich Head Office, member of the Management Committee, 1993–1996; Julius Baer Holding Ltd., 1996–2009: member of the Group Executive Board and Head of the Private Banking business line as of 1996; Vice President of the Group Executive Board 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, 2003–2009. Chairman of

the Board of Directors of Bank Julius Baer & Co. Ltd., 2003–2012; Chairman of the Board of Directors of Julius Baer Group Ltd., 2009–2012. Alpine Select AG, Zug, Chairman of the Board of Directors since April 2013. Honorary Chairman of Bank Julius Baer & Co. Ltd. and Julius Baer Group Ltd. since 2012.

## Elections and re-elections at the Annual General Meeting 2016/Changes in the Board of Directors

At the Annual General Meeting of Julius Baer Group Ltd. on 13 April 2016, Daniel J. Sauter, Gilbert Achermann, Andreas Amschwand, Heinrich Baumann, Paul Man Yiu Chow, Claire Giraut, Gareth Penny and Charles G. T. Stonehill were re-elected to the Board of Directors for another term of one year.

Ann Almeida was elected as new member of the Board of Directors for the term from 1 June 2016 until the Annual General Meeting 2017.

Daniel J. Sauter was re-elected as Chairman of the Board of Directors for a one-year term.

Gilbert Achermann, Heinrich Baumann and Gareth Penny were re-elected as members of the Compensation Committee for a one-year term. Ann Almeida was elected as new member of the Compensation Committee as of 1 June 2016.

## OTHER ACTIVITIES AND INTEREST TIES

In applying the Corporate Governance Directive and the corresponding commentary of the SIX Swiss Exchange as well as the ‘Ordinance against excessive compensation in listed companies’, the Company fundamentally discloses all mandates and interest ties of its Board members outside of the Julius Baer Group according to the applicable paragraphs of article 13 (Mandates outside the Group) of the Articles of Incorporation:

No member of the Board of Directors may hold more than ten additional mandates of which no more than four mandates in listed companies.



The following mandates are not subject to the aforementioned limitations:

- a) mandates in companies which are controlled by the Company or which control the Company;
- b) mandates held at the request of the Company or companies controlled by it. No member of the Board of Directors may hold more than five such mandates;
- c) mandates in associations, charitable organisations, foundations, trusts and employee welfare foundations. No member of the Board of Directors may hold more than ten such mandates.

Mandates shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Mandates in different legal entities that are under joint control are deemed one mandate.

Mandates in exchange-listed companies:

**Daniel J. Sauter:**

- Member of the Board of Directors of Sika Ltd, Baar, Switzerland.

**Gilbert Achermann:**

- Chairman of the Board of Directors of Straumann Group, Basle, Switzerland.

**Ann Almeida:**

- Independent Non-executive Director, Axiata Group Berhad, Kuala Lumpur, Malaysia.

**Claire Giraut:**

- Member of the Board of Directors of DBV Technologies, Montrouge, France.

**Paul Man Yiu Chow:**

- Independent Non-executive Director, Chairman of the Nomination Committee as well as member of the Audit Committee and of the Remuneration Committee, China Mobile Limited, Hong Kong;
- Independent Non-executive Director and member of the Remuneration Committee, CITIC Limited, Hong Kong.

**Gareth Penny:**

- Non-executive Chairman of the Board of Directors of Norilsk Nickel, Moscow, Russia;
- Non-executive Chairman of the Board of Directors of Pangolin Diamonds Corp., Toronto, Canada.

Mandates in non-listed companies:

**Daniel J. Sauter:**

- Chairman of the Board of Directors of Trinsic AG, Zug, Switzerland;
- Chairman of the Board of Directors of Hadimec AG, Maegenwil, Switzerland;
- Chairman of the Board of Directors of Tabulum AG, Zug, Switzerland;
- Member of the Board of Directors of ARAS Holding AG, Lenzburg, Switzerland (holding company, including AS Print AG and richnerstutz AG, both Villmergen, Switzerland).

**Ann Almeida:**

- Adviser, Chairperson of the HR/Remuneration Committee, Fajr Capital Ltd., Dubai, United Arab Emirates;
- Adviser, Chairperson of the Nomination & Remuneration Committee, Jadwa Investment, Riyadh, Saudi Arabia.

**Andreas Amschwand:**

- Chairman of the Board of Directors, EMFA Holding AG, Kerns, Switzerland;
- Chairman of the Board of Directors of Agricola Tirgu Frumos SA, Razboieni, Romania;
- Administrator of SC AA Agriculture Farm SRL, Razboieni, Romania;
- Administrator of SC Agro Verd Cozmesti SRL, Razboieni, Romania;
- Administrator of SC Agro Verd SRL, Butea, Romania;
- Administrator of SC Vicsani Farm SRL, Razboieni, Romania;
- Chairman of the Board of Directors of Alois Amschwand AG, Kerns, Switzerland.

**Heinrich Baumann:**

- Vice President of the Board of Directors of Atlis AG, Biberist, Switzerland;
- Vice President of the Board of Directors of Completo AG, Biberist, Switzerland.

**Gareth Penny:**

- Non-executive Chairman of the Board of Directors of Edcon Ltd., Johannesburg, South Africa (effective 7 February 2017).

**Charles G. T. Stonehill:**

- Member of the Advisory Board of Rubicon Technology Partners L.P., Menlo Park, CA, USA;
- Non-executive member of the Board of Directors of CommonBond, Inc., New York, USA;
- Member of the Board of Directors of PlayMagnus A/S, Oslo, Norway.

Other mandates:

**Daniel J. Sauter:**

- Member of the Foundation Board of Avenir Suisse, Zurich, Switzerland.

**Gilbert Achermann:**

- Member of the Board of Directors of the ITI Association and ITI Foundation, Basle, Switzerland;
- Member of the Executive Committee of Groove Now! Basel, Basle, Switzerland.

**Ann Almeida:**

- Member of the Board of Trustees of 88 Foundation, London, UK.

**Andreas Amschwand:**

- Chairman of Verein Standortpromotion Kanton Obwalden, Sarnen, Switzerland.

**Heinrich Baumann:**

- Member of the Foundation Board of the International Foundation for Research in Paraplegia, Chêne-Bourg, Switzerland.

**Paul Man Yiu Chow:**

- Member of the Advisory Committee on Innovation and Technology, The Government of the Hong Kong Special Administrative Region;
- Member of the Asian Advisory Council, AustralianSuper, Melbourne, Australia (until 28 February 2017).

**Charles G. T. Stonehill:**

- Governor, Harrow School, Harrow on the Hill, London, UK;

- Member of the Foundation Board of the Fondation Georg Solti Accademia, Geneva, Switzerland.

## ELECTIONS AND TERMS OF OFFICE

The members of the Board of Directors are elected on an individual basis by the Annual General Meeting for a one-year term both in the case of re-elections or new elections. The period between two Annual General Meetings is deemed to be one year. Members whose term of office has expired are immediately eligible for re-election. Except for the election of the Chairman of the Board of Directors and the members of the Compensation Committee by the Annual General Meeting, the Board of Directors constitutes itself. The maximum (cumulative) term of office for the members of the Board of Directors is generally twelve years. Members who have reached their 75th year of age generally do not seek re-election at the end of their current term.

## INTERNAL ORGANISATIONAL STRUCTURE

The Board of Directors consists of five 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 for urgent or routine businesses 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. participate as guests in the meetings of the complete Board of Directors. These meetings generally take up at least half a day.

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 macro-economic and company-specific circumstances.

In 2016, the complete Board of Directors of Julius Baer Group Ltd. held eight meetings (of which two in the form of a conference call), including a two-day strategy seminar.

#### Attendance of the members of the Board of Directors at the respective meetings

	January I	January II <sup>1</sup>	April	June
<b>First half of 2016</b>				
Daniel J. Sauter, Chairperson	x	x	x	x
Gilbert Achermann	x	x	x	x
Ann Almeida <sup>2</sup>	-	-	-	x
Andreas Amschwand	x	x	x	x
Heinrich Baumann	x	x	x	x
Paul Man Yiu Chow	x	x	x	x
Claire Giraut	x	x	x	x
Gareth Penny	x	x	x	x
Charles G. T. Stonehill	x	x	x	x

<sup>1</sup> Meeting by teleconference

<sup>2</sup> Joined the Board of Directors on 1 June 2016

	September	October	November <sup>1</sup>	December
<b>Second half of 2016</b>				
Daniel J. Sauter, Chairperson	E	x	x	x
Gilbert Achermann	x	x	x	x
Ann Almeida	x	x	x	x
Andreas Amschwand	x	x	x	x
Heinrich Baumann	x	x	x	x
Paul Man Yiu Chow	x	x	x	x
Claire Giraut	x	x	x	x
Gareth Penny	x	x	x	x
Charles G. T. Stonehill	x	x	x	x

<sup>1</sup> Meeting by teleconference

E = excused

Except for the election of the Chairman of the Board of Directors and the members of the Compensation Committee by the Annual General Meeting, the Board of Directors elects the members of the committees of the Board of Directors from among its members. 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 business report, the remuneration report and to prepare the General Meetings of Shareholders 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. 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 & Risk Committee*

The Chairman's & 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 & 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 Executive Board and/or affiliated entities and related parties ('Organ-kredite') as defined by the relevant Swiss accounting standards. The Chairman's & 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 & 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 & Risk Committee bases its risk-related work on the Risk Landscape, as approved by the Audit Committee of the Board of Directors at a joint meeting with the Chairman's & Risk Committee, once a year. The Chairman's & 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 Organisa-

tional and Management Regulations of the principal operating subsidiaries, including the allocation of responsibilities. The Chairman's & Risk Committee furthermore approves the formation, the change in capital or ownership structure, the change of legal form or licences, and the liquidation or closure of all subsidiaries. The Chairman's & Risk Committee decides on requests from members of the Board of Directors and of the Executive Board 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 government.

The Chairman's & Risk Committee generally convenes monthly. In 2016, the Committee met ten times for approximately four hours each. The Chief Executive Officer and the Chief Financial Officer are permanent guests and the other members of the Executive Board of the Company participate for specific reporting sessions in the meetings of the Chairman's & Risk Committee.

**Members** Daniel J. Sauter (Chairperson), Andreas Amschwand and Charles G. T. Stonehill

#### Attendance of the members of the Chairman's & Risk Committee at the respective meetings

	January	February	April	May	June
<b>First half of 2016</b>					
Daniel J. Sauter, Chairperson	x	x	x	x	x
Andreas Amschwand	x	x	x	x	x
Charles G. T. Stonehill	x	x	x	x	x
	August	September	October	November	December
<b>Second half of 2016</b>					
Daniel J. Sauter, Chairperson	x	x	x	x	x
Andreas Amschwand	x	x	x	x	x
Charles G. T. Stonehill	x	x	x	x	x

#### Audit Committee

The Audit Committee is responsible for the integrity of controls for financial reporting and the review of the Company's and the Group's financial statements, including the interim management statements but in particular the consolidated statement of the Group and the annual and semi-annual financial 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 managing bodies.

The Committee 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 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 four hours on average. The members of the Executive Board of Julius Baer Group Ltd. 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 nine meetings including three conference calls.

**Members** Heinrich Baumann (Chairperson), Paul Man Yiu Chow, Claire Giraut and Charles G. T. Stonehill

#### Attendance of the members of the Audit Committee at the respective meetings

	January	April	May <sup>1</sup>	June
<b>First half of 2016</b>				
Heinrich Baumann, Chairperson	x	x	x	x
Paul Man Yiu Chow	x	x	x	x
Claire Giraut	x	x	x	x
Charles G. T. Stonehill	x	x	x	x
Daniel J. Sauter	G	G	G	G
Andreas Amschwand	-	-	-	G

<sup>1</sup> Meeting by teleconference  
G = attended meeting as guest

	July <sup>1</sup>	September	October	November <sup>1</sup>	December
<b>Second half of 2016</b>					
Heinrich Baumann, Chairperson	x	x	x	x	x
Paul Man Yiu Chow	x	x	x	x	x
Claire Giraut	x	x	x	x	x
Charles G. T. Stonehill	x	x	x	x	x
Daniel J. Sauter	G	-	G	G	G

<sup>1</sup> Meeting by teleconference  
G = attended meeting as guest

#### Compensation Committee

The Compensation Committee shall carry out the Board's overall responsibility for drawing up the remuneration principles, remuneration strategy and policies covering the Chairman of the Board of Directors, the further non-executive members of the

Board of Directors, the Chief Executive Officer (CEO) and the further members of the Executive Board within the Julius Baer Group. This includes reviewing any compensation principles (changes thereof have to be submitted for approval to the Board of Directors), reviewing and approving compensation

policies relating to the Company as a whole as well as any compensation policies within the Group which are linked to the shares of the Company.

The Compensation Committee, with the support of external advisors if needed, undertakes to advise the full Board of Directors, whether the current compensation for the Chairman, the Board of Directors, the CEO and the Executive Board is in line with market practices.

The Compensation Committee annually reviews the compensation elements and the share ownership programmes by considering possible impacts of new regulatory developments and feedback received from stakeholders.

The Compensation Committee is responsible for reviewing and approving the Company's principles on total compensation and benefits (Remuneration Policy). It annually reviews that the principles are operated as intended and that the policy is compliant with national and international regulations and standards.

The Compensation Committee determines the compensation of the Chairman and of the Executive Board and submits the respective proposals for the other members of the Board of Directors and the CEO to the Board of Directors for approval. The compensation proposals for the Chairman, the

Board of Directors, the CEO and in aggregate form for the Executive Board are subsequently submitted to the Annual General Meeting for approval by the shareholders.

Finally, the Compensation Committee on an annual basis prepares and proposes to the Board of Directors and subsequently to the attention of the shareholders a Remuneration Report as well as other reports as required by law or regulations.

⇒ The Group's overall compensation framework including compensation governance, compensation elements and their application in the period under review is described in detail in chapter *II. Remuneration Report* of this Annual Report.

The Compensation Committee consists of at least three members who are elected by the Annual General Meeting. With respect to decisions of specialised nature, the Compensation Committee may seek advice from additional members of the Board of Directors. The Compensation Committee convenes as often as required, however, not less than three times a year. During the year under review, the Compensation Committee held five meetings for three hours on average.

**Members** Gareth Penny (Chairperson), Gilbert Achermann, Ann Almeida and Heinrich Baumann

#### Attendance of the members of the Compensation Committee at the respective meetings

	January	April	June	September	November
Gareth Penny, Chairperson	x	x	x	x	x
Gilbert Achermann	x	x	x	x	x
Ann Almeida <sup>1</sup>	-	-	x	x	x
Heinrich Baumann	x	x	x	x	x
Daniel J. Sauter	G	G	G	-	G
Charles G. T. Stonehill	-	-	-	G	-

<sup>1</sup> Joined the Committee on 1 June 2016

G = attended meeting as guest except portions of meetings where a conflict of interest might have arisen

#### *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 Annual General Meeting.

The Nomination Committee is also responsible for the long-term succession planning of the Chief Executive Officer (CEO) and the other members of the Executive Board 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, CEO and other Executive Board members succession plan.

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 Nomination Committee met four times in 2016 for an average duration of one hour each.

**Members** Charles G. T. Stonehill (Chairperson), Gilbert Achermann, Claire Giraut and Daniel J. Sauter

#### **Attendance of the members of the Nomination Committee (ad hoc) at the respective meetings**

	January	June	October	December
Charles G. T. Stonehill, Chairperson	x	x	x	x
Gilbert Achermann	x	x	x	x
Claire Giraut	x	x	x	x
Daniel J. Sauter	x	x	x	x
Ann Almeida	-	-	-	G

G = attended meeting as guest



## DEFINITION OF AREAS OF RESPONSIBILITY

### **Julius Baer's strategic framework for long-term value creation**

Since the launch of the new Julius Baer Group in 2009, the company has consistently executed the long-term strategy outlined at the time. At the core of this strategy is the focus on pure private banking and on realising profitable organic and inorganic growth by leveraging the Group's regional strengths and client-centric service model, with the aim to create long-term sustainable value for clients and investors.

#### *Applying a client-centric business model*

Julius Baer focuses on pure private banking, targeting private clients and family offices as well as external asset managers. The Group's unique position of strength as the leading Swiss private banking group is further reinforced by an unmatched focus on client-centric (as opposed to product-led) service excellence, supported by Julius Baer's open product platform, and a corresponding client-centric management culture, all of which are driven by a committed management team with deep experience in private banking.

#### *Generating sustainable growth by leveraging Julius Baer's regional strengths and client-centric service model*

Since 2009, Julius Baer's strategy has aimed at delivering profitable growth both organically as well as inorganically through acquisitions.

Organic growth is achieved by generating steady net new money throughout the business cycle through the continued focus on onboarding new clients, increasing the share of wallet of existing clients as well as carefully hiring experienced relationship managers. In this process, the Group's pure private banking focus, its distinctive corporate culture, its conservatively managed balance sheet

and its comparatively low-risk business profile are all key elements in making Julius Baer the employer of choice for top private bankers and the bank of choice for its clients. Through careful and selective consideration of acquisitions to support the Group's growth strategy, Julius Baer aims to preserve these key advantages.

Julius Baer's balanced growth strategy is supported by a diversified global footprint, ensuring overall profitable and sustainable growth and making it possible to neutralise slower economic development in any one region. In the geographic allocation of its investments in growth, the Group has always aimed to strike an equilibrium over the cycle between investments into Julius Baer's original target markets of Switzerland and Europe (~50% of assets under management) and into its presence in the key wealth management growth markets around the world – Asia, Latin America, the Middle East, Israel and Africa, as well as Central and Eastern Europe, including Russia (~50% of assets under management).

#### *Calibrating the strategy in a changing environment*

In 2016, as in other years, Julius Baer's Board of Directors extensively reviewed the Group's long-term strategy with the Group's management, both in terms of its ongoing stand-alone validity and against potential alternative strategies. The two bodies jointly concluded that while the external environment (encompassing client needs, market conditions, regulatory requirements and competitive behaviour) will continue to change and evolve, the core elements of the Group's long-term strategy as outlined in 2009 remain valid.

Notwithstanding the continued commitment to the long-term core strategic focus, the Board and management reacted to the shorter-term market and competitive developments in 2016 and hence fine-tuned the Group's strategy for the medium term.

To lay the foundation for continued success, over the next few years the Group's strategy will focus particularly on delivering a best-in-class wealth management experience for clients, on strengthening the Group's position as employer of choice for top private banking professionals and as bank of choice for its clients, and on continuing to be among the most profitable businesses in the sector. This is to be achieved by concentrating on the following elements:

- Enhancing the Group's market focus and regionalisation while realigning the organisation to the evolving market-specific client needs.
- Strengthening the client-facing management structure and the client knowledge framework, encompassing all existing and anticipated future regulatory requirements.
- Enhancing Julius Baer's holistic *Your Wealth* offering through the further and wider roll-out of Julius Baer's advisory model and the strengthening of Julius Baer's investment management (discretionary mandates) capabilities.
- Increasing the productivity and efficiency through investing in the Group's technology platform and processes and strengthening the emphasis on its target clients.
- Further establishing Julius Baer as the global leader in private banking and building on the Group's attractive employee value proposition.

#### *Creating shareholder value*

Key elements of Julius Baer's strategic focus are reflected in its financial targets and driven by its aim to balance growth and profitability:

- Growth: Julius Baer's focus on organic growth is reflected in the Group's medium-term target to realise between 4% and 6% net new money expansion per annum.
- Profitable growth: Julius Baer's focus on achieving profitable growth is echoed by its dual targets of realising an adjusted<sup>1</sup> cost/income ratio<sup>2</sup> of between 64% and 68% and an adjusted pre-tax margin<sup>3</sup> of over 30 basis points in the medium term.
- Strong balance sheet, comparatively low-risk business profile: The focus on maintaining these two key competitive advantages partly manifests itself in Julius Baer's aim to maintain its (phase-in) BIS total capital ratio above 15% and its (phase-in) BIS core equity tier 1 ratio above 11%, three percentage points above the regulatory required minimum levels. In setting its floors at these levels, the Group believes it achieves an appropriate balance between on the one hand maintaining a solid capital buffer and on the other hand continuing to generate attractive returns for its shareholders.
- Shareholder value: The continued successful execution of the long-term strategy is expected to result in a prolonged above-market return to shareholders. This aim is further supported by the Group's intent to grow its dividend pay-out ratio to approximately 40% of adjusted net profit.
- Pay for performance: The Group's focus on sustainable profitable growth and long-term shareholder value creation is reflected in the Executive Board's compensation structure, in particular via the cumulative economic profit and relative total shareholder return components of the equity performance plan.

<sup>1</sup> Adjusted results derived by excluding from the audited IFRS financial statements the integration and restructuring expenses as well as the amortisation of intangible assets related to previous acquisitions or divestments.

<sup>2</sup> Calculated using adjusted operating expenses, excluding valuation allowances, provisions and losses.

<sup>3</sup> Adjusted profit before taxes divided by average assets under management in basis points.

### **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 monitors 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 individuals, 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 (OGR). All relevant information contained in the OGR is substantially disclosed in the respective sections of this *Corporate Governance* chapter.

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 Meetings of Shareholders (Annual General Meeting and Extraordinary [if any] Meetings) 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 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. 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 (if any) 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 or licenses, and the liquidation or closure of principal operating companies and other subsidiaries to the Chairman's & Risk Committee for final approval. The Executive Board grants permission to employees (other than the members of the Executive Board) 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 and government.

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 Chairman's & Risk Committee of 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 Organisational 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), the Chief Financial Officer (CFO) 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 (usually monthly to Chairman's & Risk Committee)
- Written report by the General Counsel (quarterly to complete Board of Directors)
- Written or oral reporting by the members of the Executive Board (usually quarterly to complete Board of Directors and monthly to Chairman's & Risk Committee)
- Financial reporting by the CFO (Monthly Financial Report to complete Board of Directors and Chairman's & Risk Committee; enlarged written and oral reporting on a quarterly basis to

complete Board of Directors; written and oral reporting monthly to Chairman's & Risk Committee)

- Financial statements by the CFO (half-year results as well as Interim Management Statements to Audit Committee, full-year results to Audit Committee and complete Board of Directors)
- Forecast by the CFO (quarterly to complete Board of Directors)
- Pension Fund update by the CFO (annually to complete Board of Directors)
- Treasury/Asset & Liability Management update by the CFO or the Head Treasury (annually to complete Board of Directors and usually oral information monthly to Chairman's & Risk Committee)
- Budget, Capital Management 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 & Risk Committee)
- Regulatory reporting of 'Klumpenrisiken' by the Chief Risk Officer (quarterly to Chairman's & Risk Committee)
- Group Risk reporting by the Chief Risk Officer (quarterly to Chairman's & Risk Committee as well as to Audit Committee, annually to complete Board of Directors)
- Risk Landscape by the Chief Risk Officer (annually to Chairman's & Risk Committee and 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 usually on a quarterly basis, respectively.

## EXECUTIVE BOARD

### MEMBERS OF THE EXECUTIVE BOARD

**Boris F.J. Collardi** (born 1974), dual Swiss and Italian citizen; Executive Programme IMD Lausanne, 1999. Credit Suisse, 1993–2005: 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. Entry into Bank Julius Baer & Co. Ltd., 2006: Member of the Executive Board 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). Chairman of the Julius Baer Foundation from 1 January 2015 to 31 December 2015. Chief Executive Officer of Bank Julius Baer & Co. Ltd. since 1 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; PhD 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: Development of PR/Marketing activities, 1983–1986; Head of Corporate and Marketing Communications, 1987–1995; Julius Baer Holding Ltd., 1996–2009: Chief Communications Officer and Head of Investor Relations from 1996 until 30 September 2009 (Head of Investor Relations until 2008); member of the Extended Group Executive Board from 2002 until December 2005; member of the Corporate Centre Management from December 2005 until November 2007; Bank Julius Baer & Co. Ltd. since 2010: member of the Extended Executive Board from 1 January 2010 until 29 February 2012;

Chief Communications Officer since 1 January 2010; additionally Head Marketing from 1 November 2011 until 31 March 2015; member of the Executive Board and Chief Communications Officer of Julius Baer Group Ltd. since 1 October 2009.

**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 1997–2003: Head Corporate Financial Management and Investor Relations, 1997–2000; 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; Chief Financial Officer and Member of the Management Committee of Bank Julius Baer & Co. Ltd., 2006–2007; 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 Executive Board and Chief Financial Officer of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 1 October 2009.

**Giovanni M.S. Flury** (born 1953), Swiss citizen; Degree in Economics (lic. oec. HEC), University of Lausanne, 1978; Senior Executive Programme, Harvard Business School, Cambridge, Massachusetts, USA, 1999. École Professionnelle Commerciale de Lausanne, Switzerland, Teacher of Economics and Law, 1978–1980; Nestlé Switzerland, Canada and Malaysia, Product Manager, 1981–1985; UBS AG, 1986–1998: Trainee Corporate Banking, Lugano, 1986; Branch Manager of Cassarate, 1987–1991; Head of Corporate Clients and Loans & Mortgages, Lugano, 1992–1995; Project Head Reengineering Corporate Banking Switzerland, Zurich, 1996; Head of Corporate Clients and Loans & Mortgages Ticino and Italy, Lugano, 1997–1998; Credit Suisse, Lugano, Head of Large Corporate Clients Ticino and Italy, 1998–1999; BDL Banco di Lugano, Lugano, Member of the Executive Board and Head of Private Banking, 2000–2005. Entry into the Julius Baer Group 2006: Banca Julius Baer (Lugano) SA, Member of the Executive Board and Head of Private



Banking, 2006–2007; Bank Julius Baer & Co. Ltd. from 2007 to 31 December 2015: Deputy Head Ticino and Italy, 2007–2009; CEO Ticino and Italy and Member of the Executive Board, 2010 until June 2011; CEO Italy and Member of the Executive Board, July 2011 until December 2012; Head Switzerland and Member of the Executive Board, January 2013 until September 2015; member of the Executive Board and Business Representative of Julius Baer Group Ltd. from 1 January 2016 until 31 December 2016.

**Gregory F. Gatesman** (born 1975), US citizen; The College of New Jersey, Trenton State College, Bachelor of Science in Business Administration, 1997; Financial executive education, Wharton School, University of Pennsylvania, Philadelphia, USA, 2004; Executive MBA, Smeal School of Business, Pennsylvania State University, USA, 2004; Chartered Financial Analyst (CFA), 2007. Merrill Lynch, 1997–2009: different positions, 1997–2002; Vice-President Advisory Division Administration, 2002–2004; Director of Private Banking Platform, 2004–2005; Managing Director / Co-Head and COO Merrill Lynch Trust Company, 2005–2008; Managing Director / Chief Operating Officer US Wealth Management, 2008–2009; Bank of America Corporation, Managing Director / Transition Leadership Executive, 2009; Merrill Lynch Global Wealth Management, Managing Director / Chief Operating Officer International Wealth Management, 2010–2013. Member of the Executive Board and Chief Operating Officer of Bank Julius Baer & Co. Ltd. from 1 February 2013 until 1 August 2016; member of the Executive Board and Chief Operating Officer of Julius Baer Group Ltd. from 1 February 2013 until 31 December 2016.

**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. Beiten Burkhardt Mittl & Wegener, attorneys-at-law, Frankfurt am Main and Duesseldorf (Germany), 1997–1998; attorney-at-law with BBLP Meyer Lustenberger, Zurich, 1999–2001. Entry into Bank Julius Baer & Co. Ltd., 2001: Legal Counsel 2001–2003; General Counsel, Corporate Centre, 2004–2005; Julius Baer Holding Ltd., Deputy Group General Counsel, 2006 until 30 September

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, University of Applied Sciences (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. Head of Global Market & Credit Risk and Global Controlling Trading & Sales, Credit Suisse, 1994–1996; Head of European Risk Management, Credit Suisse First Boston, 1997–1998. Entry into Bank Julius Baer & Co. Ltd. in 1998 as Head of Global Risk Management, 1998–2001; Chief Risk Officer, 2001–2009; President of the Management Committee from 2001 until 2 December 2005; Julius Baer Holding Ltd.: member of the Extended Group Executive Board and Chief Risk Officer 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 from 15 November 2007 until 30 September 2009; Bank Julius Baer & Co. Ltd., member of the Executive Board since 15 November 2007: Chief Risk Officer from 15 November 2007 until 2009; Head Risk, Legal & Compliance from 2009 until 31 March 2011; Chief Operating Officer (COO) from 1 April 2011 to 31 December 2012, COO a.i. from 1 to 31 January 2013; Chief Risk Officer since 1 February 2013. Chief Operating Officer (COO) a.i. of Julius Baer Group Ltd. from 1 to 31 January 2013; member of the Executive Board and Chief Risk Officer of Julius Baer Group Ltd. since 1 October 2009.

#### Changes in the Executive Board

Giovanni M.S. Flury joined the Executive Board on 1 January 2016 as Business Representative of Julius Baer Group Ltd. and retired on grounds of age at the end of 2016.

Nic Dreckmann joined the Executive Board on 1 January 2017 as Chief Operating Officer of Julius Baer Group Ltd., replacing Gregory F. Gatesman who left the Group at the end of 2016.

## OTHER ACTIVITIES AND INTEREST TIES

In applying the Corporate Governance Directive and the corresponding commentary of the SIX Swiss Exchange as well as the 'Ordinance against excessive compensation in listed companies', the Company fundamentally discloses all mandates and interest ties outside of the Julius Baer Group according to the applicable paragraphs of article 13 (Mandates outside the Group) of the Articles of Incorporation:

No member of the Executive Board may hold more than five additional mandates of which no more than one mandate in listed companies.

The following mandates are not subject to the aforementioned limitations:

- a) mandates in companies which are controlled by the Company or which control the Company;
- b) mandates held at the request of the Company or companies controlled by it. No member of the Executive Board may hold more than five such mandates;
- c) mandates in associations, charitable organisations, foundations, trusts and employee welfare foundations. No member of the Executive Board may hold more than ten such mandates.

Mandates shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Mandates in different legal entities that are under joint control are deemed one mandate.

Mandates in exchange-listed companies:

### **Dieter A. Enkelmann:**

- Member of the Board of Directors of Cosmo Pharmaceuticals S.p.A., Lainate, Italy, including Head of the Audit Committee and member of the Nomination Committee.

Mandates in non-listed companies:

### **Boris F.J. Collardi:**

- Member of the Board of Directors of BlueOrchard Ltd., Geneva, Switzerland.

### **Bernhard Hodler:**

- Member of the Board of Directors of Ifb AG, Cologne, Germany.

Other mandates:

### **Boris F.J. Collardi:**

- Member of the Board and the Committee of the Governing Board of the Board of Directors of the Swiss Bankers Association, Basle, Switzerland;
- President of the Association of Swiss Asset and Wealth Management Banks, Zurich, Switzerland;
- Member of the Foundation Board of the Swiss Finance Institute, Zurich, Switzerland;
- Member of the Foundation Board of Fondation du Festival et Académie de Verbier, Verbier, Switzerland;
- Member of the Advisory Board of the Lee Kong Chian School of Business – Singapore Management University, Singapore;
- Member of the Foundation Board of IMD, International Institute for Management Development, Lausanne, Switzerland;
- Initial council, Masayoshi Son Foundations for Scholarship, Tokyo, Japan.

### **Dieter A. Enkelmann:**

- Chairman of the Foundation Board of Stiftung für angewandte Krebsforschung, Zurich, Switzerland.

## MANAGEMENT CONTRACTS

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



## SHAREHOLDERS' PARTICIPATION RIGHTS (AS AT 31 DECEMBER 2016)

### VOTING-RIGHTS RESTRICTIONS AND REPRESENTATION

In relation to the Company, any person entered in the share register shall be deemed to be a shareholder. The shareholder shall exercise its rights in the affairs of the Company at the General Meeting of Shareholders. It may represent itself or be represented by the independent voting rights representative or a third party at the General Meeting of Shareholders.

The General Meeting of Shareholders shall elect the independent voting rights representative for a term of office expiring after completion of the next Ordinary General Meeting of Shareholders. Re-election is possible.

The independent voting rights representative shall inform the Company of the amount, kind, nominal value and category of shares represented by it. The Chairman shall convey this information to the General Meeting of Shareholders.

The Group's shareholders are given the possibility to vote their shares through an electronic voting tool. Such votes will be delegated to the independent voting rights representative.

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 General Meetings of Shareholders are passed by an absolute majority of the votes cast, excluding blank or invalid ballots.

### CONVOCAION OF THE GENERAL MEETINGS OF SHAREHOLDERS

The convocation of the General Meetings of Shareholders 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 General Meeting of Shareholders. 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 Annual General Meeting of Shareholders, 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).

retirement benefits under the pension plan, etc.) which are generally available to other Julius Baer employees. The Executive Board members, however, are not entitled to other severance pay or special termination benefits under the pension plans compared to the general staff population.

### CLAUSES ON CHANGES OF CONTROL

Executive Board members are not entitled to specific payments upon a change of control or upon termination of employment related to a change of control; however, they are eligible to receive such benefits (e.g. accrued holiday pay, death/disability/

Special change-of-control provisions may be available under the Equity Performance Plan. All provisions remain subject to the prevailing legislation in each of the applicable jurisdictions at the time of the change of control. More details can be found in chapter *II. Remuneration Report* of this Annual Report.

## AUDIT

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

### EXTERNAL AUDITORS

The statutory auditor of the Julius Baer Group is KPMG AG (KPMG), Badenerstrasse 172, 8004 Zurich, Switzerland. The mandate was first given to KPMG for the business year 2006. Philipp Rickert has been the Lead Auditor since 2013. Swiss Law requires the Lead Auditor to rotate every seven years.

KPMG attends all meetings of the Audit Committee. At each meeting, KPMG reports on the findings of its audit and/or interim review work. The Audit Committee reviews KPMG's audit plan on an annual basis and evaluates the performance of KPMG and its senior representative in fulfilling their responsibilities.

Moreover, the Audit Committee recommends to the Board of Directors the appointment or replacement of the External Auditors, subject to shareholder approval as required by Swiss law.

KPMG provides a report as to its independence to the Audit Committee at least once a year. In addition, the policy that governs the cooperation with the External Auditors strives to ensure an appropriate degree of independence of the Group's External Auditors. The policy limits the scope of service that the External Auditors may provide to Julius Baer Group Ltd. or any of its subsidiaries in connection with its audit and stipulates certain permissible types and caps of additional audit-related and consulting-related services. The Audit Committee pre-approves all other services on a case-by-case basis. In accordance with this guidance and as in prior years, all KPMG non-audit services provided in 2016 were pre-approved. KPMG is required to report to the Chief Financial Officer and the Audit Committee periodically the extent of services provided and the fees for the services performed to date.

**Fees paid to External Auditors**

	<b>2016</b> <i>CHF m</i>	2015 <i>CHF m</i>
Audit fees <sup>1</sup>	<b>6.7</b>	5.8
Audit-related fees <sup>2</sup>	<b>0.5</b>	0.4
Other services fees <sup>3</sup>	<b>0.8</b>	1.2

<sup>1</sup> Fees related to Group and stand-alone financial statement and regulatory audit

<sup>2</sup> Fees related to accounting and regulatory compliance services and other audit and assurance services

<sup>3</sup> Fees related to tax compliance and consultancy services

**GROUP INTERNAL AUDIT**

With 32 professionals as at 31 December 2016, compared to 33 as at 31 December 2015, Group Internal Audit (GIA) performs the global internal audit function for the Julius Baer Group. GIA is an independent and objective function that provides assurance to the Board of Directors on safeguards taken by management (i) to protect the reputation of the Group, (ii) to protect its assets and (iii) to monitor its liabilities. GIA provides assurance by assessing the reliability of financial and operational information, as well as compliance with legal,

regulatory and statutory requirements. All reports with key issues are provided to the Chief Executive Officer, the Executive Board members of the Bank and other responsible members of management. In addition, the Chairman and the Audit Committee members are regularly informed about important issues. GIA further assures the closure and successful remediation of audit issues.

To maximise its independence from management, the Head of GIA, Peter Hanimann, reports directly to the Chairman and to the Chairperson of the Audit Committee for delegated duties. GIA has unrestricted access to all accounts, books, records, systems, property and personnel, and must be provided with all information and data needed to fulfil its auditing duties. The Chairman and the Chairperson of the Audit Committee may request special assignments to be conducted. Other Board of Directors members and the Executive Board may ask for such special assignments with the approval of the Chairman or the Chairperson of the Audit Committee.

Coordination and close cooperation with the External Auditors enhance the efficiency of GIA's work.

## INFORMATION POLICY

Julius Baer Group Ltd. informs its shareholders and the public each year by means of the Annual and Half-year Reports. Julius Baer furthermore provides a summary account of the business performance for the first four and the first ten months of each year, respectively, in separate Interim Management Statements. It also publishes press releases, presentations and brochures as needed.

- ⇒ Current as well as archived news items can be accessed via [www.juliusbaer.com/news](http://www.juliusbaer.com/news).
- ⇒ Stakeholders and interested parties can be kept informed about our Group automatically by subscribing to Julius Baer's News Alert service at the address [www.juliusbaer.com/newsalert](http://www.juliusbaer.com/newsalert).

### ADDRESS AND CONTACT

JULIUS BAER GROUP LTD.  
Bahnhofstrasse 36  
P.O. Box  
8010 Zurich  
Switzerland  
Telephone +41 (0) 58 888 1111  
Fax +41 (0) 58 888 5517

[www.juliusbaer.com](http://www.juliusbaer.com)  
[info@juliusbaer.com](mailto:info@juliusbaer.com)

### Investor Relations

Alexander C. van Leeuwen  
Telephone +41 (0) 58 888 5256

### IMPORTANT DATES

20 March 2017	Publication of Annual Report 2016
12 April 2017	Annual General Meeting, Zurich
18 April 2017	Ex-dividend date
19 April 2017	Record date
20 April 2017	Dividend payment date

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

- ⇒ Please refer to the corporate calendar at the address [www.juliusbaer.com/calendar](http://www.juliusbaer.com/calendar) for the publication dates of financial statements and further important corporate events.

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## LETTER TO OUR SHAREHOLDERS

Dear Shareholders,

In 2016, the Julius Baer Group continued to thrive. In comparison to 2015, operating income was up 6% (supported by a significant rise in net interest income), the adjusted net profit for the Group climbed to CHF 706 million (growing by 1% when excluding the 2015 US provision from the 2015 results or 153% when including such provision), and the Group increased its overall assets under management to a record level of CHF 336 billion (a 12% increase).

Julius Baer continued its growth and expansion in 2016. The Group underwent a structural reorganisation which focused on increasing efficiency by aligning the regions and divisions with client needs and expectations. The new structure created two new regions (Europe and Emerging Markets) and consolidated our Intermediaries division into the five regions. This realignment allows us to group important markets strategically, thus improving our clients' overall experience with the Group.

In 2016, we also further developed our processes for identifying and promoting our internal talent pool, refined our performance-assessment process and strengthened governance through the introduction of augmented qualitative assessment standards. This enhanced our ability to continue to identify high performers and to develop them into future leaders. Through this new programme, we have identified a significant number of employees at all levels of the organisation, who will benefit from additional mentoring and training to improve their skill sets and whom we will deploy across our Group functions. We are pleased that all the leadership roles required in the reorganisation we carried out in 2016 were filled by internal candidates.

Given the Group's commitment to maintain a compensation framework that promotes value creation for all stakeholders, we developed a new approach for assessing the performance of our relationship managers with a focus on team building and leadership. A new leadership-focused compensation programme will be implemented in 2017. To support this new programme, the Group implemented a fully re-designed qualitative assessment process which was applied to the evaluation of relationship managers in 2016. The new, transparent structure focuses on providing a real-time assessment of performance across our key qualitative targets, focused on conduct, operational and advisory excellence with meaningful negative impacts on compensation for non-compliance.

In line with the above changes, pay-mix appropriateness (from the perspective of best practices as defined by regulators, market alignment and our own compensation strategy) remained an important agenda item in 2016. The Group again carried out a detailed benchmarking of the compensation of the Board of Directors, the Executive Board and our key employees. No changes to the structure of the compensation paid to the Board of Directors or the Executive Board have been made in 2016, and our eligible employees continue to be awarded variable compensation in a mixture of immediate cash, deferred cash and deferred equity.

In 2016, minor compensation-policy changes were made to support our long-term business strategy and to comply with challenging regulatory requirements in our operating locations. These will continue to be monitored to ensure that Julius Baer's performance-based variable compensation complies with all rules and regulations and adheres to the best practices in our industry. Our compensation framework aims to support our overall business strategy in a responsible way in order to promote the continued development of our business for the benefit of our shareholders.

In this report, the Executive Board compensation reporting disclosure, which follows the rules provided by the 'Swiss Ordinance against Excessive Compensation in Listed Companies' (the 'Ordinance'), has been updated. In recent years, Julius Baer has disclosed such compensation from both a regulatory (grant-year under the Ordinance) and a company (performance-year) perspective. To avoid confusion amongst readers, this year's report has been harmonised by providing the regulatory view only. This reporting adjustment does not impact the information that the Group will provide to shareholders for the purposes of the vote on this Remuneration Report or on our compensation arrangements.

We are thankful for the confidence our shareholders have demonstrated in our compensation framework. In line with the Ordinance, shareholders will be asked to vote on the identified, detailed compensation arrangements for the Board of Directors and Executive Board. In addition, mirroring the importance we place on dialogue with our shareholders, a consultative vote on the Remuneration Report will again be conducted.

On behalf of the Board of Directors,

Daniel J. Sauter  
*Chairman*

Gareth Penny  
*Chairman of the Compensation Committee*

## COMPENSATION GOVERNANCE

### COMPENSATION COMMITTEE AUTHORITY AND RESPONSIBILITIES

Julius Baer operates a multi-tiered system of compensation governance which ensures that there are clear processes governing all aspects of compensation. The Board of Directors sets the overall remuneration policy and retains full responsibility for designing and monitoring all aspects of the compensation paid to the Board of Directors and the Executive Board.

The Compensation Committee supports the Board of Directors in carrying out the Board's overall responsibility with regard to defining the Julius Baer Group's remuneration principles and compensation strategy. The Compensation Committee oversees the compensation of the Board of Directors (including the Chairperson), Executive Board members (including the CEO) as well as that of all other employees of Julius Baer Group Ltd. (the 'Company' or the 'Group') on a collective basis. This includes reviewing any compensation principles (changes to which have to be submitted for approval to the

Board of Directors), reviewing and approving compensation policies relating to the Group as a whole as well as any compensation policies within the Group which are linked to the shares of the Group. Where relevant, the Compensation Committee also collaborates with other Julius Baer Group Ltd. Committees (e.g. the Audit Committee and the Chairman's & Risk Committee) when shaping policy.

Every year, the Compensation Committee reviews the compensation elements and the share ownership programmes in the context of Julius Baer Group Ltd.'s current business strategy, market practice, the possible impact of new regulatory developments and feedback received from stakeholders. The Compensation Committee also carries out an annual review of the Group's compliance with these principles and policies and ensures that the relevant policies conform to national and international standards and regulations. For each group of recipients, the following table shows the procedures for recommendations and decisions on compensation:

Compensation recipient	Recommended by	Reviewed and agreed by	Approved by
Chairperson of the Board of Directors	Chairperson of the Compensation Committee	Compensation Committee	Shareholders
Board of Directors members (excluding the Chairperson)	Compensation Committee	Board of Directors	Shareholders
CEO	Chairperson of the Board of Directors and Chairperson of the Compensation Committee	Compensation Committee/ Board of Directors	Shareholders
Executive Board (excluding the CEO)	CEO	Compensation Committee/ Board of Directors	Shareholders
Regulated staff (e.g. key risk takers)	Line management	CEO/Executive Board	Compensation Committee
High income earners	Line management	CEO/Executive Board	Compensation Committee

To avoid any conflicts of interest, the Chairperson of the Board, the CEO and other members of the Executive Board do not participate in those parts of the Compensation Committee meetings which serve to discuss and determine their proposed compensation.

The Compensation Committee consists of at least three members of the Board of Directors who are elected by the Annual General Meeting (AGM).

The current Compensation Committee is made up of four members. Where decisions of a specialised nature are required, the Compensation Committee may seek advice from additional members of the Board of Directors.

**Members:** Gareth Penny (Chairman), Gilbert Achermann, Heinrich Baumann and Ann Almeida (who joined the Compensation Committee in June 2016). As described in the 'Corporate Governance'



section of the Annual Report, these four individuals are experienced Board members who have a broad range of expertise in the industry as well as in matters of governance.

The Compensation Committee convenes as often as required and holds a minimum of three meetings

each year. During the year under review, the Compensation Committee held five meetings lasting an average of 2.5 hours each. The following table shows the meetings held by the Compensation Committee of Julius Baer Group Ltd. in 2016 and the Committee members attending each meeting:

	January	April	June	September	November
Gareth Penny, Chairperson	x	x	x	x	x
Gilbert Achermann	x	x	x	x	x
Ann Almeida <sup>1</sup>	-	-	x	x	x
Heinrich Baumann	x	x	x	x	x
Daniel J. Sauter	G	G	G	-	G
Charles G. T. Stonehill	-	-	-	G	-

<sup>1</sup> Joined the Committee on 1 June 2016

G = attended meeting as guest except portions of meetings where a conflict of interest might have arisen

## COMPENSATION PRINCIPLES

The primary compensation principles of the Julius Baer Group are to:

- attract and retain industry professionals who are dedicated to contributing value to the Group;
- foster risk awareness, while ensuring full alignment with regulatory compliance;
- incentivise management by rewarding achieved performance and by providing incentives for the creation of future shareholder value; and
- ensure that the performance-based variable compensation is in line with relevant current market practice.

## PEER BENCHMARKING

It is important to the Compensation Committee and the Board of Directors that the Group ensures that its compensation practices, structure and pay levels (adjusted for performance) are consistent with those of its peers from year to year, in order to remain competitive within the marketplace.

The Compensation Committee continues to consider the SMI as the most relevant peer group for the purposes of compensation comparison. However, it also looks to industry peers in its assessment of corporate governance practices and relative performance reviews. Taking into account the Group's market capitalisation and the complexity of the industry in which it operates, the Group's current positioning between the lower quartile and median of SMI companies remains appropriate. This current peer group positioning continues to be reviewed annually.

## Overview of peer groups for compensation benchmarking and relative performance review

Industry peer group		Market peer group (SMI)		
Credit Suisse	LODH	ABB	Nestlé	Swisscom
DBS	Morgan Stanley	Actelion	Novartis	Swiss Re
Deutsche Bank	Pictet	Adecco	Richemont	Syngenta
EFG	Standard Chartered	Geberit	Roche	Transocean
Goldman Sachs	UBS	Givaudan	SGS	Zurich Insurance
HSBC	Vontobel	LafargeHolcim	Swatch	

## EXTERNAL ADVISERS

In 2016, Julius Baer Group Ltd. obtained advice from HCM International Ltd. (formerly HCM Hostettler & Company) on compensation strategy, in particular with regard to our relationship manager compensation model, regulatory and compensation topics and the valuation of equity-based awards. During the year, Willis Towers Watson (formerly Towers Watson) and McLagan (a business division of Aon Hewitt) provided compensation survey data that was utilised internally by the Julius Baer Group for benchmarking purposes. For our Irish and UK-based entities, Mercer LLC was retained to provide pension and benefit advisory services. Ernst & Young AG (EY) was mandated to provide analysis on various aspects of compensation and diversity. Of these aforementioned advisers, EY also had other

mandates within the Group outside the Compensation and Benefits department.

## SAY ON PAY

In accordance with the Ordinance, Julius Baer Group Ltd. reports the compensation awarded to members of both the Board of Directors and the Executive Board on a business year basis. The Board of Directors recognises that the binding say-on-pay vote is not only a meaningful tool for shareholders, but also one that requires analysis and proper context to enable shareholders to understand and interpret the compensation numbers on which they vote. This Remuneration Report aims to assist shareholders in this responsibility.

## Say-on-pay shareholder approvals at AGM 2017

	2017 AGM vote			
	2016		2017	2018
Board of Directors maximum aggregate amount of compensation (AGM to AGM)			Compensation period	
Executive Board maximum aggregate amount of fixed compensation (2018)				Compensation period
Executive Board aggregate amount of variable cash-based compensation (2016)	Annual performance period			
Executive Board aggregate amount of variable equity-based Compensation (2017)			Annual grant (three-year performance period)	
Consultative vote on the Remuneration Report (2016)	Compensation framework and governance			

The approval of compensation by the AGM is defined in article 11.1 of the Articles of Incorporation. This approval determines:

- a) the maximum aggregate amount of compensation paid to the Board of Directors for its next term of office;
- b) the maximum aggregate amount of fixed compensation of the Executive Board for the financial year following the respective General Meeting of Shareholders;

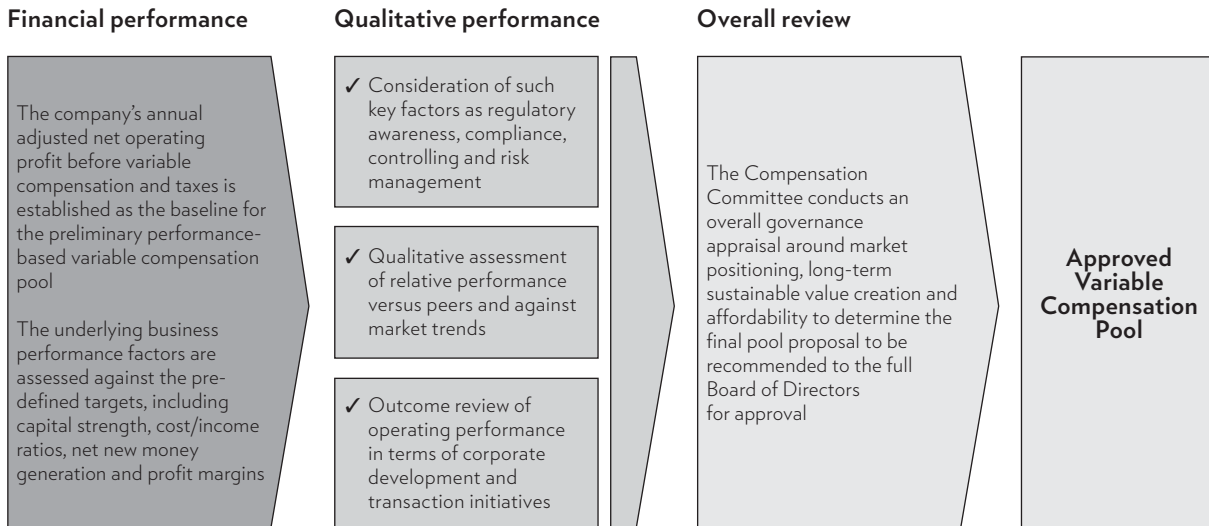
- c) the aggregate amount of variable cash-based compensation elements of the Executive Board for the financial year preceding the respective General Meeting of Shareholders;
- d) the aggregate amount of variable equity-based compensation elements of the Executive Board granted in the current financial year.

In addition, a consultative vote on the Remuneration Report is again scheduled for the AGM on 12 April 2017. The Board of Directors is interested in hearing shareholders' opinions on an ongoing basis. The detailed compensation data will be provided to shareholders as part of their invitations to the AGM.

## GROUP PERFORMANCE AND VARIABLE COMPENSATION POOL FUNDING

### VARIABLE COMPENSATION POOL FUNDING

#### Variable compensation pool funding process



#### Financial performance assessment

The baseline for calculating the Group's variable compensation pool is the annual adjusted net operating profit before variable compensation and taxes ('adjusted NOPbBT') generated by the Group (as reconciled by the Audit Committee). The Group's adjusted NOPbBT is derived by excluding from the audited IFRS financial statements items such as integration and restructuring expenses and amortisation of intangible assets related to acquisitions or divestments.

Adjusted NOPbBT has been selected as the appropriate baseline for the variable compensation pool funding as it is the underlying, sustainable operating profit generated by the business. It is an important metric which reflects the Group's actual performance, thus giving the Compensation Committee a clear indication of operating performance and providing a reliable baseline for comparing the year-on-year development of the Group.

In determining the pool, the Compensation Committee also takes other financial metrics into consideration such as changes in and/or the

development of the capital ratios, cost/income ratio, gross/net profit margin and net new money generation. All quantitative metrics are measured against the overall midterm plan, the strategic goals of the Julius Baer Group and its historical results for the prior three years.

#### Qualitative performance assessment

The qualitative review of performance is multi-faceted in order for the Compensation Committee to gain a perspective on the sustainability of the financial results and quality of earnings. Firstly, the Group's performance is measured in terms of how successfully key aspects, affecting current and future performance, have been managed with regard to regulatory awareness and compliance as well as controlling and risk. Secondly, the financial results are further assessed against the performance of peers and market trends, which guide the determination of relative value contribution. Finally, the progression and outcomes of key strategic initiatives pertaining to corporate development and transactions (merger and acquisition activity) are also appraised.

### Overall review

The Compensation Committee and the Board of Directors carry out a review of the size of the overall variable compensation pool taking into account factors such as overall affordability, market positioning and long-term sustainable value creation. Where required, the Compensation Committee may agree to apply a fixed percentage each year to adjust the variable compensation pool. This percentage would impact all employee bonuses within the Julius Baer Group. The Compensation Committee does not make adjustments to the pool in subsequent years to take into account reduced or revoked variable compensation due to ex-ante or ex-post performance adjustments made in prior years. This additional governance process further helps the Compensation Committee to maintain a balance between the development of the pool and the Group's corporate performance.

In addition, the Board of Directors seeks to ensure that the profit distribution amongst stakeholders (principally through shareholder dividends, global taxes paid to the relevant authorities, employee variable compensation and reinvestment into the business) is sustainable and reflects an appropriate, equitable distribution.

This performance-adjusted variable compensation pool is allocated across the various business units based on such factors as headcount, financial performance, significant achievements and contributions to the adjusted NOPbBT. This policy has been consistently employed over many years and thus allows meaningful year-on-year comparisons and the continued implementation of a stable compensation system.

### 2016 JULIUS BAER GROUP PERFORMANCE

The Group established key strategic initiatives in 2016 designed to position itself for future growth and profitability in the competitive global marketplace.

These initiatives included a focus on organic growth, the realignment of our organisation and the continued development of our technology platform.

In 2016, we successfully focused on organic growth, enlarging our relationship manager base in strategic markets, especially Asia. This increased our brand recognition, strengthened our position in our chosen markets and contributed noticeably to our growth prospects and future profitability. The net new money inflows resulting from organic growth, combined with our investment in our European presence (Kairos in Italy and Commerzbank International S.A. in Luxembourg) contributed to our achieving record-high assets under management of CHF 336 billion, a 12% increase on 2015. Net new money growth reached 4%, which puts it at the lower end of the Group's annual target range of 4-6%. While our strategic investment in organic growth has had a short-term impact on the cost/income ratio, which rose to 68.9%<sup>1</sup>, it has also created substantial medium-term inflow potential.

In 2016, the Group increased its adjusted net profit by 1% to CHF 706 million<sup>2</sup>, while operating income rose 6%, to CHF 2,852 million, supported by a significant increase in net interest income. Although the gross margin for the Group declined by 2.5 basis points (bps) to 91 bps, the significant rise in net interest income combined with the increases in net commission and fee income (up 3%) and other ordinary results more than offset the decrease in net trading income.

The IFRS results in the Group's 2016 consolidated financial statements confirm net profit grew by 408% to CHF 622 million. After considering non-controlling interests of CHF 3 million, the IFRS net profit attributable to shareholders of Julius Baer Group Ltd. increased by 411% to CHF 619 million, while earnings per share rose by 414% from CHF 0.55 to CHF 2.85. At the end of 2016, on a phase-in basis, the Group maintained a BIS total capital ratio of 17.5% and a BIS CET1 capital ratio of 16.4%, both well in excess of the Group's floors (15% and 11%, respectively) and the regulatory minimum requirements (12.2% and 8%, respectively).

<sup>1</sup> Excluding amortisation of intangible assets as well as integration and restructuring expenses related to previous acquisitions or divestments as well as valuation allowances, provisions and losses

<sup>2</sup> When excluding the settlement with the US Department of Justice from the 2015 adjusted results

## 2016 VARIABLE COMPENSATION POOL

The Group considers it vital that the amount of performance-based variable compensation available for distribution to its employees be directly linked to the overall performance of the Group.

When weighing the Group's performance (as outlined above in the section '2016 Julius Baer Group Performance'), including its adjusted NOPbBT and its strategic initiatives, the Compensation Committee supported an increase in the overall size of the variable compensation pool in 2016. A significant proportion of the pool increase this year was attributable to the costs associated with the Group's recruitment-based investments in hiring a large number of experienced private bankers. Key additional factors contributing to the level of the variable compensation pool also included the

residual costs and payments related to acquisition transactions and the staggered implementation of global synergies and Group right-sizing efforts (largely resulting from the Group's 2015 cost-saving measures).

Upon careful consideration of the above factors (most notably the strategic hiring initiative), the Compensation Committee determined that the 2016 pool properly reflects the Group's pay-for-performance culture in a reasonable and measured manner.

## OVERVIEW OF 2016 VARIABLE COMPENSATION PLANS

The following table summarises the key features of our variable compensation plans funded by the pool, including the relevant population eligibility:

### Summary of 2016 deferred compensation plans

		Ongoing plans <sup>1</sup>				One-time grants		Employee Share Purchase
		Deferred Bonus Plan	Equity Performance Plan	Deferred Cash Plan	Premium Share Plan	Long Term Incentive Plan (replacements) <sup>2</sup>	Integration Incentive Cash and Awards	Share Participation Plan
Eligibility		Executives and selected senior management with bonus over CHF 125,000	Executives and selected senior management by CEO invitation	Employees with bonus over CHF 125,000	Employees with bonus over CHF 125,000	New hires who lost compensation due to change in employer	Former BoA Merrill Lynch employees	All employees who are not participants in other company share plans <sup>3</sup>
Purpose		Align with sustainable value creation	Align long-term performance and retention	Align with sustainable value creation	Align long-term performance and retention	Attraction and long-term alignment	Retention and long-term alignment	Shareholder alignment
Funding drivers		Company, business and individual performance				Business and company affordability checks		Mainly self-financed <sup>4</sup>
Duration		5 years	3 years	3 years	3 years	3 years	3 to 5 years	3 years
Payout factors	Share price		•		•	•	•	•
	Vesting performance conditions		•					
	Forfeiture clauses and claw back	•	•	•	•	•	•	• (additional shares)
Settlement		Cash	Shares	Cash	Shares	Shares	Cash and shares	Shares

<sup>1</sup> Staff who are participants of the DBP and EPP are not eligible to participate in the DCP and PSP and vice versa.

<sup>2</sup> In very exceptional cases (e.g. restructuring), retention awards are granted under the LTI.

<sup>3</sup> Employees in some specific locations are excluded from participating, because the SPP cannot be offered in these particular jurisdictions for legal or regulatory reasons.

<sup>4</sup> For every three shares purchased by the employee, an additional share is granted free of charge at the end of the three-year vesting period.

## EXECUTIVE BOARD AND SENIOR MANAGEMENT COMPENSATION

This section provides the details of the compensation system for members of the Executive Board and selected senior management. The 2016 figures for the Executive Board are presented in the

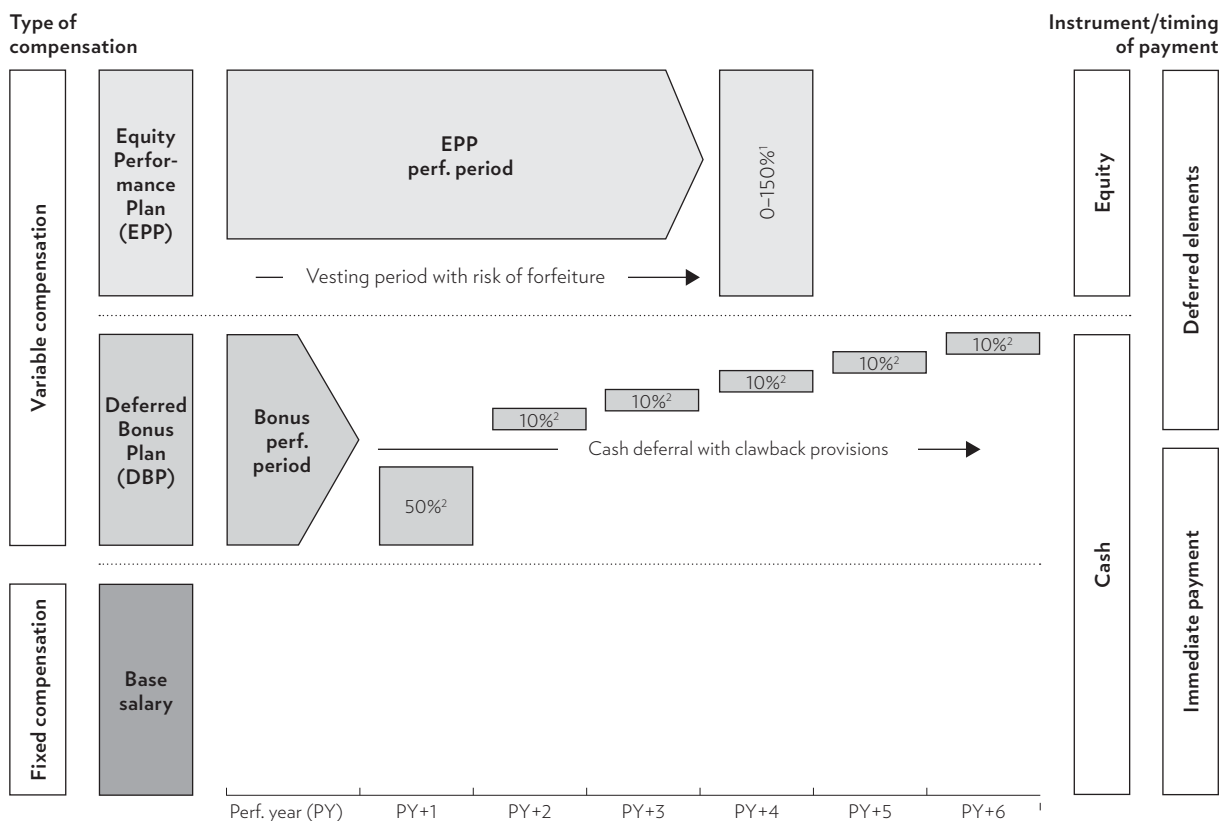
‘Compensation, loans and shareholdings of the Executive Board’ section of this Remuneration Report.

### Key elements of Executive Board and senior management compensation:

1.	<b>Simple and transparent structure</b>	Total compensation consists of three elements: (i) base salary in cash, (ii) a cash-based variable compensation element (delivered under the Deferred Bonus Plan – DBP), and (iii) a long-term, performance-based equity incentive (delivered under the Equity Performance Plan – EPP). The structure is designed to reward executives for contributing to the Group’s overall performance and implementing the Group’s strategy to enable future growth and success.
2.	<b>Internal and external performance achievements</b>	Explicit link to value drivers (internal factors) and share price performance (external factors): the DBP is based on internal measures of achieved performance that Julius Baer regards as being closely related to the long-term value of the Company. The EPP uses a system of Performance Units linked to two KPIs, cumulative Economic Profit (cEP) and relative Total Shareholder Return (rTSR), thus aligning managerial compensation to the external view of the market and incentivising long-term shareholder value creation.
3.	<b>Clearly defined caps</b>	The Company has Executive Board variable compensation caps across all members with specific caps for the CEO.
4.	<b>Share ownership guidelines</b>	To foster alignment of the interests of the Executive Board with those of our shareholders, members of the Executive Board have a three-year period to build up and hold a specific number of Julius Baer Group Ltd. shares.

The Julius Baer Group compensation model for the Executive Board and selected members of senior management is structured as follows:

*Illustrative example*



<sup>1</sup> Subject to performance of KPIs; share allocation capped at 150% of Performance Units granted; share value at vesting dependent on market performance.

<sup>2</sup> Deferrals from DBP range from 20 to 50% based on the level of the allocated bonus (example assumes 50% DBP deferral).

## TOTAL COMPENSATION PAY MIX

Total compensation of members of the Executive Board including the CEO consists of a base salary in cash, a cash-based variable compensation component (DBP) and a performance-based variable component (EPP) in the form of equity.

Based on a detailed benchmark analysis completed during the year, the Board of Directors and the Compensation Committee agreed to increase the target compensation of the CEO in 2016. This analysis demonstrated that the adjustment was

justified based on the significantly increased size of the Group and its expanded geographic reach, the complexity of Julius Baer's activities and the additional governance and regulatory requirements resulting therefrom. The increase was adopted to ensure that potential compensation remained competitive and continued to incentivise performance. There were no other significant pay-mix or compensation adjustments applied to the Executive Board members in 2016. All variable compensation was determined based on a combination of the Group's performance and that of the individual Executive Board members against set objectives.



## FIXED COMPENSATION

### Base salary

For Executive Board members, all base salary is paid in cash. The base salary represents the compensation for the market value of the function. Each Executive Board member's fixed base salary is determined individually, taking into consideration his or her role, tasks, responsibilities and experience, as well as the level of education, the degree of seniority and the level of expertise required to fulfil the function. The Julius Baer Group received shareholder approval for the aggregate amount of the 2017 Executive Board base salaries (which are consistent with the 2016 base salaries) at the 2016 AGM.

### Pension payments

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.

The Julius Baer Pension Fund in Switzerland was recalibrated as of 1 July 2016 to account for increasing life expectancy and decreasing investment returns. Any pension-fund changes affecting our Executive Board members would be equal to those provided to all other similarly-situated employees in Switzerland. Additional details can be found in the 'Pension programmes' section provided below in the section 'Other Employee Compensation' of this Remuneration Report.

### Benefits

Julius Baer considers benefits to be a part 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.

## VARIABLE COMPENSATION

### Cash-based variable compensation

The Executive Board members (plus selected key risk takers, regulated staff and/or nominated senior employees) receive their variable compensation under the Deferred Bonus Plan (DBP) in six

instalments over a five-year period from the date of deferral.

### Performance assessment process

Julius Baer rewards Executive Board members who contribute to:

- enhancing value by employing investor capital efficiently while at the same time managing risks;
- adhering to regulatory requirements; and
- meeting Julius Baer's corporate culture standards.

Although Julius Baer's variable compensation scheme is discretionary, the final amounts allocated to its individual participants are based on a careful assessment of each individual's attainment of a mix of specific quantitative and qualitative objectives.

Julius Baer believes that qualitative evaluations are important as they allow the Board of Directors to ensure that the compensation system remains in alignment with the core values of Julius Baer. In particular, the Board of Directors can use this component as one facet of the disciplinary measures available to it in the event of a violation of the cultural standards of Julius Baer.

### Objective setting for the CEO

Each year the Chairperson of the Board meets with the CEO to discuss and determine the key performance objectives for the upcoming performance year. The objectives are defined in a CEO scorecard (see the 2016 scorecard below in the 'Performance assessment based on scorecard' section of this report) with clear individual goals and targets for each of the respective value-driver categories. In a typical year, the CEO will have performance objectives in the four value-driver categories (each of which will typically contain several goals). These objectives include various qualitative and quantitative metrics individually weighted to support the alignment of managerial actions with shareholder interests.

When formulating the CEO's objectives, the Chairperson of the Board aims to ensure that the defined goals are aligned with the overall midterm plan and strategic goals of Julius Baer. In addition, he endeavours to weight the goals properly in order

to promote sustainable performance in a conservative manner, whilst also ensuring risk awareness and regulatory compliance. Qualitative objectives are defined to support the attainment of individual goals which, whilst not readily expressible in quantitative terms, nonetheless contribute to the overall success of Julius Baer.

Once agreed and defined, the Chairperson of the Board approves the final objectives in their entirety. It is important to note that the baseline for the various objectives contained in the CEO's scorecard (e.g. the three-year midterm plan or budget, quantitative Group level goals, etc.) is approved by the full Board of Directors.

*Objective setting for the Executive Board members*

The objective-setting process for the Executive Board members mirrors that of the CEO; however, it is the CEO who meets with each member of the Executive Board to discuss and determine the key performance objectives for the upcoming performance year.

The CEO's approved scorecard serves as the baseline for the individual Executive Board member's scorecards. Executive Board members are also given performance objectives in all four of the value-driver categories listed on the scorecard below (each of which will typically contain several goals). As each Executive Board member acts in a different capacity within the Group, the objectives for each value-driver category (and the corresponding goals within each category) are individually geared towards each Executive Board member's area of responsibility. The CEO approves the final objectives in their entirety.


*Performance assessment based on scorecard*

These key performance objectives are formally measured at year-end, when the scorecard is discussed between the Chairperson of the Board and the CEO (in the case of the CEO's goals) and between the CEO and the respective Executive Board member (in all other cases). However, performance against value drivers and individual goals is continuously monitored.

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EXECUTIVE BOARD AND SENIOR MANAGEMENT COMPENSATION

For the year 2016, the following value drivers and individual goals were defined in the Executive Board members' individual scorecards:

**Core objectives<sup>1</sup> (CEO 30%/EB 35%)<sup>2</sup>**

			Assessment
			Target
2016 Budget and KPIs	Overall	<ul style="list-style-type: none"> <li>Overall 2016 budget in terms of profitability including operating income and expenses</li> <li>For the specific area of responsibility, the 2016 budget is directly allocated to each of the EB members' scorecards and is directly derived from the budget the Board of Directors has approved for the performance year 2016</li> </ul>	
	Client-facing units targets	<ul style="list-style-type: none"> <li>Growth of net new clients assets</li> <li>Development of asset profitability</li> <li>Cost/income ratio</li> <li>Cost management</li> <li>Attraction and retention of relationship managers</li> </ul>	
	Non-client-facing units targets	<ul style="list-style-type: none"> <li>Efficient and process-optimised management</li> <li>Cost management</li> </ul>	
	Additional targets for CEO/CFO/CRO	<ul style="list-style-type: none"> <li>Capital Requirement KPIs</li> <li>Specific Risk KPIs</li> </ul>	


**Project objectives (CEO 30%/EB 35%)<sup>2</sup>**

			Assessment
			Target
Julius Baer - Your Wealth	<ul style="list-style-type: none"> <li>Successfully complete rollout of the new service models in Switzerland</li> <li>Improve the quality of the Group's advisory services</li> </ul>		
Corporate Social Responsibility (CSR)	<ul style="list-style-type: none"> <li>Promote continuous integration of sustainability considerations into Julius Baer's daily life including sustainable investing</li> </ul>		
Strategic targets	<ul style="list-style-type: none"> <li>Actively drive the implementation of regional and divisional strategies</li> <li>Identify and drive internal projects of strategic importance</li> <li>Define strategy for sustainable profitability in strategically important regions and locations</li> </ul>		
Mergers & Acquisitions (M&A)	<ul style="list-style-type: none"> <li>Actively shape the M&amp;A strategy of the Group</li> <li>Support the successful integration of recently acquired/merged entities</li> </ul>		
Platform	<ul style="list-style-type: none"> <li>Successfully drive implementation in Asia</li> <li>Ensure that all key deliverables are implemented in a timely manner</li> </ul>		

**General objectives (CEO 30%/EB 15%)<sup>2</sup>**

			Assessment
			Target
Regulatory awareness and compliance	<ul style="list-style-type: none"> <li>Actively address changes in the regulatory environment by defining suitable measures for important topics such as: tax transparency/enforcement development, investment suitability, FINMA regulations (e.g. distribution rules, balance sheet requirements) and fulfilment of regulatory requirements outside Switzerland</li> </ul>		
Risk and qualitative objectives	<ul style="list-style-type: none"> <li>Revalidate new consolidated risk framework following the IWM integration</li> <li>Succession planning/management; manage existing staff and hiring pipeline</li> <li>Proactively advance and handle communication</li> <li>Comply with and build sensible business policies and practices</li> </ul>		
Other general objectives	<ul style="list-style-type: none"> <li>Raise awareness of data security and enforce compliance</li> <li>Promote core values to further develop a common culture and identity</li> </ul>		

**Personal goals (CEO 10%/EB 15%)<sup>2</sup>**

			Assessment
			Target
<ul style="list-style-type: none"> <li>To improve their contributions to Group value, goals are set that help the individual EB member to develop their skill sets and ultimately contribute to the success of Julius Baer</li> </ul>			

<sup>1</sup> The overall variable compensation pool available is determined by the overall profitability of the Group. Accordingly, company-wide performance measures are also relevant for the total variable compensation awarded and the variable compensation is always conditional on the size of such pool in a given year.

<sup>2</sup> The weightings shown are the standard for EB members and may vary slightly in individual cases depending on roles and responsibilities.

For competitive confidentiality reasons, the specific quantitative objectives for each of the above components are not disclosed.

In the assessment process, the actual achievement of quantitative objectives is measured against the objective set in the individuals' scorecards to determine their relative achievement. For qualitative objectives, actual performance is measured directly by the Chairperson in the case of the CEO and by the CEO in the case of all other members of the

Executive Board. However, in the case of qualitative measurements, the measuring party may need to rely upon other Julius Baer employees, external advisers, and/or members of the Board of Directors to complete the measurement. For example, in the determination of the level of the individual's performance relative to regulatory awareness and compliance, consultation with the Group's Head of Compliance may be required to complete the final assessment.

For each of the individual goals, each Executive Board member's actual achievement is determined in percentage terms based on the following rating system:

Rating	Description	Performance objective achievement
A++	significantly exceeds goal	>133%
A+	exceeds goal	111–133%
A	fully meets goal	91–110%
B	goal achievement below expectation	67–90%
C	does not meet goal at all	<67%

Once the individual performance goals (within each value driver) are properly assessed, a weighted average of all performance objectives is calculated to determine the individual's overall performance within the applicable value driver. A final average weighting of all four value drivers is calculated based on the value-driver weighting to determine the preliminary performance rating based on the individual's assessed performance.

Once the Executive Board member's preliminary performance rating has been calculated, a verification is performed. This verification is completed by the Chairperson of the Board in the case of the CEO's performance and by the CEO for all other members of the Executive Board. The purpose of this verification step is to ensure that the preliminary performance rating of the participant makes fundamental sense (for example to ensure that strong qualitative performance does not skew the overall rating of an Executive Board member in a year when overall quantitative corporate performance and shareholder return is negative). In this verification process, the preliminary performance

rating of the Executive Board member may be adjusted marginally upwards or downwards to determine the final performance rating.

The scorecard's results provide the basis for determining the recommended DBP allocation. These individual assessments mean that the overall pay mix awarded to individual Executive Board members may differ from year to year, due to individual, divisional and/or Group performance, as well as overall individual responsibilities.

All DBP recommendations for the Executive Board are subject to confirmation by the Compensation Committee and, once approved, are then brought to the attention of the Board of Directors, with specific acceptance of the proposed DBP award to the CEO being requested from the Board of Directors. The Board of Directors reserves the right to make further adjustments to the DBP allocations based on Group performance (taking into consideration such factors as extraordinary events, changes in responsibility, etc.). This adjustment for Group performance can be either positive or negative.

Final approval of the DBP for the financial year for the Executive Board will be sought from our shareholders at the AGM following the end of the financial year.

#### *2016 Executive Board performance*

In a year when deflationary fears were overshadowed by major and unexpected political developments, Julius Baer was able to guide and advise clients and continue its growth and profitability.

As always, the Group's adjusted financial results remain a significant component of the scorecard assessment of both the CEO and the other Executive Board members. In 2016, the Julius Baer Group successfully managed the decline in gross margins through the implementation of balanced cost management, while still continuing to invest in future growth. While market conditions and strategic initiatives did weigh on the Group's margins, the Group achieved strong results (as described in the section above entitled '2016 Julius Baer Group Performance').

The Group's key strategic initiatives in 2016 (organic growth, business realignment and technological enhancements) were designed and implemented by the Group's Executive Board.

The Executive Board successfully focused on organic growth in 2016, recruiting over 200 experienced private bankers in strategic markets (particularly Asia) who are being integrated into the organisation between 2016 and 2017. In addition to increasing Julius Baer's brand recognition and enhancing its position in strategically important markets, this key initiative will make a noticeable contribution to the Group's growth prospects and future profitability. This organic growth initiative was further supported by the Group's decision to strengthen its Investment Management and Advisory Solutions divisions through key hires, continued investment in technology and the launching of a new discretionary investment approach based on active risk management and active asset allocation.

The 2016 reorganisation, spearheaded by the CEO, strategically realigned the Group's client-facing organisation. This realignment was designed to focus on regionalising the business to further

support the Group's aim of delivering a seamless client experience while at the same time allowing for further efficiency gains. The reorganisation included the creation of two new regions (Europe and Emerging Markets), the reassignment of existing locations amongst the regions and the integration of individuals and regions/divisions into the new corporate structure. The Executive Board played a key role in ensuring that each region was smoothly and successfully integrated into the new structure. Together with the ongoing investments in advisory services, investment management expertise and the Group's technology transformation, the Executive Board has also developed a roadmap for the future allowing the Group to provide the best possible service to its clients.

From a technological perspective, the Group made significant strides in the implementation of its integrated core banking system in Asia, with the platform set to go live in 2017. The recent integration of Commerzbank International S.A. Luxembourg also accelerated the Group's timeline for implementing the global platform in Europe.

In addition to the key initiatives taken in 2016, key Group initiatives commenced in prior years were finalised. In 2016, the Group successfully completed the transfer of assets and on-boarding of Commerzbank International S.A. Luxembourg and formally completed the Kairos transaction. The Group also completed the global roll-out of its new service model, Julius Baer – Your Wealth, which had been initiated in 2015.

The above reinforced Julius Baer's client-centric excellence and management culture and these achievements were reflected in external recognition bestowed on the Group. Julius Baer received various awards across the globe, including 'Best Boutique Private Bank in Asia' by 'The Asset' (a leading publication in the region) for the seventh consecutive year, 'Pure Play Private Bank' in Hong Kong and Singapore at the 'WealthBriefingAsia Awards 2016' for the second consecutive year, 'Outstanding Private Bank/Boutique Bank Switzerland – Domestic Player 2016' at the '2016 Private Banker International Global Wealth Awards' and the 'Best Pure Play Private Bank in Asia' in the 2016 private banking poll by Asiamoney.

Based on individual and corporate performance in 2016, the Executive Board members (excluding the CEO) achieved an average performance rating of 'A' under Julius Baer's assessment process.

The CEO's leadership in the continuing company transformation and positioning of Julius Baer was reflected in his 2016 scorecard assessment as were the aforementioned strong Group financial results. His sustained focus on business right-sizing, organic growth and cost discipline has allowed the Group to achieve a high degree of strategic flexibility, enabling Julius Baer to take advantage of structural changes in the wealth management industry. The Group-wide reorganisation carried out in 2016 has created synergies and implemented business processes and models which help ensure resilience, consistent execution and sustainable success. In recognition of this, Boris Collardi was named 'Outstanding Private Banker' in 2016 at the '2016 Private Banker International Global Wealth Awards'. Based on the above individual and corporate performance in 2016, the CEO scorecard assessment completed by the Chairperson of the Board of Directors and reviewed with the Compensation Committee resulted in a final assessment of 'A+' under Julius Baer's performance rating scheme.

In assessing and determining the compensation of the CEO and Executive Board members for 2016, the Compensation Committee and Board of Directors took all of the Group's achievements in 2016 into consideration, including its significant success in attracting and hiring new talent across the globe.

#### *Plan structure of the DBP*

The DBP aims to ensure that its participants continue to manage Julius Baer for sustainable long-term shareholder value creation, to emulate the Julius Baer values, and to carry out all business activities in a manner which is compliant with regulatory requirements. As a result, the amounts allocated to each individual (through the individual's scorecard) are closely tied to factors that Julius Baer has identified as key value drivers for the Group.

The full amount of the DBP is generally awarded in the first quarter following the close of the relevant financial (i.e. calendar) year. In 2017, the DBP 2016

for the Executive Board will be recommended in the first quarter of 2017; however, it will not be paid until it has been approved by our shareholders.

Although subject to deferral, the DBP is considered as earned in the year the award is granted and, as such, it is reported under the accrual principle in the Remuneration Report for the performance year in which the award is earned. The DBP is paid in cash; however, where the granted DBP exceeds the minimum threshold (CHF 125,000, or its local currency equivalent) a portion is subject to a five-year deferral. During those five years, the deferred amount is paid out in five equal annual instalments. For DBP amounts between the minimum threshold and CHF 1 million (or its local currency equivalent), a sliding scale is applied, under which the deferral percentage increases linearly from 20% to 50% (consistent with the previous year). DBP amounts of CHF 1 million (or its local currency equivalent) or higher will remain subject to the maximum deferral rate of 50%. Amounts below the DBP minimum threshold are not subject to deferral.

This deferral promotes a long-term orientation. In addition, it allows Julius Baer to claw back DBP amounts in the event of substantial breaches of legal or regulatory requirements, financial losses (e.g. misrepresentation of variables on which the DBP award was based) and a variety of other events where the employee's conduct has substantially contributed to a financial loss by the Julius Baer Group or has caused it reputational damage. The deferral element is not intended to function as a retention measure, since the executives are entitled to continue to receive the deferred amounts (according to the payout schedule) even after termination of employment. It is nevertheless an important element in the compensation package.

For DBP grants made in respect of the performance year 2015 and thereafter, the members of the Executive Board and senior management can elect to hold the deferred cash awards (partially or fully) in Julius Baer mutual funds, in particular the JB Strategy Income, Balanced or Growth funds. This plan adjustment further aligns the interests of the Executive Board with those of our major clients. All such investments and any potential proceeds remain subject to the same clawback conditions.

### Equity-based variable compensation

The Equity Performance Plan (EPP) is a key part of the Julius Baer compensation model. One of the Compensation Committee's objectives was to create a robust long-term incentive mechanism for key employees. The EPP is an equity plan which seeks to create a retention element for key employees and to link a significant portion of the executive compensation to the future performance of the Julius Baer Group.

Eligibility for the EPP is based on various factors, which include nomination by the CEO, overall role within Julius Baer and total variable compensation. All members of the Executive Board, key employees, and employees defined as risk takers by virtue of their function within the organisation are considered for the EPP based on their specific role. The size of the grant awarded to each individual varies based on factors which include, but are not limited to, seniority, contribution to Julius Baer, defined total pay mix and level of responsibility.

#### *Plan structure of the EPP*

The EPP is an annual rolling equity grant (made in February each year) that awards Performance Units to eligible executives subject to service and performance-based requirements. The EPP award reflects the value of the employee for the future success of the business and more closely links an individual's compensation to his or her contribution to the future performance of Julius Baer. The goal of the EPP is to incentivise participants in two ways:

- Firstly, by the nature of its construction, the ultimate value of the award to the participants fluctuates with the market value of Julius Baer shares.
- Secondly, the Performance Units are contingent on continued service and two KPIs, cumulative Economic Profit (cEP) and relative Total Shareholder Return (rTSR). The service condition requires that the participant remains with Julius Baer for three years after the grant (through a cliff-vesting mechanism). The performance of the two KPIs determines the number of shares the participant ultimately receives.

The number of shares delivered under the EPP is between 0% and 150% of the number of

Performance Units granted in any given year (with each individual KPI being capped at a maximum multiplying factor of 200%). The cap serves to limit EPP awards so as to avoid any unforeseen outcome of the final EPP multiplier resulting in unintentionally high or excessive levels of compensation. A high level of performance is required to attain a maximum share delivery (creating a maximum uplift of 50% of the Performance Units granted), with low-level performance leading to potential nil compensation.

The KPI targets are set based on the strategic three-year budget/plan that is approved by the Board of Directors on an annual basis. Extremely high (and, thus, unrealistic) performance targets are avoided, so as not to incentivise excessive risk taking by executives and other managerial staff.

Until allocation to the plan participants, all Performance Units granted under the EPP are administered by the LOTECO Foundation.

The Group plans to add a backward-looking element to the 2018 EPP which would link the equity-based award to current-year performance while maintaining a significant focus on incentivising future performance.

#### *Details of key performance indicators (KPIs)*

KPI 1: cumulative Economic Profit (cEP). Julius Baer rewards Executive Board members for creating economic value added, i.e. profitability for shareholders over and above the cost of capital (CoC). This idea is captured in economic profit, which is calculated as:

$$\text{cEP} = \text{NOPbB} - \text{T} - \text{CoC}$$

where

NOPbB = adjusted net operating profit before variable compensation (excluding amortisation of intangible assets as well as integration and restructuring costs related to previous acquisitions or divestments, as well as non-performance-related extraordinary events approved by the Compensation Committee)

T = taxes

CoC = cost of capital



All calculations will be based on the approved figures confirmed by the Audit Committee of Julius Baer. The calculation and all its components are reviewed and approved by the Compensation Committee.

Each year, the Compensation Committee approves a cEP target range for the next three years. Any performance below the minimum in this range will be deemed to constitute low-level performance and will result in a multiplier of 0%; when the cEP achieved over the three-year performance period is above this minimum, the multiplier increases linearly, up to a maximum multiplying factor of 200%. For both the EPP 2016 and EPP 2017 grants, the Compensation Committee has chosen the following payout parameters:

- Minimum: if the final cEP is 50% or less of the cEP target, the cEP multiplier will be 0%
- Target: if the final cEP is equal to the cEP target, the cEP multiplier will be 100%
- Maximum: if the final cEP exceeds the cEP target by 50% or more, the cEP multiplier will be 200%

Julius Baer's cEP target is entirely based on the Group's three-year midterm plan. As publishing the actual cEP performance target is considered market-sensitive from a competitive viewpoint, Julius Baer has chosen not to disclose these figures. However, Julius Baer sets a challenging midterm plan which is approved by the Board of Directors, which is fully aware that this plan constitutes the baseline for the cEP.

KPI 2: relative Total Shareholder Return (rTSR). Julius Baer wishes to ensure that the Executive Board (plus selected regulated staff and/or nominated employees) is rewarded for outperforming its competitors in terms of the value created for shareholders. Thus, while a positive economic profit (KPI 1) indicates that value was created, Julius Baer also wishes to incentivise its management to work on developing, executing and communicating on strategic and operational objectives in such a way that the expected and resulting economic profit performance is deemed sustainable into the future and will, as a result, translate into a relative share-price outperformance. Accordingly, rTSR has been chosen as the second KPI, because it provides a measure of the success of these efforts. To calculate rTSR, the

Julius Baer Group's TSR is compared against the performance of the STOXX Europe 600 Banks gross return Index (the 'Index').

Each year, the Compensation Committee approves the rTSR target range. Any performance below the minimum in that range will be deemed to constitute low-level performance and will result in a multiplier of 0%; when the rTSR achieved over the three-year performance period is above this minimum, the multiplier increases linearly up to a maximum multiplying factor of 200%. For both the EPP 2016 and EPP 2017 grants, the Compensation Committee has chosen the following payout parameters:

- Minimum: if the final Julius Baer TSR is -22% or less than the return of the Index, the rTSR multiplier will be 0%
- Target: if the final Julius Baer TSR is +3% higher than the return of the Index, the rTSR multiplier will be 100%
- Maximum: if the final Julius Baer TSR is at least +28% higher than the return of the Index, the rTSR multiplier will be 200%

For the purposes of calculating the rTSR performance over the three-year performance period, the TSR will be calculated using a fixed pricing period at the beginning and end of the performance period. The calculation will be performed using the average closing price of the STOXX Europe 600 Banks gross return index during the first and last calendar months of the performance period. This return will be compared against the TSR of Julius Baer Group Ltd. shares over the same period. The performance will then be assessed against the aforementioned scale (-22% to +28%) to determine the multiplier.

#### *Final evaluation of KPIs*

Once the KPIs have been measured at the end of the Performance Period, as described above, the final multiplier is calculated. The final multiplier used in calculating the number of shares ultimately allocated to plan participants is an average of the two multipliers (each individually capped at 200%) associated with the KPIs. The final multiplier itself, however, is capped at 150%. The number of shares ultimately allocated to each plan participant is then calculated as follows:



Number of shares vesting = Final Multiplier x  
Number of Performance Units granted

The final multiplier for the EPP 2014 programme was 1.246, which was adjusted to reflect actual acquisition and joint-venture factors which were not identified when the original targets were set. The final multiplier was significantly influenced by strong rTSR results (reflected in an individual rTSR multiplier of 1.486) while the cEP multiplier affirmed the Group's continued budget achievements over the past few years (reflected in an individual cEP multiplier of 1.005).

Similarly to the DBP, the EPP is also subject to forfeiture in the event of substantial breaches of

legal or regulatory requirements, financial losses and a variety of other events where the employee's conduct has substantially contributed to a financial loss by the Julius Baer Group or has caused it reputational damage.

## COMPENSATION CAPS

The Compensation Committee agrees that it is important to ensure that the compensation paid to members of the Executive Board is benchmarked and subject to specifically defined caps. There are no changes to the prior year's compensation caps.

### 2016 targets and maximum caps for Executive Board (all caps as a multiple of base salary)

	Target		Cap	
	Average EB	CEO	Average EB	CEO
Total variable compensation (DBP / EPP)	3.0	3.2	4.0	4.0
Cash-based variable compensation (DBP)	–	–	2.0	2.0
Equity-based variable compensation (EPP)	–	–	2.0	2.0

As a result, for 2016 the members of the Julius Baer Executive Board are subject to the following caps:

- The total sum of the variable compensation allocated to the members (in aggregate) of the Executive Board (including the CEO) shall be targeted at three times, but will be capped at four times the total sum of the base salaries paid to the entire Executive Board.
- The total sum of the DBP and the total sum of EPP allocated to all members (in aggregate) of the Executive Board (including the CEO) will each be capped at two times the total sum of the base salaries paid to the entire Executive Board.
- The total sum of the variable compensation allocated to the CEO shall be targeted at 3.2 times, but will be capped at four times the CEO's base salary.

- The total sum of the DBP and the total sum of the EPP allocated to the CEO will each be capped at two times the CEO's base salary.

The Compensation Committee is responsible for ensuring that the total variable compensation paid to the Executive Board members is compliant with the applicable compensation caps.

## GUIDELINES ON SHARE OWNERSHIP

Since 2014, the Executive Board members have been required to build up their total vested shareholdings until they reach the following levels:

Executive Board member	Share ownership requirement (in vested Julius Baer Group shares)
Chief Executive Officer (CEO)	100,000 shares
Executive Board members (excluding the CEO)	30,000 shares (or 2.5 times base salary, if lower)

The members of the Executive Board have a period of three full calendar years starting from the beginning of 2014 (for the members of the Executive Board already serving in 2014) or their appointment to the Executive Board (for new members of the Executive Board) to build up their Julius Baer Group Ltd. shareholdings. The final measurement will be performed on 31 December of the third calendar year following the Executive Board member's appointment to the Board. For the members of the Executive Board already serving in 2014, this measurement has been assessed as of 31 December 2016.

Details of the shareholdings of each member of the Executive Board can be found in the 'Compensation, loans and shareholdings of the Executive Board' section of this Remuneration Report. In accordance with the Compensation Committee's instructions, 50% of all outstanding equity-based grants shall be held back from any Executive Board member who has not reached his or her target at the measurement date until the defined level has been reached.

Executive Board members are not permitted to hedge Julius Baer Group Ltd. shares.

## EMPLOYMENT CONTRACTS

The notice period for all members of the Executive Board does not exceed six months. The Executive Board members are not entitled to any special severance payments or special termination benefits under the pension plans compared to the general staff population.

## CLAUSES FOR CHANGE OF CONTROL

Executive Board members are not entitled to specific payments upon a change of control or upon termination of employment related to a change of control; however, they are eligible to receive such benefits (e.g. accrued holiday pay, death/disability/retirement benefits under the pension plan, etc.) which are generally available to other Julius Baer employees. The Executive Board members are not entitled to other severance payments or special

termination benefits under the pension plans compared to the general staff population.

Special change-of-control and good-leaver provisions may be available under the variable compensation plans. The 'Termination Provisions of Julius Baer Plans' table provides general details of the vesting and forfeiture rules for termination events. All provisions remain subject to the prevailing legislation in each of the applicable jurisdictions at the time of the change of control.

## 2016 EXECUTIVE COMPENSATION DECISIONS

### Compensation decisions for the CEO

The CEO's defined base salary (including a fixed lump-sum expense allowance) was set by the Compensation Committee at CHF 1.5 million and was approved by the shareholders at the 2016 AGM. There was no increase to the base salary from 2015 to 2016; however, shareholders will notice a reporting increase of 4.35%, which is due to the 5% voluntary base-salary reduction for the 2015 performance year (effective 1 March 2015 and expiring 31 December 2015) which was implemented as part of the Group's cost-management initiative following the appreciation of the CHF after the Swiss National Bank's January 2015 decision to abandon its EUR floor exchange rate.

In determining the CEO's bonus allocation, the Compensation Committee considered both the CEO's positive scorecard results and Julius Baer's successful 2016 performance year. In comparison to 2015, the total reported DBP paid to the CEO increased by 23.8% relative to 2015; however, the CEO's 2015 total variable compensation was curtailed by 10% to take account of the US cross-border tax litigation. Without the effect of this curtailment on the 2015 DBP, the net annual increase to the CEO's DBP in 2016 would have been 10.7%. The allocated 2016 EPP was also curtailed by the US settlement, resulting in a decreased award of 8% relative to 2015. Without such curtailment, the 2016 EPP would have represented an increase of 2% over the 2015 allocation.

Based on the audited reporting figures, the CEO's total compensation increased by 5.4% in 2016 (before taking into consideration the decrease applied in 2015 for the US cross-border settlement). Including the effect of this 2015 decrease, the CEO's total compensation increased by 5.2% in 2016.

The compensation paid to the CEO is fully in line with the prescribed compensation caps in all respects.

**Compensation decisions for the Executive Board**

The total base salary paid to the Executive Board increased to CHF 5.3 million; however, no individual base-salary adjustments were made between 2015 and 2016. The increase in total base salary relates solely to the addition of one Executive Board member, raising the total number of Executive Board members from six to seven, and the elimination of the cost savings resulting from the voluntary base-salary reduction applied in 2015 (under the same terms as described above for the CEO).

From a variable-compensation perspective, the total DBP and EPP paid to the Executive Board members (excluding the CEO) decreased in 2016 relative to 2015. The reported DBP decreased by 12.5% when adjusted for the US cross-border tax litigation (and the decrease would be 21.8% if the US cross-border tax litigation were excluded). The 2016 EPP was also curtailed by adjustments for the US cross-border tax litigation, resulting in a 12.6% decrease in the reported EPP award (or a decrease of 0.9% if no curtailment had occurred). The DBP and EPP decreases are mainly attributable to reduced levels of variable compensation (both DBP and EPP) paid to two departing Executive Board members.

The compensation paid to the aggregate Executive Board is fully in line with the prescribed compensation caps in all respects.

## OTHER EMPLOYEE COMPENSATION

This section provides details of the ongoing compensation system for the employees of Julius Baer (excluding the Executive Board and selected senior management, whose compensation was addressed in the previous section). Swiss rules regarding the disclosure of compensation concern the Board of Directors and the Executive Board. It is on these groups that this Remuneration Report focuses. However, Julius Baer's success also depends on the continued excellence of all its employees. Accordingly, this section discusses the salient features of the compensation system for non-executive employees.

### Key elements of other employee compensation:

1. Simple and transparent total compensation structure: base salary in cash, year-end, cash-based variable compensation and deferred variable compensation when above minimum thresholds.
2. Performance assessment: individual bonus allocation based on paying for success where performance is measured on both a quantitative and qualitative basis, including such factors as compliance and regulatory awareness.
3. Balanced deferral scheme: deferred variable compensation delivered in equal proportions under the Deferred Cash Plan (DCP) and Premium Share Plan (PSP), which are both subject to forfeiture and deferred over three years to foster long-term orientation.

### FIXED COMPENSATION

#### Base salary

The Group's salary framework is based on a functional model comprising ten function levels, each of which represents an increasing degree of job complexity. A salary band is assigned to each function level. This band defines the target base salary range for jobs assigned to the respective function level concerned. Individual salaries are then determined in accordance with these salary bands taking market benchmarks into account.

The Group does not apply general salary increases (unless required by local legislation). Salary adjustments are made on an individual basis when employ-

ees are promoted to a new function level and/or based on the results of their annual personal assessment.

#### Pension programmes

Julius Baer offers competitive and market-appropriate pension programmes throughout its global offices. All programmes are in compliance with local rules and regulations of the country in which they operate.

In agreement with the employer, the Julius Baer Pension Fund in Switzerland was recalibrated as of 1 July 2016 to account for increasing life expectancy and decreasing investment returns. This recalibration included an increase in the retirement age from 63 to 64 and a decrease in the conversion rates with a corresponding increase to employee and employer pension-fund savings contributions for base salaries up to CHF 230,000. In addition, entitled and insured Swiss-based employees aged 51 and above (i.e. those with less time to contribute to the revised pension scheme) received a savings capital preservation payment into their savings deposits to maintain an adequate pension-fund level. The recalibration treatment focused on providing equal treatment to employees by age classification and individual savings deposits; such treatment was not impacted by rank or function level.

### VARIABLE COMPENSATION

As previously stated, Julius Baer's success also depends on the continued excellence of all its employees. The majority of permanent employees at Julius Baer are considered eligible for cash-based variable compensation.

Individual variable compensation amounts depend on the formal year-end assessment of performance against a range of quantitative and qualitative objectives (e.g. adherence to compliance and regulatory standards and to the Julius Baer Group policies, core values and procedures) as well as skills, expertise and conduct.

As a result, in addition to the plans offered to the members of the Executive Board (as described above), Julius Baer also offers various equity- and

cash-based plans to members of the global staff population. Participation in these plans depends on factors such as function level, overall variable compensation, and/or nomination for participation in the relevant plan on an annual basis.

Until their ultimate allocation to the individual plan participants, all shares underlying the equity-based compensation plans are administered by the LOTEKO Foundation.

## DEFERRED VARIABLE COMPENSATION

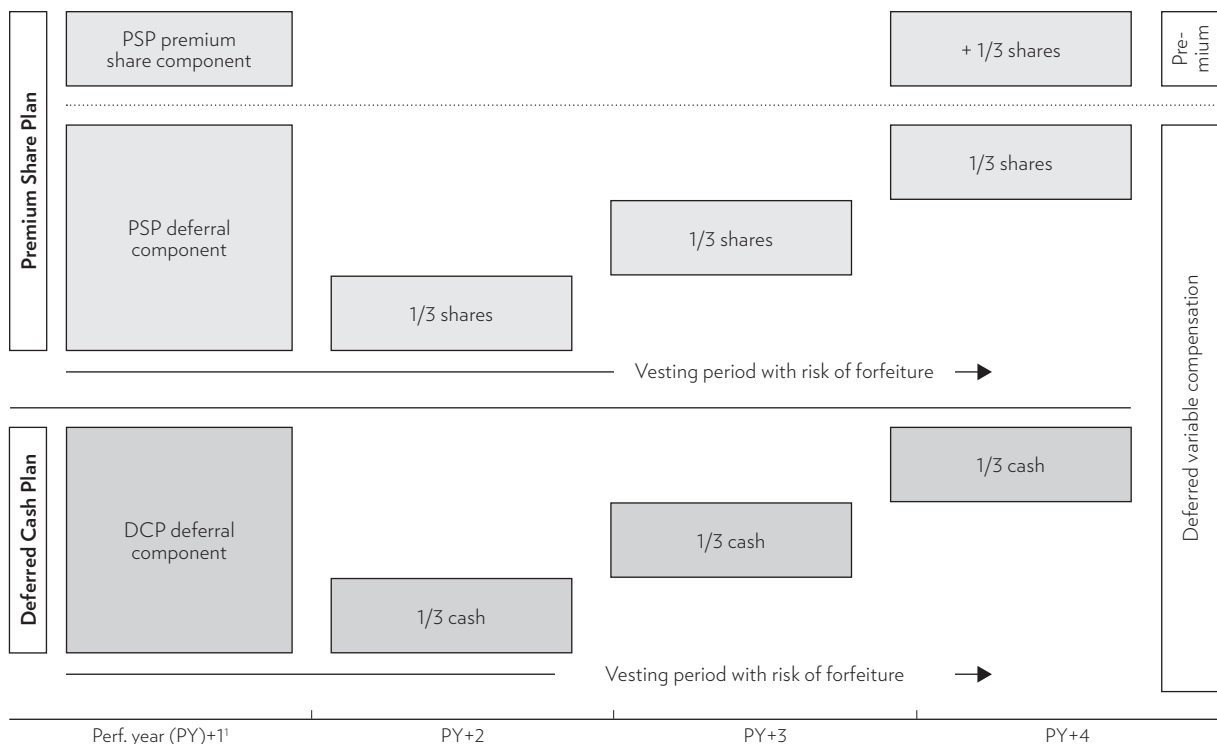
Generally, eligible permanent employees receive their variable compensation in one payment via a year-end bonus. However, where awards exceed the minimum threshold (CHF 125,000, or its local currency equivalent) a portion is subject to deferral either in cash or equity. For amounts between the minimum threshold and CHF 1 million (or its local currency equivalent), a sliding scale is applied, under

which the deferral percentage increases linearly from 20% to 50%. For amounts of CHF 1 million (or its local currency equivalent) or higher, the award will remain subject to the maximum deferral rate of 50%. The aforementioned thresholds and deferral percentages may vary across global jurisdictions based on regulatory requirements.

Until vested, the awards 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 conduct has substantially contributed to a financial loss by the Julius Baer Group or has caused it reputational damage.

Half of the deferred variable compensation is deferred through the Deferred Cash Plan (DCP) with the remaining portion being deferred through the Premium Share Plan (PSP) over a three-year period.

### Deferred variable compensation model for other employees



<sup>1</sup> Grant takes place in February following the performance year.

The intention of this variable compensation pay mix is to provide a balanced deferral scheme which promotes sound business activities that support our core values and simultaneously allows employees to participate in the long-term development and success of Julius Baer.

#### **Cash-based variable compensation**

The Deferred Cash Plan (DCP) promotes sound business activities by remaining subject to forfeiture (as previously described) while providing an inherently less volatile payout than shares. The DCP grant is made once a year as part of the annual variable compensation awarded to the individual concerned, and participation is determined on an annual basis. These deferred cash awards vest in equal one-third tranches over a three-year plan period subject to continued employment. Where share-based plans are not permissible under local legislation, employee annual awards are fully deferred through the DCP.

#### **Equity-based variable compensation**

The Premium Share Plan (PSP) is designed to link a portion of the employee's variable compensation to the long-term success of the Julius Baer Group through its share price. A PSP grant is made once a year as part of the annual variable compensation awarded to the individual concerned, and participation is determined on an annual basis. The employee is granted a number of shares equal in value to the deferred element. These shares vest in equal one-third tranches over a three-year plan period. At the end of the plan period, subject to continued employment, the employee then receives an additional share award representing a further one-third of the number of shares granted to him or her at the beginning of the plan period.

### **OTHER COMPENSATION ARRANGEMENTS**

#### **Integration Incentive Award (for former Bank of America Merrill Lynch relationship managers)**

As part of Julius Baer's integration of Bank of America Merrill Lynch's IWM business, key relationship managers from IWM were offered participation in the Integration Incentive Award (a cash- and share-based plan) which was designed to incentivise individuals to

join Julius Baer and move clients and assets to Julius Baer. In 2016, there were no new grants under the Integration Incentive Award.

The Integration Incentive Award plan runs for a maximum of five years, with cash being paid out on a rolling six-month basis over the first three years and shares being delivered to participants on the fourth and fifth anniversaries of the offer date. At the end of the plan period, subject to continued employment, the employee receives an additional share award representing one-third of the number of shares granted to him or her at the beginning of the plan period.

In the event of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested cash and/or shares are forfeited.

### **COMPENSATION ARRANGEMENTS IN STRATEGIC PARTNERSHIPS**

In certain strategic partnerships, Julius Baer operates special compensation arrangements unique to the organisation concerned. Such arrangements can include compensation linked to the strategic partner entity's shares. No such arrangements are currently linked to the shares of Julius Baer Group Ltd.

### **KEY RISK TAKERS AND REGULATED STAFF**

In accordance with European legislation, Julius Baer takes particular care in identifying staff whose professional activities may have a material impact on the Group's risk profile. Key Risk Takers are identified on an annual basis throughout the entire Group (i.e. not limited merely to the European Economic Area). Quantitative and qualitative criteria are both taken into consideration in the identification process. Defined minimum compensation standards are applicable (in general) to members of the Executive Board as well as employees (including relationship managers) with a relatively high total compensation and/or who hold a function that has a high impact on the risk profile of the entity employing them or the Group. Regulated staff (e.g. Key Risk Takers and code staff) are reviewed by the Compensation

Committee on an individual basis which also takes the potential payout volatility (pay riskiness) of their total compensation into account.

## SIGN-ONS AND REPLACEMENTS

### **Sign-on bonus**

Although Julius Baer only offers performance-based compensation to its current staff (including the Executive Board), it may in the course of its recruitment processes also offer incentives for specific new hires when they join the Group. A sign-on bonus may be made in the form of cash and/or shares and includes a minimum one-year clawback from the employee's hiring date. Actual parameters may vary according to location, local regulations and the specific circumstances of the hiring process. As a general policy, Julius Baer offers such forms of guaranteed remuneration only on an exceptional basis typically in the first year of employment and in restructuring situations. No sign-on or other guaranteed bonuses were awarded to members of the Executive Board in 2015 or 2016.

### **Long Term Incentive Plan (LTI)**

In certain specific situations, Julius Baer may also offer incentives outside the annual compensation cycle. Compensatory payments to new hires for deferred awards they have forfeited by resigning from their previous employer or retention payments to key employees during extraordinary or critical circumstances may be made by granting individuals an equity-based LTI.

An LTI granted in these circumstances generally runs over a three-year plan period. Julius Baer currently operates two different vesting schedules for this plan: (1) three equal one-third tranches vesting over a three-year period, (2) cliff-vesting of all granted shares in one single tranche at the end of a three-year period.

The shares are transferred to participants at the time of vesting, subject to continued employment and any other conditions set out in the plan rules. All grants made in 2016 are free from restrictions upon vesting. In the event of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested shares are forfeited. Where equity-based awards are not permitted in a specific location, awards are made in cash in accordance with the terms and conditions in the DCP (as described above). No LTI grants were awarded to members of the Executive Board in 2015 or 2016.

## EMPLOYEE SHARE PURCHASE

### **Staff Participation Plan (SPP)**

The SPP is offered to most of Julius Baer's global employee population. Some individuals or employees in specific locations are excluded from participating because, for example, the employees concerned are participants in another Julius Baer equity-based plan or because the SPP cannot be offered in a particular jurisdiction for legal or regulatory reasons. Under this plan, eligible participants may voluntarily purchase Julius Baer Group Ltd. shares at the prevailing market price and for every three shares so purchased they will receive one additional share free of charge. These free shares vest after three years, subject to continued employment. Purchases under the SPP only occur once a year.

The objective of this plan is to strengthen the employee's identification with the Group, to encourage entrepreneurial spirit, to generate greater interest in the business through ownership, and to provide employees with financial recognition for their long-term dedication to the Group.

## BOARD OF DIRECTORS COMPENSATION

This section provides details of the compensation system for members of the Board of Directors. The figures for 2016 are presented in the audited 'Compensation, loans and shareholdings of the Board of Directors' section of this Remuneration Report.

### Key elements of Board of Directors compensation

1. Simple structure: fixed compensation, paid in cash and in share awards, which is not linked to performance, but based on the work load of the individual Board member.
2. Share ownership guidelines: minimum required holdings of Julius Baer shares (subject to a three-year build-up period).

### COMPENSATION

Members of the Julius Baer Group Board of Directors (including the Chairperson) are only entitled to fixed compensation for their term in office. This fixed compensation is determined by the work load of the individual Board member based on the Board Committees on which he or she serves and his or her committee position.

The fixed compensation is paid in a combination of cash and shares. Reflecting the independent status of all members of the Board of Directors (including the Chairperson), the remuneration of members of the Board does not include a variable component and is therefore not dependent on the financial performance of the Julius Baer Group. However, in order to align their compensation with the interests of our shareholders, a portion of the fixed compensation is paid in the form of shares.

Generally, the cash-based compensation is paid in December each year; the Chairperson receives the cash element on a quarterly basis. The cash element is disclosed on a business-year basis (i.e. split across the two calendar years that make up a Board member's term).

At the beginning of each term, share-based compensation is determined on the basis of a fixed total compensation value. The number of shares which is granted is calculated on the basis of a five-day

volume-weighted average price of Julius Baer Group Ltd. shares on the Swiss Stock Exchange prior to the grant date. This share-based compensation is delivered under the Group's LTI plan and remains subject to a one-year, service-based vesting period over the term. This element is disclosed at grant value in the year of election or re-election.

No dividend entitlements accrue or are paid on the share-based awards until vesting. All shares delivered at vesting are unrestricted (subject to the Guidelines on share ownership as described below). Shares granted to all members of the Board of Directors are subject to a forfeiture clause, under which the award will only vest if the Board member concerned fulfils the entire term for which he or she has been elected or re-elected.

No additional compensation is paid to members of the Board of Directors for attending meetings. No stock options are granted to the members of the Board of Directors.

No changes were made to the elements of compensation paid to Board members in 2016. Due to the changes in the composition of the Board Committees, the compensation paid to individual Board members may have changed slightly. Notably, Ann Almeida joined the Julius Baer Group Board of Directors at the AGM 2016, thus increasing the number of Board members from eight to nine. In 2016 a comprehensive benchmark review was conducted regarding Board members' compensation levels. It was determined that the current levels are lower than the median of our SMI peer group and, as a result, an increase to Board of Director compensation was proposed and recommended. The maximum aggregate compensation adjustments shall be presented to shareholders for approval at the AGM 2017 for the subsequent compensation period (AGM 2017 to AGM 2018).

In order to avoid any conflicts of interest, members of the Board of Directors do not benefit from preferential staff conditions with regard to mortgages or loans. They do, however, benefit from preferential staff conditions for transactions (e.g. in securities) executed in-house.



## GUIDELINES ON SHARE OWNERSHIP

Share ownership is considered an additional factor underscoring commitment towards Julius Baer. The Board of Directors believes these requirements will

strengthen the ownership mentality of Board members and ensure the alignment of the Board of Directors decisions with the interests of our shareholders.

The members of the Board of Directors will be required to build up their total vested shareholdings until they reach the following levels:

Board member	Share ownership requirement (in vested Julius Baer Group shares)
Chairperson of the Board of Directors	25,000 shares
Members of the Board of Directors (excluding the Chairperson)	7,500 shares

The members of the Board of Directors will have a period of three full calendar years starting from their initial election to the Board of Directors to build up their Julius Baer shareholdings to the minimum required levels. The final measurement will be performed on 31 December of the third calendar year following the Board member's election to the Julius Baer Group Board of Directors. Under these rules, individuals who were members of the Board of Directors from the inception of the shareholding guideline requirements (in May 2014) will be required to build up the aforementioned Julius Baer shareholdings by 31 December 2017. If the above shareholding requirements are not reached by the measurement date, 50% of the shares vesting from the individual's equity-based compensation grant will be held back until the defined level of shareholding has been reached.

Details of the shareholdings of each member of the Board of Directors can be found in the 'Compensation, loans and shareholdings of the Board of Directors' section of this Remuneration Report.

## CONTRACTS

The members of the Board of Directors do not have contracts with Julius Baer which provide for benefits upon termination of their term of office on the Board of Directors.

## COMPENSATION, LOANS AND SHAREHOLDINGS OF THE EXECUTIVE BOARD (AUDITED)

This section provides the data for 2016 and 2015. It does not repeat the details of the compensation system, but describes its outcome.

Under the guidance provided in the 'selected questions and answers for the audit of the remuneration reports in accordance with the Swiss

Ordinance against Excessive Compensation in Listed Companies' formulated by the Swiss Expert Association for Audit, Tax and Fiduciary, the Julius Baer Group's deferred equity-based awards must be disclosed as compensation in the year of grant. The table below reflects this method of reporting.

		Variable compensation <sup>2</sup>					Pension fund, social security contributions and varia <sup>3</sup> CHF 1,000	Total CHF 1,000
		Base salary <sup>1</sup> CHF 1,000	Deferred elements					
			Cash CHF 1,000	DBP		Performance Units CHF 1,000		
				Cash CHF 1,000	EPP			
Compensation of the members of the Executive Board								
Total compensation	2016	5,325	3,032	2,618	5,173	2,214	18,362	
Total compensation	2015	4,504	3,029	2,649	5,797	1,873	17,852	

At the end of 2016, the Executive Board consisted of seven members as opposed to six members at the end of 2015.

<sup>1</sup> The amounts disclosed for 2016 and 2015 include the lump-sum expense allowance of CHF 22,800 p.a. per member of the Executive Board and CHF 24,000 p.a. to the CEO (unchanged from the previous year). These amounts are based on full-time employment (100%) during the performance year. The aggregate amount of lump-sum expense allowances paid in 2016 was CHF 156,960 (CHF 128,570 in 2015). The voluntary salary reduction in relation to cost-management measures in response to the marked appreciation of the Swiss franc was effective from 1 March 2015 through 31 December 2015.

The maximum aggregate amount of fixed compensation for the financial year 2016 approved at the 2015 AGM (CHF 4,700,000) did not include the fixed compensation for Giovanni M.S. Flury, Business Representative, who was nominated after the 2015 AGM to join the Executive Board on 1 January 2016. Giovanni M.S. Flury's base pay for 2016 (CHF 625,000 [including lump sum expenses] plus social security contributions of CHF 176,687), however, is disclosed above as part of the 2016 'base salary' and 'pension fund, social security contributions and varia', respectively. In accordance with

article 11.2 of the Articles of Incorporation of the Company ("Supplementary Amount for Changes on the Executive Board"), Giovanni M.S. Flury's compensation for 2016 did not exceed the threshold of 25% of the aggregate amounts of compensation of the Executive Board last approved by the AGM.

<sup>2</sup> The variable compensation for the members of the Executive Board for the 2016 and 2015 financial years comprised a cash component and an equity-based component. For the reporting periods 2016 and 2015, the members of the Executive Board received a substantial part of their variable compensation as deferred elements (for details on the deferral see the 'Cash-based variable compensation' and 'Equity-based variable compensation' sections of this Remuneration Report). A minimum deferral of 20% of the DBP is applied starting from CHF 125,000 and the maximum deferral amounts to 50% at a DBP of CHF 1 million and above; the non-deferred amount of the DBP award is paid out in cash up front, whereas the deferral amount is deferred over a period of five years (disclosed under 'deferred elements, cash'). In addition to the DBP, the members of the Executive Board were granted an equity-based EPP

at fair value (CHF 37.89 per Performance Unit for the grant dated 15 February 2016 and CHF 35.07 per Performance Unit for the grant dated 15 February 2015, disclosed under 'Performance Units'). Such awards cliff-vest in Julius Baer Group Ltd. shares at the end of year three from the grant date.

The fair value of the Performance Units was based on an equally weighted valuation of (i) the cumulative Economic Profit (cEP) component using a probabilistic model of the potential deviation of the future Group results from the strategic three-year plan, and of (ii) the relative Total Shareholder Return (rTSR) with the peer group being the STOXX 600 Europe Banks Index. The final payout of this EPP is linked to these two Key Performance Indicators (KPIs). Both KPIs have a payout range of 0% to 200% each, but the maximum uplift of the EPP is 50% of the number of Performance Units originally granted and is subject to full downside risk.

All deferred elements of the variable compensation of the members of the Executive Board (including the CEO) are subject to forfeiture and/or clawback provisions.

The DBP for 2016 as disclosed above is subject to approval by the shareholders at the AGM in April 2017.

The Compensation Committee decided on 23 January 2017 on the cash-based variable compensation (DBP) for 2016 and the EPP 2017 grant to be awarded to the members of the Executive Board. Due to the variability of annual performance payments and awards from equity-based elements, the ratio of base salary to total compensation can vary significantly from year to year. In 2016, the average ratio of fixed to variable compensation for the members of the Executive Board amounted to 33%: 67%, compared to 28.2%: 71.8% in 2015. 72% of the variable compensation of the members of the Executive Board in the reporting period was deferred either for a period of five years for the DBP or three years for the EPP (73.6% in 2015).

All current members of the Executive Board have a full-time employment relationship with the Group.

<sup>3</sup> The amounts reported in this column include actual employer contributions to social security (AHV/ALV) for base salaries and estimated future contributions based on the grant values of the DBP 2016 and DBP 2015 and the fair value of the Performance Units/EPP granted in 2016 and 2015. These amounts also include premiums for additional accident insurance. The aggregate total of these social security and accident insurance costs for each respective year is CHF 1,436,522 for 2016 and CHF 1,106,176 for 2015.

The above table is based on the accrual principle, which means that the amounts shown are the compensation earned for the respective year. The actual payment of a portion of the amounts for the performance-related components may, however, be effected at a later date. In particular, under the DBP, a portion of the cash-based variable compensation (as described in the 'Cash-based variable compensation' section) was paid in February with the remainder being deferred over a five-year period (delivered in equal instalments each February over the following five years).

The immediately payable portion of the DBP is not paid to the recipients until shareholder approval has been granted at the AGM.

In 2016, no compensation was paid to former members of the Executive Board who left the Executive Board in 2015 or earlier that related to such members' prior function within the Executive Board. No compensation was granted to parties related to members of the Executive Board or former members of the Executive Board. No sign-on payments or severance payments to members of the Executive Board were effected in 2016 or 2015.

## COMPENSATION OF THE HIGHEST-PAID MEMBER OF THE EXECUTIVE BOARD (AUDITED)

Under the guidance provided in the 'selected questions and answers for the audit of the remuneration reports in accordance with the Swiss Ordinance against Excessive Compensation in

Listed Companies' formulated by the Swiss Expert Association for Audit, Tax and Fiduciary, the Julius Baer Group's deferred equity-based awards must be disclosed as compensation in the year of grant.

		Base salary <sup>1</sup> CHF 1,000	Variable compensation <sup>2</sup>				Pension fund, social security contributions and varia <sup>3</sup> CHF 1,000	Total CHF 1,000
			Cash CHF 1,000	Deferred elements		Performance Units CHF 1,000		
				DBP	EPP			
Details of the compensation of the highest-paid member of the Executive Board or former Executive Board, Boris F.J. Collardi, CEO								
Total compensation	2016	1,500	1,163	1,163	2,178	491	6,494	
Total compensation	2015	1,438	939	939	2,372	475	6,162	

<sup>1</sup> The amounts disclosed for 2016 and 2015 include the lump-sum expense allowance of CHF 24,000 p.a. to the CEO (unchanged from the previous year). This amount is based on full-time employment (100%) during the performance year. The increase in base salary came into effect on 1 March 2014 and remained unchanged for 2015 and 2016 (the voluntary salary adjustment in 2015 was effective from 1 March 2015 to 31 December 2015).

<sup>2</sup> As with other members of the Executive Board, the variable compensation for the CEO for the 2016 and 2015 financial years comprised a cash component and an equity-based component. For the reporting periods 2016 and 2015, the CEO received a substantial part of his variable compensation as deferred elements (for details on the deferral see the 'Cash-based variable compensation' and 'Equity-based variable compensation' sections of this Remuneration Report). A minimum deferral of 20% of the DBP is applied starting from CHF 125,000 and the maximum deferral amounts to 50% at a DBP of CHF 1 million and above; the non-deferred amount of the DBP award is paid out in cash up front, whereas the deferral amount is deferred over a period of five years (disclosed under 'deferred elements, cash'). In addition to the DBP, the CEO was granted an equity-based EPP at fair value (CHF 37.89 per Performance Unit for the grant dated 15 February 2016 and CHF 35.07 per Performance Unit for the grant dated

15 February 2015, disclosed under 'Performance Units'). Such awards cliff-vest in Julius Baer Group Ltd. shares at the end of year three from the grant date.

The fair value of the Performance Units was based on an equally weighted valuation of (i) the cumulative Economic Profit (cEP) component using a probabilistic model of the potential deviation of the future Group results from the strategic three-year plan, and of (ii) the relative Total Shareholder Return (rTSR) with the peer group being the STOXX Europe 600 Banks Index. The final payout of this EPP is linked to these two KPIs. Both KPIs have a payout range of 0 to 200% each, but the maximum uplift on the EPP is 50% of the number of Performance Units originally granted and is subject to full downside risk.

All deferred elements of the variable compensation of the Executive Board (including the CEO) are subject to forfeiture and clawback provisions.

The DBP for 2016 as disclosed above is included in the amount which will be submitted for approval to the shareholders at the AGM in April 2017.

The Compensation Committee decided on 23 January 2017 on the cash-based variable compensation (DBP) for 2016 and the EPP 2017 grant to be awarded to the CEO. Due to the variability of annual performance payments and awards from equity-based elements, the

ratio of base salary to total compensation can vary significantly from year to year. In 2016, the ratio of fixed to variable compensation for the CEO amounted to 25%:75%, compared to 25.3%:74.7% in 2015. 74.2% of the variable compensation of the CEO in the reporting period was deferred either for a period of five years for the DBP or three years for the EPP (77.9% in 2015).

<sup>3</sup> The amounts reported in this column include actual employer contributions to social security (AHV/ALV) for base salaries and estimated future contributions based on the grant values of the DBP 2016 and DBP 2015 and the fair value of the Performance Units/EPP granted in 2016 and 2015. These amounts also include premiums for additional accident insurance. The aggregate total of these social security and accident insurance costs for each respective year is CHF 396,818 for 2016 and CHF 383,753 for 2015.

The above table is based on the accrual principle, which means that the amounts shown are compensation earned for the respective year. The actual payment of a portion of the amounts for the performance-related components may, however, be effected at a later date. In particular, under the DBP, a portion of the cash-based variable compensation (as described in the 'Cash-based variable compensation' section) was paid each February with the remainder being deferred over a five-year period (disbursed in equal instalments each February over the following five years).

The immediately payable portion of the DBP is not paid to the recipients until shareholder approval has been granted at the AGM.

## LOANS TO THE MEMBERS OF THE EXECUTIVE BOARD (AUDITED)

	Loans CHF 1,000	31.12.2016 Loans to related parties CHF 1,000	Loans CHF 1,000	31.12.2015 Loans to related parties CHF 1,000
<b>Loans to the members of the Executive Board</b>				
<b>Total</b>	<b>14,750</b>	-	16,248	-
<i>of which the highest amount: Boris F.J. Collardi</i>	<b>12,110</b>	-	12,200	-

The loans granted to the members of the Executive Board 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 at a refinancing rate plus 0.5%. Mortgage loans on a principal residence and/or holiday home to employees and Executive Board members of the Group in 2016 were granted at a discount of 1% p.a. for floating-rate mortgage loans, whereas fixed-rate mortgage loans and Libor mortgage loans were granted at a refinancing rate plus 0.5% p.a. For investment properties the standard mortgage conditions for external clients apply, both in terms of pricing and amortisation.

The loans disclosed for the CEO in 2016 and 2015 include CHF 10,550,000 of mortgage loans on investment properties (at standard mortgage conditions for external clients).

No loans to former members of the Executive Board (and their related parties) were outstanding at year-end 2016 or were granted in 2016 at conditions that were not in line with market conditions.

All loans are aligned with the cap stipulated in the Articles of Incorporation of the Company.

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

## SHAREHOLDINGS OF THE MEMBERS OF THE EXECUTIVE BOARD (AUDITED)

Number of shares

### Shareholdings of the members of the Executive Board<sup>1</sup>

Boris F.J. Collardi, Chief Executive Officer	<b>2016</b>	<b>260,253</b>
	2015	205,882
Dieter A. Enkelmann, Chief Financial Officer	<b>2016</b>	<b>86,000</b>
	2015	87,719
Jan A. Bielinski, Chief Communications Officer	<b>2016</b>	<b>34,896</b>
	2015	33,511
Giovanni M.S. Flury, Business Representative (member of the Executive Board January–December 2016)	<b>2016</b>	-
	2015	n.a.
Gregory F. Gatesman, Chief Operating Officer (left the Executive Board at the end of 2016)	<b>2016</b>	-
	2015	6,000
Christoph Hiestand, General Counsel	<b>2016</b>	<b>14,100</b>
	2015	9,469
Bernhard Hodler, Chief Risk Officer	<b>2016</b>	<b>30,000</b>
	2015	43,632
<b>Total</b>	<b>2016</b>	<b>425,249</b>
<b>Total</b>	2015	386,213

<sup>1</sup> Including shareholdings of related parties

None of the members of the Executive Board held any option positions on Julius Baer Group Ltd. shares as at year-end 2016 and 2015.

Share ownership guidelines for the members of the Board of Directors and the members of the Executive Board were introduced with effect from 2014.

The CEO is required to build up and maintain 100,000 vested shares of Julius Baer Group Ltd., the other members of the Executive Board the lower of 2.5 times base salary or 30,000 shares.

The targeted number of Julius Baer Group Ltd. shares has to be built up over a period of three years (and reached at year-end of the respective year) and maintained until the Executive Board member leaves his or her current position and/or the Julius Baer Group.

### FORMER EXECUTIVES

Executive Board members Gregory F. Gatesman and Giovanni M.S. Flury left the Company with effect from 31 December 2016. No compensation was paid to former executives in 2016.

### ADDITIONAL HONORARIA, RELATED PARTIES, OTHER IMPORTANT INFORMATION

The compensation disclosed for the CEO, CFO, COO and CRO includes the compensation for the same function those members assume at the level of the Executive Board of Bank Julius Baer & Co. Ltd., the major subsidiary of Julius Baer Group Ltd.

No compensation has been granted to parties related to members of the Executive Board.

## COMPENSATION, LOANS AND SHAREHOLDINGS OF THE BOARD OF DIRECTORS (AUDITED)

This section provides the data for 2016 and 2015. It does not repeat the details of the compensation system, but describes its outcome.

		Base salary <sup>3</sup> CHF 1,000	Share-based payments <sup>4</sup> CHF 1,000	Social security contributions and varia <sup>5</sup> CHF 1,000	Total CHF 1,000
<b>Compensation of the members of the Board of Directors<sup>1</sup></b>					
Daniel J. Sauter – Chairman	<b>2016</b>	<b>375</b>	<b>600</b>	<b>99</b>	<b>1,074</b>
	2015	325	600	124	1,049
Gilbert Achermann	<b>2016</b>	<b>107</b>	<b>100</b>	<b>21</b>	<b>228</b>
	2015	97	100	21	217
Ann Almeida (joined the Board in 2016)	<b>2016</b>	<b>71</b>	<b>88</b>	<b>18</b>	<b>177</b>
	2015	n.a.	n.a.	n.a.	n.a.
Andreas Amschwand	<b>2016</b>	<b>129</b>	<b>100</b>	<b>24</b>	<b>253</b>
	2015	120	100	23	243
Heinrich Baumann	<b>2016</b>	<b>147</b>	<b>100</b>	<b>23</b>	<b>269</b>
	2015	136	100	25	262
Paul Man Yiu Chow (joined the Board in 2015)	<b>2016</b>	<b>103</b>	<b>100</b>	<b>16</b>	<b>219</b>
	2015	65	100	9	174
Claire Giraut	<b>2016</b>	<b>107</b>	<b>100</b>	<b>64</b>	<b>271</b>
	2015	99	100	64	263
Gareth Penny	<b>2016</b>	<b>129</b>	<b>100</b>	<b>38</b>	<b>267</b>
	2015	117	100	31	248
Charles G. T. Stonehill	<b>2016</b>	<b>151</b>	<b>100</b>	<b>34</b>	<b>285</b>
	2015	138	100	39	278
<b>Total</b>	<b>2016</b>	<b>1,319</b>	<b>1,388</b>	<b>337</b>	<b>3,043</b>
Total	2015	1,097	1,300	336	2,734

### Compensation of the Honorary Chairman (the Honorary Chairman function is an honorific title and Mr Baer is not a member of the Board of Directors)<sup>2</sup>

Raymond J. Baer	<b>2016</b>	-	-	<b>5</b>	<b>5</b>
	2015	80	-	23	103

At the end of 2016, the Board of Directors consisted of nine members as opposed to eight members at the end of 2015.

<sup>1</sup> The members of the Board of Directors of Julius Baer Group Ltd. assume similar director roles on the Board of Directors of Bank Julius Baer & Co. Ltd. For more information on the detailed compensation components of the Board of Directors please refer to the 'Board of Directors Compensation' section of this Remuneration Report.

<sup>2</sup> Given the specific role of Raymond J. Baer, besides acting as Honorary Chairman, i.e. assuming the role of Chairperson of the Special Committee of the Board of Directors of Bank Julius Baer & Co. Ltd. and thus coordinating the efforts of Bank Julius Baer & Co. Ltd. to resolve the issue with the United States, the Compensation Committee decided on a remuneration agreement effective as of 1 May 2012 in the form of a yearly base salary of CHF 250,000, which the Compensation



Committee reduced to CHF 160,000 with effect from 1 March 2014 and to CHF 40,000 with effect from 1 May 2015 to reflect changes in the required workload of Raymond J. Baer. The remuneration agreement with Raymond J. Baer was terminated with the Group at the end of 2015 following the Group's agreement to terms with the United States. The amount disclosed for 2016 represents social security contributions as well as employer and employee contributions into the Pension Fund of the Julius Baer Group for the period from January to August 2016, when Raymond J. Baer exited the fund. While Raymond J. Baer continues to act as Honorary Chairman of the Julius Baer Group and Chairman of the Group's Pension Fund in Switzerland, he is not compensated for any services related to these activities.

<sup>3</sup> The base salaries are disclosed on a business year basis according to the requirements of the Ordinance.

<sup>4</sup> The share-based elements reflect a fixed amount in CHF (currently CHF 100,000 for Board members and CHF 600,000 for the Chairperson, rounded up to the next share) and are granted each year upon election or re-election to the Board. The share-based payments are valued at fair value at the grant date (CHF 50.26 per share of Julius Baer Group Ltd. as at 2 May 2015; CHF 40.85 per share of Julius Baer Group Ltd. as at 2 May 2016).

In 2016, Daniel J. Sauter (Chairman), Gilbert Achermann, Andreas Amschwand, Heinrich Baumann, Paul Man Yiu Chow, Claire Giraut, Gareth Penny and Charles G. T. Stonehill were re-elected for a term of one year. Ann Almeida was elected as a new Board member with effect from 1 June 2016.

<sup>5</sup> The amounts reported for 2016 and 2015 include Julius Baer's actual contributions to social security in the respective reporting period in accordance with the

Ordinance, amounting to CHF 246,273 for 2016 and CHF 232,365 for 2015. Depending on the domicile of the Board member and the applicable local legislation, contributions to social security vary despite the similar level of compensation amongst members of the Board of Directors.

The value of the share-based payments shown in the above table cannot be compared with the figures in Note 28 ('Share-based payments') of the Group's 2016 consolidated financial statements as the latter disclose the compensation expense for the shares that has been recognised during the applicable reporting periods.

Under the forfeiture clause, the members of the Board of Directors are only entitled to the shares granted to them provided that they fulfil the entire term for which they have been elected or re-elected. Should a Board member resign between two AGMs, any unvested shares are generally forfeited. In that event the cash element will, however, be paid on a pro rata basis. In the event of dismissal of the Chairperson or a Board member by an Extraordinary General Meeting, both the cash and the share elements will be paid on a pro rata basis. In the event of disability or death, all awards granted may be retained by the Board member and no forfeiture applies.

Board members are not entitled to participate in any performance-related share or cash programme at either Group or Bank level.

No compensation was granted to parties related to members of the Board of Directors.

## LOANS TO THE MEMBERS OF THE BOARD OF DIRECTORS (AUDITED)

	Loans CHF 1,000	<b>31.12.2016</b> Loans to related parties CHF 1,000	Loans CHF 1,000	31.12.2015 Loans to related parties CHF 1,000
<b>Loans to the members of the Board of Directors</b>				
Daniel J. Sauter – Chairman	-	<b>530</b>	-	-
Gilbert Achermann	-	-	-	-
Ann Almeida (joined the Board in 2016)	-	-	n.a.	n.a.
Andreas Amschwand	-	-	-	-
Heinrich Baumann	<b>5,150</b>	-	5,100	-
Paul Man Yiu Chow (joined the Board in 2015)	-	-	-	-
Claire Giraut	-	-	-	-
Gareth Penny	-	-	-	-
Charles G. T. Stonehill	-	-	-	-
<b>Total</b>	<b>5,150</b>	<b>530</b>	5,100	-

The loans granted to members of the Board of Directors or their related parties 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), Libor mortgages and floating-rate mortgages (the latter two on a variable-rate basis).

The interest rates on the Lombard loans and the mortgage loans for Board members and related parties are in line with normal market rates at the time the loans were granted and do not include any preferential conditions.

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

## SHAREHOLDINGS OF THE MEMBERS OF THE BOARD OF DIRECTORS (AUDITED)

Number of shares

### Shareholdings of the members of the Board of Directors<sup>1</sup>

Daniel J. Sauter – Chairman	<b>2016</b>	<b>172,495</b>
	2015	155,128
Gilbert Achermann	<b>2016</b>	<b>9,705</b>
	2015	7,715
Ann Almeida (joined the Board in 2016)	<b>2016</b>	-
	2015	n.a.
Andreas Amschwand	<b>2016</b>	<b>9,705</b>
	2015	7,715
Heinrich Baumann	<b>2016</b>	<b>15,432</b>
	2015	13,442
Paul Man Yiu Chow (joined the Board in 2015)	<b>2016</b>	<b>1,990</b>
	2015	-
Claire Giraut	<b>2016</b>	<b>18,995</b>
	2015	17,005
Gareth Penny	<b>2016</b>	<b>20,105</b>
	2015	20,715
Charles G. T. Stonehill	<b>2016</b>	<b>20,365</b>
	2015	18,375
<b>Total</b>	<b>2016</b>	<b>268,792</b>
<b>Total</b>	2015	240,095

<sup>1</sup> Including shareholdings of related parties

None of the Board members held any option positions on Julius Baer Group Ltd. shares as at year-end 2016 and 2015.

Share ownership guidelines for the members of the Board of Directors and the members of the Executive Board were introduced with effect from 2014. The Chairperson of the Board of Directors is required to build up and maintain 25,000 vested shares of Julius Baer Group Ltd., the other members of the Board 7,500 each, respectively.

The targeted number of Julius Baer Group Ltd. shares has to be built up over a period of three years following election (and reached at year-end of the respective year) and maintained until the Board member leaves the Board of Directors.

Board members who were elected and/or re-elected in 2014 (i.e. all Board members except for Paul Man Yiu Chow and Ann Almeida) are required to reach the targeted number of shares by year-end 2017. Paul Man Yiu Chow and Ann Almeida are required to reach the targeted number of shares by year-end 2018 and 2019, respectively.

### FORMER DIRECTORS

In 2016, no compensation was granted to Board members who left the Board in 2015 or earlier. No loans to former members of the Board of Directors (or their related parties) were outstanding at year-end 2016 or were granted in 2016 at conditions that were not in line with market rates.

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## ABBREVIATIONS

AGM	Annual General Meeting	IWM	Bank of America Merrill Lynch's
BIS	Bank for International Settlements		International Wealth Management
CEO	Chief Executive Officer		business outside the US
cEP	Cumulative Economic Profit	Kairos	Kairos Investment Management SpA
CFO	Chief Financial Officer	KPI(s)	Key Performance Indicator(s)
CoC	Cost of Capital	LTI	Long Term Incentive Plan
COO	Chief Operating Officer	NOPbBT	Net operating profit before variable
CRO	Chief Risk Officer		compensation and taxes
DBP	Deferred Bonus Plan	Ordinance	Swiss Ordinance against Excessive
DCP	Deferred Cash Plan		Compensation in Listed Companies
EB	Executive Board	PSP	Premium Share Plan
EP	Economic Profit	rTSR	Relative Total Shareholder Return
EPP	Equity Performance Plan	SMI	Swiss Market Index
IFRS	International Financial Reporting	SPP	Staff Participation Plan
	Standards	TSR	Total Shareholder Return
Index	STOXX® Europe 600 Bank Index (gross		
	return)		

## TERMINATION PROVISIONS OF JULIUS BAER PLANS

Award Name	Voluntary Termination	Termination without Cause	Death	Disability	Retirement	Termination for Cause	Change of Control
<b>Deferred Bonus Plan (DBP)</b>	Outstanding deferral is paid out in accordance with the original payment schedule.	Outstanding deferral is paid out in accordance with the original payment schedule.	Outstanding deferral amounts are paid out within 30 days of the notification of the event.	Outstanding deferral amounts are paid out within 30 days of termination.	Outstanding deferral is paid out in accordance with the original payment schedule.	Outstanding deferral is clawed back upon notice of termination.	Payment-schedule adjustments permissible at Board of Directors' discretion.
<b>Equity Performance Plan (EPP)</b>	Unvested awards are forfeited upon notice of termination.	Pro rata portion of unvested awards vests upon notice of termination subject to final performance multiplier assessment at the end of the plan period.	Award fully vests based on an assumed Final Multiplier of 100% and is paid out within 30 days of the notification of the event.	Award fully vests based on an assumed Final Multiplier of 100% and is paid out within 30 days of termination.	Awards fully vest on the date of retirement subject to the Final Multiplier performance assessment at the end of the plan period.	Unvested awards are forfeited upon notice of termination.	Award adjustments solely at Board of Directors' discretion. Plan allows for an intrinsic value roll-over of awards and/or early evaluation of actual performance followed by vesting.
<b>Integration Incentive Award (IIA)</b>	Unvested awards (cash and/or shares) are forfeited upon notice of termination.	Unvested awards (cash and/or shares) are forfeited upon notice of termination.	Unvested awards (cash and/or shares) vest on the date of the notification of the event.	Unvested awards (cash and/or shares) vest on the date of termination.	Unvested awards (cash and/or shares) are forfeited in full if retirement occurs prior to final cash payment. Unvested shares continue to vest if retirement occurs after final cash payment (subject to Restricted Activity covenants).	Unvested awards (cash and/or shares) are forfeited upon notice of termination.	Award adjustments solely at Compensation Committee's discretion. Intrinsic value roll-over of awards permitted.
<b>Long Term Incentive Plan (LTI)</b>	Unvested shares are forfeited upon notice of termination.	Unvested shares are forfeited upon notice of termination.	Unvested shares vest on the date of the notification of the event.	Unvested shares vest on the date of termination.	Unvested shares vest on the date of retirement.	Unvested shares are forfeited upon notice of termination.	Award adjustments solely at Compensation Committee's discretion. Intrinsic value roll-over of awards permitted.
<b>Premium Share Plan (PSP)</b>	Unvested shares from deferral and Premium Shares are forfeited upon notice of termination.	Unvested shares from deferral vest on date of termination. Premium Shares are forfeited.	The unvested shares from deferral and Premium Shares vest and are paid out within 30 days of the notification of the event.	The unvested shares from deferral and Premium Shares vest and are paid out within 30 days of termination.	The unvested shares from deferral and Premium Shares vest and are paid out within 30 days of retirement.	Unvested shares from deferral and Premium Shares are forfeited upon termination.	Award adjustments solely at Compensation Committee's discretion. Intrinsic value roll-over of awards permitted.
<b>Deferred Cash Plan (DCP)</b>	Unvested awards are forfeited upon notice of termination.	Unvested awards vest on the date of termination.	Unvested awards vest and are paid out within 30 days of the notification of the event.	Unvested awards vest on the date of termination.	Unvested awards vest on the date of retirement.	Unvested awards are forfeited upon notice of termination.	Award adjustments solely at Compensation Committee's discretion.

# REPORT OF THE STATUTORY AUDITOR TO THE ANNUAL GENERAL MEETING OF JULIUS BAER GROUP LTD., ZURICH



## Report of the Statutory Auditor

To the General Meeting of Julius Baer Group Ltd., Zurich

We have audited pages 64 to 73 of the accompanying remuneration report of Julius Baer Group Ltd. for the year ended 31 December 2016.

### Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

### Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Opinion

In our opinion, the remuneration report for the year ended 31 December 2016 of Julius Baer Group Ltd. complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Philipp Rickert  
Licensed Audit Expert  
Auditor in Charge

Cataldo Castagna  
Licensed Audit Expert

Zurich, 9 March 2017

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

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# III. FINANCIAL STATEMENTS

## JULIUS BAER GROUP 2016

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## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED INCOME STATEMENT

	Note	2016 CHF m	2015 CHF m	Change %
Interest and dividend income		<b>1,043.9</b>	847.2	23.2
Interest expense		<b>166.8</b>	135.7	22.8
Net interest and dividend income	1	<b>877.1</b>	711.5	23.3
Commission and fee income		<b>1,771.1</b>	1,732.1	2.3
Commission expense		<b>206.2</b>	209.7	-1.7
Net commission and fee income	2	<b>1,564.9</b>	1,522.4	2.8
Net trading income	3	<b>332.5</b>	435.8	-23.7
Other ordinary results	4	<b>77.9</b>	24.7	215.1
<b>Operating income</b>		<b>2,852.4</b>	2,694.4	5.9
Personnel expenses	5	<b>1,335.9</b>	1,236.1	8.1
General expenses	6	<b>623.2</b>	1,100.2	-43.4
Depreciation of property and equipment	12	<b>37.6</b>	34.5	9.0
Amortisation of customer relationships	12	<b>68.5</b>	126.2	-45.7
Amortisation and impairment of other intangible assets	12	<b>34.6</b>	58.6	-41.0
<b>Operating expenses</b>		<b>2,099.8</b>	2,555.6	-17.8
<b>Profit before taxes</b>		<b>752.6</b>	138.8	442.2
Income taxes	7	<b>130.4</b>	16.3	701.4
<b>Net profit</b>		<b>622.1</b>	122.5	407.8
Attributable to:				
Shareholders of Julius Baer Group Ltd.		<b>619.4</b>	121.2	411.2
Non-controlling interests		<b>2.7</b>	1.4	101.5
		<b>622.1</b>	122.5	407.8
	Note	2016 CHF	2015 CHF	Change %
<b>Share information</b>				
Basic earnings per share (EPS)	8	<b>2.85</b>	0.55	414.1
Diluted earnings per share (EPS)	8	<b>2.84</b>	0.55	413.2
Dividend proposal 2016 and dividend 2015		<b>1.20</b>	1.10	9.1



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2016 CHF m	2015 CHF m
<b>Net profit recognised in the income statement</b>	<b>622.1</b>	122.5
Other comprehensive income (net of taxes):		
<b>Items that may be reclassified to the income statement</b>		
Net unrealised gains/(losses) on financial investments available-for-sale	19.8	-85.8
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	7.8	0.3
Translation differences	22.8	-79.6
Realised (gains)/losses on translation differences reclassified to the income statement	-0.0	0.2
<b>Items that will not be reclassified to the income statement</b>		
Remeasurement of defined benefit obligation	18.9	-98.4
<b>Other comprehensive income</b>	<b>69.2</b>	-263.2
<b>Total comprehensive income</b>	<b>691.3</b>	-140.7
Attributable to:		
Shareholders of Julius Baer Group Ltd.	685.7	-139.3
Non-controlling interests	5.6	-1.4
	<b>691.3</b>	-140.7

## CONSOLIDATED BALANCE SHEET

	Note	31.12.2016 CHF m	31.12.2015 CHF m
<b>Assets</b>			
Cash		<b>13,599.5</b>	9,185.7
Due from banks	9	<b>11,389.8</b>	6,901.1
Loans	9	<b>38,419.0</b>	36,380.9
Trading assets	10	<b>7,660.7</b>	8,984.0
Derivative financial instruments	24	<b>2,690.9</b>	2,189.1
Financial assets designated at fair value	25	<b>252.4</b>	197.0
Financial investments available-for-sale	11	<b>18,266.6</b>	16,572.5
Investments in associates	26	<b>29.4</b>	90.3
Property and equipment	12	<b>373.8</b>	373.2
Goodwill and other intangible assets	12	<b>2,834.3</b>	2,316.4
Accrued income and prepaid expenses		<b>327.2</b>	366.2
Deferred tax assets	17	<b>28.8</b>	23.8
Other assets		<b>335.0</b>	535.4
<b>Total assets</b>		<b>96,207.2</b>	84,115.5

FINANCIAL STATEMENTS JULIUS BAER GROUP 2016  
**CONSOLIDATED FINANCIAL STATEMENTS**

	Note	<b>31.12.2016</b> CHF m	31.12.2015 CHF m
<b>Liabilities and equity</b>			
Due to banks		<b>10,076.8</b>	4,672.0
Due to customers		<b>67,495.2</b>	64,781.4
Trading liabilities	10	<b>159.0</b>	190.8
Derivative financial instruments	24	<b>2,285.3</b>	2,391.4
Financial liabilities designated at fair value	15	<b>8,444.4</b>	4,263.1
Debt issued	16	<b>1,213.5</b>	1,152.7
Accrued expenses and deferred income		<b>620.3</b>	530.1
Current tax liabilities		<b>123.0</b>	65.6
Deferred tax liabilities	17	<b>77.8</b>	41.6
Provisions	18	<b>23.0</b>	575.2
Other liabilities		<b>335.1</b>	509.7
<b>Total liabilities</b>		<b>90,853.4</b>	79,173.5
Share capital	19	<b>4.5</b>	4.5
Retained earnings		<b>5,840.4</b>	5,467.8
Other components of equity		<b>-251.6</b>	-317.9
Treasury shares		<b>-263.1</b>	-218.9
Equity attributable to shareholders of Julius Baer Group Ltd.		<b>5,330.2</b>	4,935.6
Non-controlling interests		<b>23.6</b>	6.4
<b>Total equity</b>		<b>5,353.9</b>	4,942.0
<b>Total liabilities and equity</b>		<b>96,207.2</b>	84,115.5

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital CHF m	Retained earnings <sup>1</sup> CHF m
At 1 January 2015	4.5	5,560.3
Net profit	-	121.2
Unrealised gains/(losses)	-	-
Realised (gains)/losses reclassified to the income statement	-	-
Changes	-	-
Total other comprehensive income	-	-
Total comprehensive income	-	121.2
Dividends	-	-223.8
Dividend income on own shares	-	4.8
Share-based payments expensed for the year	-	60.0
Share-based payments vested	-	-55.1
Changes in derivatives on own shares	-	14.2
Acquisitions of own shares	-	-
Disposals of own shares	-	-13.8
At 31 December 2015	4.5	5,467.8
<b>At 1 January 2016</b>	<b>4.5</b>	<b>5,467.8</b>
Net profit	-	<b>619.4</b>
Unrealised gains/(losses)	-	-
Realised (gains)/losses reclassified to the income statement	-	-
Changes	-	-
Total other comprehensive income	-	-
Total comprehensive income	-	<b>619.4</b>
Changes in non-controlling interests	-	<b>-23.4<sup>2</sup></b>
Dividends	-	<b>-246.2</b>
Dividend income on own shares	-	<b>6.2</b>
Share-based payments expensed for the year	-	<b>70.8</b>
Share-based payments vested	-	<b>-49.4</b>
Changes in derivatives on own shares	-	<b>-0.2</b>
Acquisitions of own shares	-	-
Disposals of own shares	-	<b>-4.5</b>
<b>At 31 December 2016</b>	<b>4.5</b>	<b>5,840.4</b>

<sup>1</sup> Retained earnings include the capital reserves of Bank Julius Baer & Co. Ltd. and the statutory capital reserve/retained earnings reserves of Julius Baer Group Ltd.

<sup>2</sup> Related to the acquisition of GPS Investimentos Financeiros e Participações S.A. and Julius Bär Wealth Management AG.

<sup>3</sup> Related to the acquisition of GPS Investimentos Financeiros e Participações S.A., Julius Bär Wealth Management AG and Kairos Investment Management SpA.

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Other components of equity						
Financial investments available-for-sale, net of taxes CHF m	Remeasurement of defined benefit obligation CHF m	Translation differences CHF m	Treasury shares CHF m	Equity attributable to shareholders of Julius Baer Group Ltd. CHF m	Non-controlling interests CHF m	<b>Total equity CHF m</b>
108.5	-123.0	-42.9	-178.7	5,328.7	9.1	5,337.8
-	-	-	-	121.2	1.4	122.5
-85.8	-	-76.9	-	-162.6	-2.7	-165.4
0.3	-	0.2	-	0.5	-	0.5
-	-98.4	-	-	-98.4	-	-98.4
-85.4	-98.4	-76.7	-	-260.5	-2.7	-263.2
-85.4	-98.4	-76.7	-	-139.3	-1.4	-140.7
-	-	-	-	-223.8	-1.3	-225.1
-	-	-	-	4.8	-	4.8
-	-	-	-	60.0	-	60.0
-	-	-	55.1	-	-	-
-	-	-	8.9	23.2	-	23.2
-	-	-	-232.0	-232.0	-	-232.0
-	-	-	127.9	114.1	-	114.1
23.1	-221.4	-119.6	-218.9	4,935.6	6.4	4,942.0
<b>23.1</b>	<b>-221.4</b>	<b>-119.6</b>	<b>-218.9</b>	<b>4,935.6</b>	<b>6.4</b>	<b>4,942.0</b>
-	-	-	-	619.4	2.7	622.1
19.8	-	19.8	-	39.6	2.9	42.5
7.8	-	-0.0	-	7.8	-	7.8
-	19.0	-	-	19.0	-0.1	18.9
27.5	19.0	19.8	-	66.3	2.9	69.2
27.5	19.0	19.8	-	685.7	5.6	691.3
-	-	-	-	-23.4	13.7 <sup>3</sup>	-9.7
-	-	-	-	-246.2	-2.1	-248.3
-	-	-	-	6.2	-	6.2
-	-	-	-	70.8	-	70.8
-	-	-	49.4	-	-	-
-	-	-	-3.5	-3.7	-	-3.7
-	-	-	-305.7	-305.7	-	-305.7
-	-	-	215.5	211.0	-	211.0
50.6	-202.4	-99.8	-263.1	5,330.2	23.6	5,353.9

## CONSOLIDATED STATEMENT OF CASH FLOWS

	2016 CHF m	2015 CHF m
Net profit	622.1	122.5
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	37.6	34.5
- Amortisation and impairment of intangible assets	103.1	184.8
- Allowance for credit losses	15.1	35.9
- Income from investment in associates	-48.7	-5.9
- Deferred tax expense/(benefit)	8.4	-60.3
- Net loss/(gain) from investing activities	80.2	92.1
- Other non-cash income and expenses	70.8	60.0
Net increase/decrease in operating assets and liabilities:		
- Net due from/to banks	5,131.4	-981.6
- Trading portfolios and derivative financial instruments	682.7	-1,295.9
- Net loans/due to customers	-245.4	-529.3
- Accrued income, prepaid expenses and other assets	335.4	-400.0
- Accrued expenses, deferred income, other liabilities and provisions	-653.7	158.9
Adjustment for income tax expenses	122.0	76.5
Income taxes paid	-78.3	-125.3
Cash flow from operating activities	6,182.9	-2,633.1
Dividend of associates	10.2	4.4
Purchase of property and equipment and intangible assets	-172.9	-105.9
Disposal of property and equipment and intangible assets	0.3	0.7
Net (investment in)/divestment of financial investments available-for-sale	-251.9	-2,415.1
Acquisition of subsidiaries and businesses, net of cash and cash equivalents acquired	556.1	967.7
Deferred payment of acquisition of subsidiaries and associates	-11.2	-28.9
Cash flow from investing activities	130.7	-1,577.1
Net money market instruments issued/(repaid)	78.7	-0.1
Net movements in treasury shares and own equity derivative activity	-92.2	-89.9
Dividend payments	-246.2	-223.8
Issuance and repayment of financial liabilities designated at fair value	4,126.0	-211.4
Issuance of perpetual tier 1 subordinated bond	230.4	319.3
Repayment of lower tier 2 bond	-250.0	-
Changes in non-controlling interests	-9.6	-
Dividend payment to non-controlling interests	-2.1	-1.3
Cash flow from financing activities	3,835.0	-207.3
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>10,148.6</b>	<b>-4,417.6</b>

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	<b>2016</b> <i>CHF m</i>	2015 <i>CHF m</i>
Cash and cash equivalents at the beginning of the year	<b>18,128.7</b>	22,293.4
Cash flow from operating activities	<b>6,182.9</b>	-2,633.1
Cash flow from investing activities	<b>130.7</b>	-1,577.1
Cash flow from financing activities	<b>3,835.0</b>	-207.3
Effects of exchange rate changes on cash and cash equivalents	<b>-6.4</b>	252.9
<b>Cash and cash equivalents at the end of the year</b>	<b>28,270.9</b>	18,128.7

	<b>31.12.2016</b> <i>CHF m</i>	31.12.2015 <i>CHF m</i>
<b>Cash and cash equivalents are structured as follows:</b>		
Cash	<b>13,599.5</b>	9,185.7
Money market instruments	<b>3,785.0</b>	2,298.1
Due from banks (original maturity of less than three months)	<b>10,886.4</b>	6,645.0
<b>Total</b>	<b>28,270.9</b>	18,128.7

	<b>31.12.2016</b> <i>CHF m</i>	31.12.2015 <i>CHF m</i>
<b>Additional information</b>		
Interest received	<b>895.4</b>	605.5
Interest paid	<b>-156.0</b>	-121.2
Dividends on equities received (including associates)	<b>209.4</b>	153.7

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF ACCOUNTING

Julius Baer Group Ltd. is a Swiss corporation which is committed to the private banking business. The consolidated financial statements as at 31 December 2016 comprise those of Julius Baer Group Ltd. and all its subsidiaries (the Group). The Board of Directors approved these financial statements on 31 January 2017. In addition, they are submitted for approval to the Annual General Meeting on 12 April 2017.

Amounts in the consolidated financial statements are stated in Swiss francs. The consolidated financial statements are prepared in accordance with 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, and precious metals that are measured at fair value less costs to sell.

### 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 (determination in a business combination and measurement of recoverable amount) and contingent considerations.

### 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 addressing implemented changes in accounting policies.

#### **Business combinations**

In a business combination, the acquirer obtains control over the net assets of one or more businesses. The business combination is accounted for using the acquisition method. This involves recognising the identifiable assets, including previously unrecognised intangible assets, and liabilities of the acquired business, at acquisition-date fair value. Any excess of the consideration provided, such as assets or equity instruments issued and measured at acquisition-date fair value, over the identifiable net assets acquired, is recognised as goodwill. Transaction costs are expensed as incurred.

#### **Subsidiaries and associates**

Investees in which Julius Baer Group Ltd. exercises control are fully consolidated. The following three elements constitute control:

- power over the investee;
- exposure, or rights, to variable returns from involvement with the investee; and
- the ability to use power over the investee to affect the amount of the investor's returns.

If the Group is exposed to all three elements, it controls an investee. The assessment is based on all facts and circumstances and is reassessed as conditions may change.

A complete list of these companies is provided in Note 26. 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.

Companies in which Julius Baer Group Ltd. has the ability to exercise significant influence over the financial and operating policies are reported in the consolidated financial statements using the equity method. These associates are initially recorded at



cost as of the date of acquisition. Subsequently, the carrying amount is adjusted for the post-acquisition change in the Group's share of the associate's net assets.

The effects of all intercompany transactions and balances are eliminated on consolidation. Gains and losses resulting from transactions with associates are recognised only to the extent of the unrelated investor's interest in the associate.

### 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. When a foreign operation is disposed of such that control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

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	
	31.12.2016	31.12.2015	2016	2015
USD/CHF	<b>1.0164</b>	1.0010	<b>0.9875</b>	0.9645
EUR/CHF	<b>1.0720</b>	1.0874	<b>1.0890</b>	1.0640
GBP/CHF	<b>1.2559</b>	1.4753	<b>1.3280</b>	1.4710

### Reporting of transactions

Foreign exchange, securities and derivatives transactions are recorded in the balance sheet on trade date. All other financial instruments are recorded on settlement date. The financial instruments are assigned to one of the four categories according to IAS 39: 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. They are uniformly recognised within these categories on trade date or settlement date.

### Income recognition

Income from services provided 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.

*Specific allowances:* 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.

*Collective allowances:* 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 lending and borrowing transactions are collateralised by securities or cash. The transactions are usually conducted under standard agreements employed by the market participants; the counterparties are subject to the Group's normal credit risk process.

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.

Cash collateral received is recognised with a corresponding obligation to return it, and cash collateral provided is derecognised and a corresponding receivable reflecting the Group's right to receive it back is recognised.

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 provided or received. The transactions are generally conducted under standard agreements employed by the market participants; the counter-parties are subject to the Group's normal credit risk process.

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.

Cash received is recognised with a corresponding obligation to return it, and cash provided is derecognised and a corresponding receivable reflecting the Group's right to receive it back is recognised.

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 and dividend 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 initially be 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 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 certain structured investments for which the client bears all the related risks and rewards from the investments, as designated at fair value through profit or loss.

#### **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 through profit or loss. 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 fair values (fair value hedges) when transactions meet the specified criteria to obtain hedge accounting treatment. Derivatives categorised as serving such purposes on their trade 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; and

- 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%.

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.

When fair value hedge accounting is discontinued prospectively, any hedging adjustment made previously to a hedged financial instrument is amortised to the income statement over the remaining term to maturity of the hedged item.

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 relationships for accounting purposes. The derivatives 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 measured 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 and dividend 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 liability 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 recognised in general expenses.

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.

### **Goodwill and intangible assets**

Goodwill and 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 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 that are initially recognised at fair value at the date of acquisition. 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 not exceeding ten years.

On each balance sheet date, the intangible assets with a finite life (customer relationships, software) 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 are therefore 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 are recognised if a constructive obligation is incurred, which requires commencement of an approved detailed and formal restructuring plan or the announcement of its main features to the affected employees before the balance sheet date.

### **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 are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 equity.

#### **Post-employment benefits**

For defined benefit plans, the net defined benefit liability recognised in other liabilities in the balance sheet is the present value of the defined benefit obligation less the fair value of the plan assets as of the reporting date. The Group applies the projected unit credit method to determine the present value of the defined benefit obligation and the current and past service cost. The corresponding calculations are carried out by independent qualified actuaries.

All changes in the present value of the defined benefit obligation and in the fair value of the plan assets are recognised in the financial statements immediately in the period they occur. Service costs, including past service costs, and net interest on the net defined benefit liability are recognised in the consolidated income statement. The Group determines the net interest expense based on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation. The remeasurement of the net defined benefit liability is recognised in other comprehensive income which comprises movements in actuarial gains and losses and return on plan assets (excluding net interest cost).

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

#### **Share-based payments**

The Group maintains various share-based payment plans in the form of share 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. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related services and non-market performance vesting conditions are expected to be met.

Share-based payment plans that are settled in own equity instruments (i.e. Julius Baer Group Ltd. shares) result in a corresponding increase in equity and are not remeasured for subsequent changes in the fair value of the underlying equity instruments.

#### **Share capital**

The share capital comprises all issued, fully paid shares of Julius Baer Group Ltd.

Incremental costs that are directly attributable to the issuance of new shares are deducted from equity.

**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 treasury shares. Upon settlement of such contracts, the proceeds received (net of costs and any taxes) are recognised in retained earnings.

Contracts on shares of Julius Baer Group Ltd. that must be settled net 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 initial 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 (EPS)**

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.

**Contingent liabilities and irrevocable commitments**

Contingent liabilities and irrevocable commitments are not recognised in the balance sheet. However, if an outflow of resources becomes probable and is a present obligation from a past event that can be reliably measured, a respective liability is recognised.

**CHANGES IN ACCOUNTING POLICIES**

In 2016, the following amendments have been applied in the Group:

**Disclosure Initiative**

The amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. The amendments had no material impact on the presentation of the Group's financial statements.

**Annual Improvements to IFRSs (2012–2014 Cycle)**

A number of amendments to several standards are included in the IASB's Annual Improvement Projects. 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. A number of these changes may have an impact on the Group's consolidated financial statements, as outlined below.

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

### IFRS 9 – Financial Instruments

The new standard includes the following changes to current accounting for financial instruments:

*Recognition and measurement:* The new standard uses two criteria to determine how financial assets should be classified and therefore measured: a) the entity's business model for managing the financial assets; and b) the contractual cash flow characteristics of the financial asset.

A business model refers to how an entity manages its financial assets in order to generate cash flows:

- by collecting contractual cash flows, i.e. cash flows stem primarily from interest payments and repayment of the principal;
- by selling the financial assets, i.e. cash flows stem primarily from buying and selling the financial asset; or
- by a combination of the two models above.

The additional criteria for determining the classification of a financial asset is whether the contractual cash flows are solely payments of principal and interest. Interest under this model can comprise a return not only for the time value of money and credit risk but also for other components such as return for liquidity risk, amounts to cover expenses and a profit margin.

Based on an analysis of the business model and the nature of the contractual cash flows, a financial asset is measured at amortised cost, fair value through profit or loss, or fair value through other comprehensive income (with and without recycling).

*Expected credit losses:* Contrary to the current impairment model for financial assets, the new standard requires an entity to recognise expected credit losses at inception and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. It is therefore no longer necessary for a trigger event to have occurred before credit losses are recognised.

In general, the expected credit loss model uses a dual measurement approach: if the credit risk of a financial asset has not increased significantly since its initial recognition, the financial asset will attract a loss allowance equal to 12-month expected credit losses. If its credit risk has increased significantly, it will attract an allowance equal to lifetime expected credit losses.

*Financial liabilities:* Financial liabilities are measured at amortised cost or fair value. 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.

*Hedge accounting:* The new standard puts in place a model that introduces significant improvements principally by aligning the accounting for hedges more closely with the underlying risk management purposes. To that effect, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Hedge qualification will be based on qualitative, forward-looking hedge effectiveness assessments, rather than on bright lines. There are also enhanced disclosure requirements about hedge accounting and risk management activities.

The new standard will be effective 1 January 2018, with early application available for certain parts. However, the Group does not intend to early apply these parts of IFRS 9.

During 2016, the Group continued its assessment of the impact on the Group's financial statements and expects the following:



*Recognition and measurement:* Based on the analyses of the two classification criteria 'contractual cash flow characteristics' and 'business model', the Group determined that the financial instruments currently reported at amortised cost generally fulfil the criteria and therefore will be measured at amortised cost on an ongoing basis. The same applies to the vast majority of the debt financial instruments currently reported as available-for-sale and therefore measured at fair value through OCI, which will also be measured at fair value through OCI in the future. Certain equity instruments currently measured at fair value through OCI will be classified at fair value through profit or loss going forward. Therefore, the Group does not expect significant changes to the measurement basis arising from adopting the new classification and measurement model.

*Expected credit losses:* The Group is currently modelling the impairment loss estimation methodology to quantify the impact of the expected credit losses on its financial statements. The models are generally based on the financial instrument's probability of default (PD), its loss given default (LGD) and the exposure at default (EAD), taking into account the respective interest rates. These models are tailored to the Group's fully collateralised Lombard loans and mortgages, and the high-quality debt instruments in the Treasury portfolio. The quantitative impact of the new expected credit loss model has not yet been assessed.

*Financial liabilities:* The Group will continue to apply its current measurement approach, including the use of the fair value option. No material changes are expected.

*Hedge accounting:* The Group expects that all its existing hedges that are designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9.

#### **IFRS 15 – Revenue Recognition**

The new standard, including the clarifications published in 2016, introduces the core principle to recognise revenue to depict the transfer of services to customers in amounts that reflect the consideration (that is, payment) to which the Group expects to be entitled in exchange for those services.

The standard contains a single model that applies to contracts with customers and two approaches to recognise revenue: at a point of time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised:

- identify the contract(s) with a customer (step 1);
- identify the performance obligations in the contract (step 2);
- determine the transaction price (step 3);
- allocate the transaction price to the performance obligations in the contract (step 4);
- recognise revenue when (or as) the Group satisfies a performance obligation (step 5).

The new standard also provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. In addition, enhanced disclosures about revenue are required.

The new standard will be effective 1 January 2018 with earlier application permitted. However, the Group does not intend to early apply IFRS 15. The impact of the new standard on the Group's financial statements is not expected to be material.

#### **IFRS 16 – Leases**

The new standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability.

The new standard will be effective 1 January 2019 with earlier application permitted. However, the Group does not intend to early apply IFRS 16. The impact of the new standard on the Group's financial statements has not yet been assessed.

## COMMENT ON RISK AND CAPITAL MANAGEMENT

### RISK MANAGEMENT FRAMEWORK AND PROCESS

#### Risk types

For the purposes of this report, risk comprises both the probability of a given event occurring and its potential adverse impact in the event of a deviation from the Group's defined objectives. Risk taking is an inherent component of our day-to-day business activities. Risk management therefore constitutes an integral part of the Group's 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 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 directives, 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. Especially as far as legal and compliance risk matters are concerned, he coordinates his activities with the GC, who, as a member of the Executive Board of Julius Baer Group Ltd., is responsible for the management and control of legal and compliance risk at Group level. In addition, the CRO and the GC coordinate their activities with the Chief Financial Officer (CFO), who is responsible for balance-sheet, capital and liquidity management. The CFO's duties thus include maintaining a sound ratio of eligible capital to risk-weighted positions and ensuring that sufficient liquidity is available at all times.

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 Board of Directors delegates the supervision of operational risks to the Audit Committee, while the supervision of all other risks is entrusted to the Chairman's & Risk Committee. The responsibilities of these two committees are described in further detail in the Board of Directors section of this report.

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 financial services activities. Accordingly, its principal tasks are:

- to formulate policies governing market, liquidity, financing and operational risk in the Group's financial services 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:

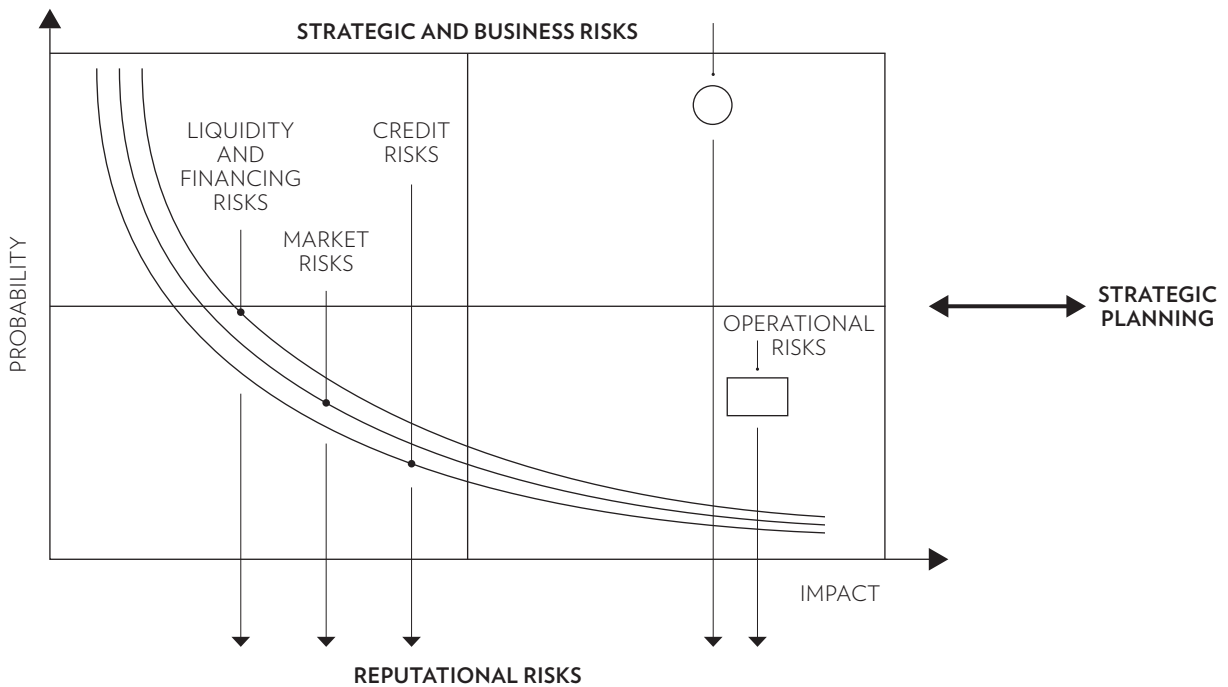
- formulating policies governing credit risk;
- making credit business decisions and allocating credit limits within the scope of its remit;
- delegating credit authority;
- receiving and reviewing credit risk reports.

The Information Security Committee of the Executive Board of Bank Julius Baer & Co. Ltd. is responsible both for monitoring and supervising

information security risk and for related activities for the purpose of ensuring data confidentiality and integrity.

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

#### Risk landscape: illustrative diagram



## STRATEGIC AND BUSINESS RISK

Strategic and business risk comprises the danger of external or internal events or decisions resulting in strategic and day-to-day business objectives not being attained. 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 the aforementioned 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 for 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 a client or a counterparty being either unable, or only partially able, to meet an obligation owed to the Group or to an individual Group company. Such non-compliance may result in a financial loss to the Group.

The Group has a policy of lending to private clients primarily on a collateralised basis. The credit risk taken on by the Group as a result of such transactions may arise from lending or from actual or potential receivables due to the Group on client-held positions in derivatives on foreign exchange, equity, interest rate or commodity products. As part of the risk management process, clients' collateral positions are individually assessed and valued. Depending on the quality of the collateral and the degree of diversification within individual client portfolios, an advanceable value is set for each collateral position. The overwhelming majority of collateral positions is revalued every day, thus enabling the Group's credit positions to be monitored on a daily basis.

In addition, the Group engages in transactions with banks, brokers and selected institutional clients on both a secured and 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 constellations.

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 relevant limit-granting processes and monitoring are based.

The credit risk breakdown presented below is calculated before deduction of eligible collateral and in accordance with Swiss capital adequacy requirements, which are largely based on the international guidelines contained in the Basel Committee on Banking Supervision's (BCBS) Basel III Accord. The BCBS has its registered offices at the Bank for International Settlements (BIS) in Basel, Switzerland. Differences between the total amounts and the corresponding balance sheet positions are explained in the 'Reconciliation of credit risk totals' section of this report.

In the following table the counterparty domicile serves as the fundamental basis for the geographical breakdown. For the secured portion of the credit, however, geographical allocation is shown on the

basis either of the domicile of the assets pledged, e.g. the domicile of the issuer of securities which are pledged as collateral, or the domicile of the guarantor.

### Credit risk by region

						31.12.2016
	Switzerland CHF m	Europe CHF m	Americas CHF m	Asia/Pacific CHF m	Other countries CHF m	Total CHF m
Due from banks	6,149	3,486	333	1,400	4	11,372
Loans	9,621	12,426	8,300	7,634	438	38,419
Financial assets designated at fair value	-	158	94	-	-	252
Financial investments available-for-sale	185	7,090	6,998	3,827	46	18,146
Investments in associates	-	-	29	-	-	29
Derivative financial instruments	2,122	810	467	241	4	3,644
Contingent liabilities	105	238	141	64	16	564
Irrevocable commitments	212	116	52	20	-	400
Securities lending and repo transactions	856	2,912	445	46	3	4,262
<b>Total</b>	<b>19,250</b>	<b>27,236</b>	<b>16,859</b>	<b>13,232</b>	<b>511</b>	<b>77,088</b>

						31.12.2015
	Switzerland CHF m	Europe CHF m	Americas CHF m	Asia/Pacific CHF m	Other countries CHF m	Total CHF m
Due from banks	1,927	1,676	482	2,152	1	6,238
Loans	9,217	10,714	8,398	7,652	400	36,381
Financial assets designated at fair value	-	149	48	-	-	197
Financial investments available-for-sale	68	7,328	6,437	2,607	45	16,485
Investments in associates	-	61	29	-	-	90
Derivative financial instruments	1,383	586	382	245	7	2,603
Contingent liabilities	102	163	169	65	13	512
Irrevocable commitments	188	131	64	21	1	405
Securities lending and repo transactions	829	2,996	486	113	6	4,430
<b>Total</b>	<b>13,714</b>	<b>23,804</b>	<b>16,495</b>	<b>12,855</b>	<b>473</b>	<b>67,341</b>

In the following table the counterparty industry code serves as the fundamental basis for the sector breakdown. For the secured portion of the credit, however, sector allocation is shown on the basis either of the industry code of the assets pledged, e.g. the industry code of the issuer of securities which are pledged as collateral, or the industry code of the guarantor.

The column headed 'Other' is used for disclosure of securities issued by companies outside the financial sector: these consist partly of proprietary positions of the Group which are reported on the balance sheet as financial investments available-for-sale and partly of the portion of the credit collateralised by securities issued by companies outside the financial sector.

### Credit risk by sector

	31.12.2016				
	Governments and agencies CHF m	Financial institutions CHF m	Private clients CHF m	Other CHF m	Total CHF m
Due from banks	-	11,372	-	-	11,372
Loans	630	5,254	25,393	7,142	38,419
Financial assets designated at fair value	-	252	-	-	252
Financial investments available-for-sale	6,530	7,262	-	4,354	18,146
Investments in associates	-	29	-	-	29
Derivative financial instruments	61	1,233	2,058	292	3,644
Contingent liabilities	8	53	381	122	564
Irrevocable commitments	44	110	208	38	400
Securities lending and repo transactions	700	3,075	51	436	4,262
<b>Total</b>	<b>7,973</b>	<b>28,640</b>	<b>28,091</b>	<b>12,384</b>	<b>77,088</b>

	31.12.2015				
	Governments and agencies CHF m	Financial institutions CHF m	Private clients CHF m	Other CHF m	Total CHF m
Due from banks	-	6,238	-	-	6,238
Loans	486	4,536	24,369	6,990	36,381
Financial assets designated at fair value	-	197	-	-	197
Financial investments available-for-sale	5,975	6,102	-	4,408	16,485
Investments in associates	-	90	-	-	90
Derivative financial instruments	15	1,530	857	201	2,603
Contingent liabilities	8	56	364	84	512
Irrevocable commitments	35	118	185	67	405
Securities lending and repo transactions	675	2,914	46	795	4,430
<b>Total</b>	<b>7,194</b>	<b>21,781</b>	<b>25,821</b>	<b>12,545</b>	<b>67,341</b>

The collateral pledged to cover Lombard loans, OTC derivatives positions and securities lending and repo transactions consists primarily of readily marketable securities. In the following table all the collateral accepted within the scope of the capital adequacy

regulations is disclosed. The haircuts applied to the collateral positions are in accordance with current Swiss regulatory requirements, which are based on the Basel III BIS standard haircuts.

#### Credit risk secured/not secured

	31.12.2016		
	Secured by recognised financial collaterals <sup>1</sup> CHF m	Not secured by recognised financial collaterals CHF m	Total CHF m
Due from banks	6,395	4,977	11,372
Loans	35,458	2,961	38,419
Financial assets designated at fair value	-	252	252
Financial investments available-for-sale	-	18,146	18,146
Investments in associates	-	29	29
Derivative financial instruments	1,647	1,997	3,644
Contingent liabilities	511	53	564
Irrevocable commitments	195	205	400
Securities lending and repo transactions	3,466	796	4,262
<b>Total</b>	<b>47,672</b>	<b>29,416</b>	<b>77,088</b>

	31.12.2015		
	Secured by recognised financial collaterals <sup>1</sup> CHF m	Not secured by recognised financial collaterals CHF m	Total CHF m
Due from banks	2,426	3,812	6,238
Loans	33,764	2,617	36,381
Financial assets designated at fair value	-	197	197
Financial investments available-for-sale	-	16,485	16,485
Investments in associates	-	90	90
Derivative financial instruments	1,237	1,366	2,603
Contingent liabilities	473	39	512
Irrevocable commitments	195	210	405
Securities lending and repo transactions	3,658	772	4,430
<b>Total</b>	<b>41,753</b>	<b>25,588</b>	<b>67,341</b>

<sup>1</sup> 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 classified by regulatory risk weightings. The regulatory risk weightings are in accordance with current Swiss regulatory requirements, which are based on the Basel III BIS approach. The allocation of the receivables to the risk weights depends on the

type and current rating of the counterparty or the individual rating of the specific financial investment held. The collateralised portion of receivables (other than mortgages) is allocated to the 0% risk-weight column, since no regulatory capital is required in respect of these lending positions.

### Credit risk by regulatory risk weightings

	31.12.2016							
	0%	20%	35%	50%	75%	100%	150% or greater	Total
	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m
Due from banks	6,391	3,882	-	1,049	-	45	5	11,372
Loans	25,768	12	7,636	266	681	4,052	4	38,419
Financial assets designated at fair value	252	-	-	-	-	-	-	252
Financial investments available-for-sale	5,089	6,553	-	6,298	-	149	57	18,146
Investments in associates	-	-	-	-	-	-	29	29
Derivative financial instruments	1,646	1,475	-	342	2	179	-	3,644
Contingent liabilities	513	-	-	8	-	43	-	564
Irrevocable commitments	195	31	-	89	-	85	-	400
Securities lending and repo transactions	3,466	592	-	-	-	204	-	4,262
<b>Total</b>	<b>43,320</b>	<b>12,545</b>	<b>7,636</b>	<b>8,052</b>	<b>683</b>	<b>4,757</b>	<b>95</b>	<b>77,088</b>

	31.12.2015							
	0%	20%	35%	50%	75%	100%	150% or greater	Total
	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m
Due from banks	2,440	3,132	-	643	-	19	4	6,238
Loans	24,943	42	6,677	320	631	3,764	4	36,381
Financial assets designated at fair value	197	-	-	-	-	-	-	197
Financial investments available-for-sale	4,954	5,552	-	5,647	-	315	17	16,485
Investments in associates	-	-	-	-	-	-	90	90
Derivative financial instruments	1,237	269	-	868	-	229	-	2,603
Contingent liabilities	472	-	-	8	-	32	-	512
Irrevocable commitments	195	30	-	81	-	99	-	405
Securities lending and repo transactions	3,658	593	-	-	-	179	-	4,430
<b>Total</b>	<b>38,096</b>	<b>9,618</b>	<b>6,677</b>	<b>7,567</b>	<b>631</b>	<b>4,637</b>	<b>115</b>	<b>67,341</b>



### Reconciliation of credit risk totals

The values shown in the tables above are based on the requirements of the approaches chosen in accordance with applicable Swiss regulatory requirements. These are based on the capital adequacy guidelines of the Basel Committee on Banking Supervision (the Basel III BIS approach). Balance sheet and off-balance sheet positions exposed to credit risks are disclosed, with the exception of the following balance sheet positions, which include non-financial instruments: accrued income and prepaid expenses, deferred tax assets and other assets. The list and tables below explain the differences between the total amounts according to the Basel III BIS approach and the corresponding balance sheet and off-balance sheet positions.

- The difference in the due-from-banks position is attributable to the fact that under IFRS reverse repurchase positions are recognised on the balance sheet. This differs from the Basel III BIS approach, under which reverse repurchase positions are disclosed as off-balance sheet items under securities lending and repurchase positions. The credit risk tables have been adjusted to avoid double counting.
- In the financial investments available-for-sale position the unrealised gains are deducted from the market value under the Basel III BIS approach.
- The total amount of exposure in derivative financial instruments under the Basel III BIS approach corresponds to the total of the replace-

ment values as disclosed in the balance sheet, plus calculated add-ons, minus any netting permitted under Basel III BIS. The add-on is a percentage of the notional amount of the instrument underlying 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.

- Under the Basel III BIS approach, the total contingent liabilities and irrevocable commitments off-balance sheet positions correspond to the calculated credit equivalents. The credit equivalent of each off-balance sheet position is determined by multiplying its nominal value (or current value should this be lower) 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 contingent liabilities under IFRS.
- Under the Basel III 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 III BIS approach CHF m	Balance sheet CHF m	Deviation CHF m	Comment
Due from banks	11,372.2	11,389.8	-17.6	reverse repurchase transactions of CHF 17.6 million deducted
Loans	38,419.0	38,419.0	-	
Financial assets designated at fair value	252.4	252.4	-	
Financial investments available-for-sale	18,145.6	18,266.6	-121.0	unrealised gains deducted under BIS approach (CHF 138.0 million); partly offset by transfer of securities from trading to banking book under BIS approach (CHF 17.0 million)
Investments in associates	29.4	29.4	-	
Derivative financial instruments	3,643.5	2,690.9	952.6	
<i>of which security supplement (add-ons)</i>			1,616.9	<i>according to add-on and netting rules under BIS approach</i>
<i>of which netting of replacement values</i>			-664.3	<i>impact of netting rules under BIS approach</i>
<b>Total 31.12.2016</b>	<b>71,862.1</b>	<b>71,048.1</b>	<b>814.0</b>	

### Comments on off-balance sheet positions

	Basel III BIS approach CHF m	Off-balance sheet total CHF m	Deviation CHF m	Comment
Contingent liabilities	563.7	1,121.4 <sup>1</sup>	-557.7	converted in credit equivalent
Irrevocable commitments	399.5	813.3 <sup>1</sup>	-413.8	converted in credit equivalent
Securities lending and repo transactions	4,262.3	3,961.7	300.6	including risk premium
<b>Total 31.12.2016</b>	<b>5,225.5</b>			

<sup>1</sup> These amounts reflect the maximum payments the Group is committed to making.

Reconciliation of credit risk totals with balance sheet positions

	Basel III BIS approach CHF m	Balance sheet CHF m	Deviation CHF m	Comment
Due from banks	6,237.8	6,901.1	-663.3	reverse repurchase transactions of CHF 663.3 million deducted
Loans	36,380.9	36,380.9	-	
Financial assets designated at fair value	197.0	197.0	-	
Financial investments available-for-sale	16,485.0	16,572.5	-87.5	unrealised gains deducted under BIS approach (CHF 108.2 million); partly offset by transfer of securities from trading to banking book under BIS approach (CHF 20.7 million)
Investments in associates	90.3	90.3	-	
Derivative financial instruments	2,603.1	2,189.1	414.0	
<i>of which security supplement (add-ons)</i>			876.9	<i>according to add-on and netting rules under BIS approach</i>
<i>of which netting of replacement values</i>			-462.9	<i>impact of netting rules under BIS approach</i>
<b>Total 31.12.2015</b>	<b>61,994.1</b>	<b>62,330.9</b>	<b>-336.8</b>	

Comments on off-balance sheet positions

	Basel III BIS approach CHF m	Off-balance sheet total CHF m	Deviation CHF m	Comment
Contingent liabilities	512.2	1,057.4 <sup>1</sup>	-545.2	converted in credit equivalent
Irrevocable commitments	405.0	824.9 <sup>1</sup>	-419.9	converted in credit equivalent
Securities lending and repo transactions	4,429.7	4,133.0	296.7	including risk premium
<b>Total 31.12.2015</b>	<b>5,346.9</b>			

<sup>1</sup> 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 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 apply mainly to banks and brokers, but also include selected non-financial institutions issuing debt securities; and b) Lombard and mortgage limits for collateralised credit exposures, which relate mainly to private clients.

In this analysis, credit exposure primarily comprises the following elements: cash exposure (such as advances, account overdrafts, cash balances with correspondent banks, etc.), derivatives exposure (replacement value plus add-on), and issuer risk from debt securities held in the Group's investment and treasury books. Exposure from reverse repo and securities lending transactions is not included in this credit exposure analysis, since these positions are

over-collateralised on a net basis and therefore do not constitute credit risk. In this context, over-collateralised on a net basis means that, in each transaction, the value of the collateral provided (without regulatory standard haircuts being applied) exceeds the value of the securities lent (without a risk premium being applied). Intraday settlement exposures are also not included in the credit exposure analysis. These are monitored separately. The credit exposure arising from the trading book, which is insignificant compared to that arising from the positions listed above, is also not included in this analysis.

For the purpose of this analysis, client cash balances across different accounts and Lombard sureties are netted against each other in accordance with the pledge agreements in place. Derivatives exposures across different products, accounts and counterparties are netted against each other provided an ISDA close-out netting master agreement has been signed.

### Exposure to credit risk by credit quality

	31.12.2016 Collateralised CHF m	31.12.2015 Collateralised CHF m	31.12.2016 Unsecured CHF m	31.12.2015 Unsecured CHF m
Neither past due nor impaired	43,277.4	40,843.4	36,580.4	31,165.7
Past due but not impaired	9.4	14.9	-	-
Impaired	69.2	65.0	-	-
<b>Total</b>	<b>43,356.0</b>	<b>40,923.3</b>	<b>36,580.4</b>	<b>31,165.7</b>

#### Neither past due nor impaired

R1 to R3	37,230.2	34,658.6	35,358.6	29,758.8
R4 to R6 (including temporarily unrated)	6,047.2	6,184.8	1,221.8	1,406.9
<b>Total</b>	<b>43,277.4</b>	<b>40,843.4</b>	<b>36,580.4</b>	<b>31,165.7</b>
<i>Collateral held or credit enhancement available</i>	<b>173,841.5</b>	164,035.7	-	-

#### Past due but not impaired

R7	9.4	14.9	-	-
<b>Total</b>	<b>9.4</b>	<b>14.9</b>	<b>-</b>	<b>-</b>
<i>Collateral held or credit enhancement available</i>	<b>9.3</b>	12.4	-	-

#### Impaired

R8	25.0	28.6	-	-
R9 to R10	44.2	36.4	-	-
<b>Total</b>	<b>69.2</b>	<b>65.0</b>	<b>-</b>	<b>-</b>
<i>Collateral held or credit enhancement available</i>	<b>30.1</b>	14.8	-	-

#### Allowance for credit losses<sup>1</sup>

Specific allowance for credit losses	54.2	65.8	-	-
Collective allowance for credit losses	24.9	24.3	1.3	2.3
<b>Total</b>	<b>79.1</b>	<b>90.1</b>	<b>1.3</b>	<b>2.3</b>

<sup>1</sup> The allowance for credit losses in this table includes allowances related to loans acquired in business combinations and therefore reflects the risk view. The respective amount in Note 9C does not include allowances related to acquired loans, as such loans have to be recognised net of allowances for IFRS purposes.

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 rating classes R1–R6, the outstanding balances are serviced, the advanceable value of the collateral (at fair value) pledged for collateralised exposures equals or exceeds the balances, and repayment of the balance is not in doubt. 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 established only for past-due interest payments. For balances in rating class R8, specific allowances for credit losses are established if it is more likely than not that a loss will arise. The credit risks in 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 theoretical 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 carrying amount.

#### Maximum exposure to credit risk

	31.12.2016 Gross maximum exposure CHF m	31.12.2015 Gross maximum exposure CHF m
Cash (excluding cash on hand)	13,572.5	9,155.5
Due from banks	11,389.8	6,901.1
Loans	38,419.0	36,380.9
Trading assets	1,415.0	1,155.7
Derivative financial instruments	2,690.9	2,189.1
Financial assets designated at fair value	252.4	197.0
Financial investments available-for-sale	18,101.1	16,475.3
Accrued income	282.8	326.9
Total	86,123.5	72,781.5
<b>Off-balance sheet</b>		
Irrevocable commitments <sup>1</sup>	813.3	824.9
<b>Total maximum exposure to credit risk</b>	<b>86,936.8</b>	<b>73,606.4</b>

<sup>1</sup> These amounts reflect the maximum payments the Group is committed to making.

## 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 the 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.

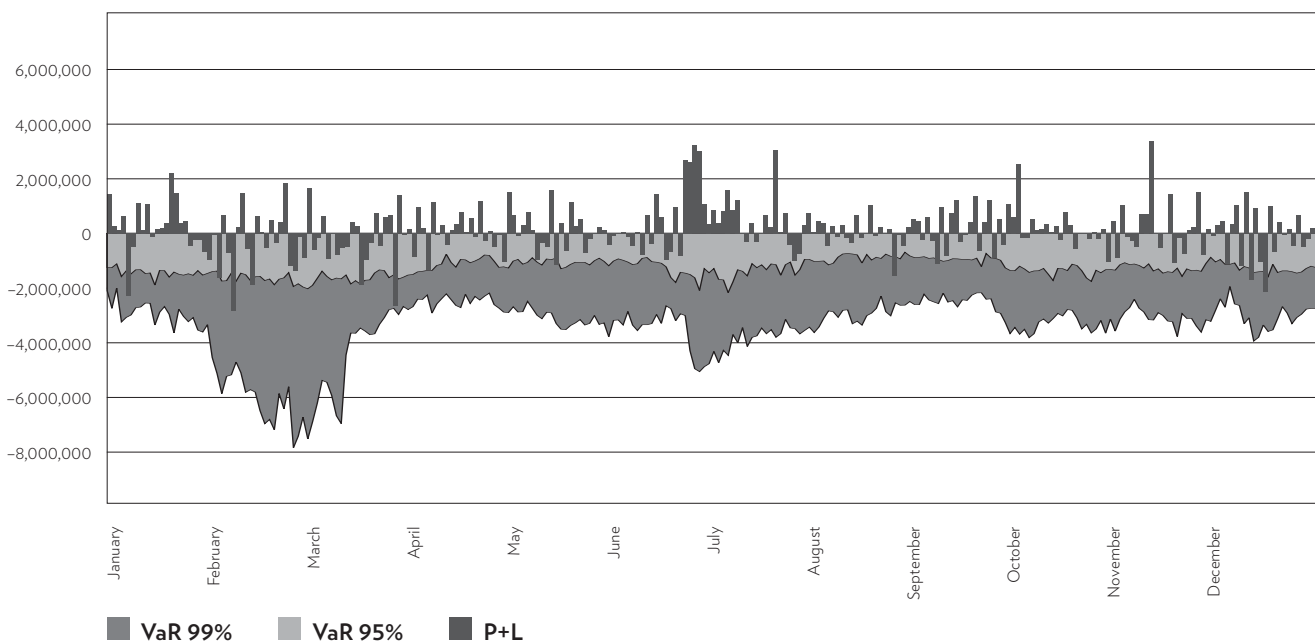
#### Market risk measurement, market risk limitation, back testing and stress testing

The following methods are used 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 1.23 million on 31 December 2016 (one-day holding period, 95% confidence interval). The maximum VaR recorded in 2016 amounted to CHF 2.19 million; the minimum

was CHF 0.70 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 VaR values calculated each day with the hypothetical gains or losses which would have occurred if the end-of-day positions had been left unchanged on the next trading day. The following chart shows the daily calculations of VaR in 2016 (at confidence

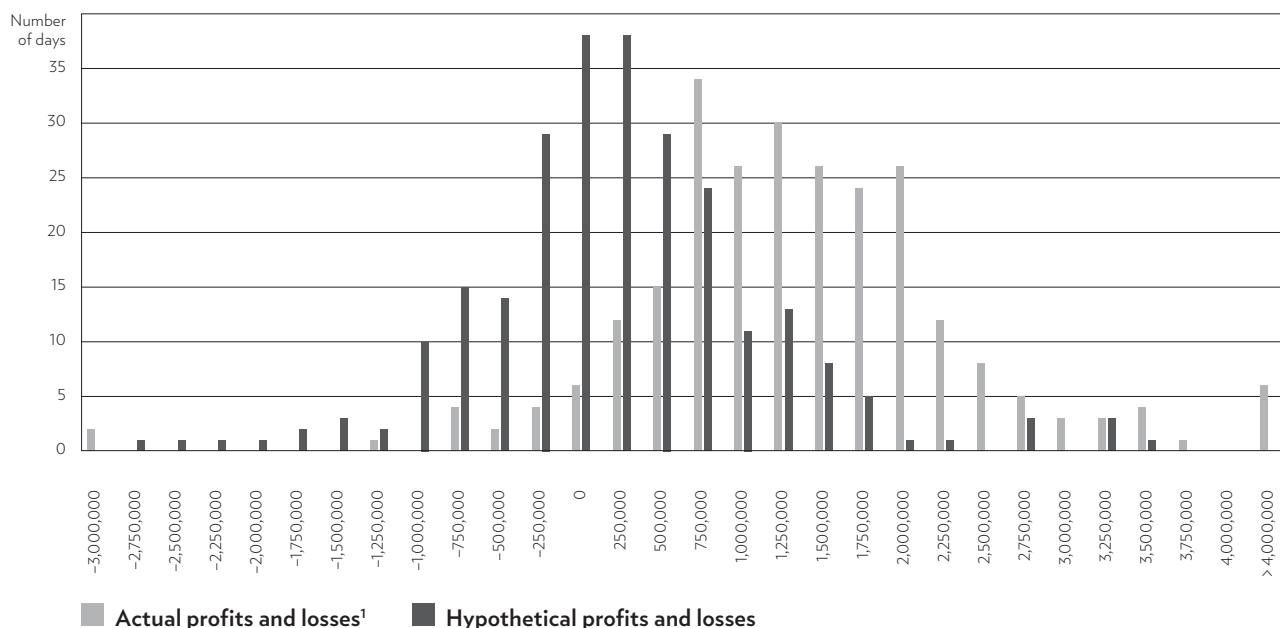
intervals of 95% and 99% and for a one-day holding period) compared with these hypothetical gains or losses. A back-testing excession occurs when the change in overall position value resulting from the back-testing simulation is negative and its absolute value is greater than the VaR (at a confidence interval of 99%) for the relevant day's closing positions.

**Back testing of Julius Baer Group trading book positions in 2016 (CHF)**



The following 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.

#### Distribution of daily revenues from trading activities of Julius Baer Group for 2016 (CHF)



<sup>1</sup> 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.

At the beginning of 2016, the preceding twelve months period contained six back-testing excessions. These were attributable to a variety of factors. The decision by the Swiss National Bank in January 2015 to abandon its exchange rate floor for the EUR against the CHF led to a marked downward correction in Swiss share prices and a substantial appreciation of the CHF. This resulted in two back-testing excessions on the USD position the Group continued to hold for the financing of its acquisition of parts of Merrill Lynch's International Wealth Management business. In May and June

2015, weakness in the USD and the Swiss Market Index led to two further back-testing excessions. In August 2015, markedly lower share prices in China caused international equity markets to falter, which again strengthened the CHF. This resulted in two additional back-testing excessions. Since these excessions were more numerous than the statistically permitted limit, the capital multiplier had to be increased.

No new back-testing excessions occurred during the course of 2016. As the above-mentioned back-testing excessions from 2015 were gradually eliminated from the trailing twelve months sample during 2016, there were no excessions to report in the 12 months to 31 December 2016. By January 2016, this had already resulted in a reduction in the capital multiplier applied to the Julius Baer Group.



All back-testing excessions are examined individually and each is reported to the Chief Executive Officer, the Chief Risk Officer, the internal and external auditors and the Swiss Financial Market Supervisory Authority (FINMA).

#### 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 FINMA for use in determining the capital requirement for market risks in the trading book.

In addition to the normal VaR calculations detailed above, a so-called stress-based VaR calculation is also carried out. Instead of the historical prices observed over the last 300 trading days, this stress-

based VaR calculation uses those observed during a highly volatile period in the past (the stress period). The Group's stress-based VaR amounted to CHF 2.05 million on 31 December 2016 (for a one-day holding period and a 95% confidence interval). The maximum stress-based VaR recorded in 2016 amounted to CHF 3.00 million; the minimum was CHF 0.80 million. Under FINMA regulations, the capital requirement for market risk is the sum of the normal VaR and the stress-based VaR.

FINMA applies a multiplier to the capital requirement for market risk. Every back-testing excession over and above the statistically based maximum permitted number of excessions results in an increase in the multiplier applied to the capital requirement for market risk. There were no back-testing excessions to report for the 12 months to 31 December 2016.

Given the limited materiality of the positions concerned, the specific risk of the Group's fixed-income trading positions is calculated according to the standard method. The incremental risk charge and comprehensive risk-capital charge requirements are not applicable.

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 CHF m	Average CHF m	Maximum CHF m	2016 Minimum CHF m
Equities	-0.9	-0.8	-1.8	-0.1
Interest rates	-0.8	-0.8	-1.3	-0.2
Foreign exchange/precious metals	-0.4	-0.9	-1.7	-0.3
Effects of correlation	0.9			
<b>Total</b>	<b>-1.2</b>	<b>-1.3</b>	<b>-2.2</b>	<b>-0.7</b>

	At 31 December CHF m	Average CHF m	Maximum CHF m	2015 Minimum CHF m
Equities	-0.4	-0.6	-1.6	-0.2
Interest rates	-0.2	-0.2	-0.4	-0.1
Foreign exchange/precious metals	-1.0	-1.0	-2.1	-0.1
Effects of correlation	0.4			
<b>Total</b>	<b>-1.3</b>	<b>-1.2</b>	<b>-3.3</b>	<b>-0.5</b>

## FINANCING, LIQUIDITY 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 fall due. Interest rate risk is defined as the effect of potential changes in interest rates on the market value of the Group's assets and liabilities.

### Governance

The Treasury department of Bank Julius Baer & Co. Ltd. manages the Group's financing, liquidity and interest rate risks on an integrated basis, with Bank Julius Baer & Co. Ltd. acting as the Group's central liquidity provider. The Treasury department proposes the strategy for managing the financing, liquidity and interest rate risks and submits this to the Group's Asset and Liability Management Committee (ALMCO) for approval. Limits for financing, liquidity and interest rate risks are defined at Group level. These are reviewed at least once annually and approved by the Board of Directors and the Group ALMCO. The Group's consolidated exposure to financing, liquidity and interest rate risks is reported to the Group ALMCO at least once a month. The particular liquidity and interest rate risks to which Bank Julius Baer & Co. Ltd. is exposed are monitored and managed on a daily basis, as are those of the other Group companies. The Treasury Risk Control unit provides independent reports on the relevant risk positions for this purpose.

### Management of liquidity and financing risks

The objective of the Group's liquidity risk management is to maintain a healthy liquidity position which enables the Group to meet all its obligations when they fall due and to maintain sufficient flexibility to be able to react to company-specific stress situations in tight market conditions.

A liquidity stress scenario is modelled, which, over a time horizon of 30 days, essentially simulates substantial outflows of client deposits which would be stable under normal circumstances and the Group's ability to compensate for these by selling highly liquid investments and taking other appropriate measures. This scenario models an

extreme stress situation combining company-specific stress events with tight market conditions. It is calculated on a daily basis.

To complement the analysis provided by the liquidity stress scenario, a variety of early warning indicators are monitored with respect to the current liquidity position.

Switzerland's Liquidity Ordinance and FINMA's 'Liquidity Risks – Banks' circular make it a regulatory requirement for the Group to calculate and monitor its Liquidity Coverage Ratio (LCR). The LCR provides banks with a metric to assist them in ensuring that they hold a sufficient quantity of highly liquid assets to enable them to withstand a short-term (30-day) company-specific stress situation which coincides with a period of general market stress. During 2016, the Group's LCR fluctuated between 157% and 199%, which puts it significantly above the minimum statutory requirement.

Additional quantitative information relating to the LCR will be published in a separate disclosure report. This report will be available on the [www.juliusbaer.com](http://www.juliusbaer.com) website from the end of April 2017.

In managing its financing risks, the Group aims to ensure that it has access to appropriate sources of financing at all times. At present, 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 Group's liquidity risk management arrangements set out an emergency plan which forms an integral part of its global crisis concept. This emergency plan includes an overview of alternative sources of financing and liquidity metrics, as well as a range of emergency measures.

### Management of interest rate risks

One measure of interest rate 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

2016. 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 similar magnitude but with the opposite sign, though such outcomes are mitigated by the fact that the yield curves for the markets in which the Group carries out most of its activities are currently close to zero.

#### Interest-rate-sensitive positions

	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total CHF m
<b>Interest sensitivity by time bands and 100 bp parallel increase</b>						
<b>CHF</b>						
<b>2016</b>	<b>3.4</b>	<b>-4.9</b>	<b>34.3</b>	<b>61.7</b>	<b>-44.5</b>	<b>49.9</b>
2015	1.7	-5.3	28.3	52.2	-62.6	14.4
<b>USD</b>						
<b>2016</b>	<b>12.0</b>	<b>-3.6</b>	<b>-4.7</b>	<b>-136.3</b>	<b>-1.4</b>	<b>-134.0</b>
2015	14.4	-2.3	-3.2	-155.8	-4.7	-151.5
<b>EUR</b>						
<b>2016</b>	<b>7.9</b>	<b>-2.2</b>	<b>-12.5</b>	<b>55.5</b>	<b>-1.8</b>	<b>46.9</b>
2015	6.1	-2.3	-9.5	53.0	-3.6	43.7
<b>Other</b>						
<b>2016</b>	<b>2.8</b>	<b>-1.7</b>	<b>-6.7</b>	<b>29.5</b>	<b>0.3</b>	<b>24.2</b>
2015	2.4	-2.2	-0.8	22.7	0.1	22.1

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 12 months ahead is measured. Based on the assumptions described above, and further assuming that the Group took no mitigating action, the modelled effect on interest earnings would have been CHF -180.0 million at the end of 2016 (2015: CHF -128.9 million).

#### Hedging interest rate risks

The Group accepts deposits from clients at both floating and fixed rates and for various periods and either lends these funds on a collateralised basis or

invests them in high-quality assets. By consolidating the short-term money deposited by clients 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 applies fair value hedges for hedging a portion of the interest rate exposure by employing interest rate swaps. The market value of these swaps on 31 December 2016 amounted to a net CHF -61.1 million (2015: CHF -72.5 million). The fair value gain on the hedged mortgages attributable to the hedged interest rate risk amounts to CHF 58.0 million (2015: CHF 70.2 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 the nature of the position concerned indicates that expected maturity modelling will not yield useful insights.

#### 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
<b>Financial assets</b>						
Cash	13,599.5	-	-	-	-	<b>13,599.5</b>
Due from banks	-	10,958.9	380.9	50.0	-	<b>11,389.8</b>
Loans	-	31,157.6	2,532.4	2,439.9	2,289.2	<b>38,419.0</b>
Trading assets	7,660.7	-	-	-	-	<b>7,660.7</b>
Derivative financial instruments	2,690.9	-	-	-	-	<b>2,690.9</b>
Financial assets designated at fair value	252.4	-	-	-	-	<b>252.4</b>
Financial investments available-for-sale	-	2,470.5	3,395.7	11,692.1	708.4	<b>18,266.6</b>
Accrued income	-	282.8	-	-	-	<b>282.8</b>
<b>Total 31.12.2016</b>	<b>24,203.4</b>	<b>44,869.8</b>	<b>6,309.0</b>	<b>14,181.9</b>	<b>2,997.6</b>	<b>92,561.6</b>
Total 31.12.2015	20,555.7	38,832.2	4,622.9	13,694.1	3,032.3	80,737.2
<b>Financial liabilities</b>						
Due to banks	-	10,076.8	-	-	-	<b>10,076.8</b>
Due to customers	-	67,351.5	143.7	-	-	<b>67,495.2</b>
Trading liabilities	159.0	-	-	-	-	<b>159.0</b>
Derivative financial instruments	2,285.3	-	-	-	-	<b>2,285.3</b>
Financial liabilities designated at fair value	871.1	3,960.5	2,078.5	1,163.5	370.9	<b>8,444.4</b>
Debt issued	0.2	78.6	-	-	1,134.7	<b>1,213.5</b>
Accrued expenses	-	187.7	-	-	-	<b>187.7</b>
Other liabilities <sup>1</sup>	-	-	21.3	19.9	-	<b>41.2</b>
<b>Total 31.12.2016</b>	<b>3,315.6</b>	<b>81,655.1</b>	<b>2,243.5</b>	<b>1,183.4</b>	<b>1,505.6</b>	<b>89,861.9</b>
Total 31.12.2015	3,342.9	70,486.9	1,426.7	929.9	1,443.8	77,605.8

<sup>1</sup> Relates to the deferred purchase price of Fransad Gestion SA, NSC Asesores, S.C., and GPS Investimentos Financeiros e Participações S.A., see Notes 26B and 27.

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 called for repayment at any time, are classified as on demand. All derivative financial instruments held for trading 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
<b>Financial liabilities recognised on balance sheet</b>						
Due to banks	9,771.6	304.8	-	0.6	-	<b>10,076.9</b>
Due to customers	61,412.7	5,661.1	278.3	147.1	-	<b>67,499.1</b>
Trading liabilities	159.0	-	-	-	-	<b>159.0</b>
Derivative financial instruments	2,213.5	-	0.6	24.9	46.3	<b>2,285.3</b>
Financial liabilities designated at fair value	871.1	3,986.7	2,125.9	1,174.3	370.9	<b>8,528.9</b>
Debt issued	0.2	92.0	40.1	119.8	1,134.7	<b>1,386.8</b>
Accrued expenses	-	187.7	-	-	-	<b>187.7</b>
Other liabilities <sup>1</sup>	-	-	21.3	19.9	-	<b>41.2</b>
<b>Total 31.12.2016</b>	<b>74,428.0</b>	<b>10,232.2</b>	<b>2,466.1</b>	<b>1,486.6</b>	<b>1,551.9</b>	<b>90,164.9</b>
Due to banks	3,915.2	756.9	-	0.3	-	4,672.4
Due to customers	59,991.8	4,598.7	194.0	0.2	-	64,784.8
Trading liabilities	190.8	-	-	-	-	190.8
Derivative financial instruments	2,318.9	-	-	16.9	55.6	2,391.4
Financial liabilities designated at fair value	760.6	1,093.2	1,260.0	927.9	291.2	4,333.0
Debt issued	0.1	28.4	77.1	114.4	1,152.6	1,372.6
Accrued expenses	-	154.4	-	-	-	154.4
Other liabilities <sup>2</sup>	-	0.5	12.0	12.1	-	24.5
<b>Total 31.12.2015</b>	<b>67,177.5</b>	<b>6,632.1</b>	<b>1,543.1</b>	<b>1,071.7</b>	<b>1,499.4</b>	<b>77,923.8</b>
<b>Financial liabilities not recognised on balance sheet</b>						
Irrevocable commitments <sup>3</sup>	788.8	14.2	2.7	7.5	-	<b>813.3</b>
<b>Total 31.12.2016</b>	<b>788.8</b>	<b>14.2</b>	<b>2.7</b>	<b>7.5</b>	<b>-</b>	<b>813.3</b>
<b>Total 31.12.2015</b>	<b>754.9</b>	<b>22.2</b>	<b>43.5</b>	<b>3.2</b>	<b>1.0</b>	<b>824.9</b>

<sup>1</sup> Relates to the deferred purchase price of Fransad Gestion SA, NSC Asesores, S.C., and GPS Investimentos Financeiros e Participações S.A., see Notes 26B and 27.

<sup>2</sup> Relates to the deferred purchase price of WMPartners Wealth Management Ltd., Fransad Gestion SA and NSC Asesores, S.C., see Notes 26B and 27.

<sup>3</sup> These amounts reflect the maximum payments the Group is committed to making.

Exposures to risks, in addition to 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 Treasury department of Bank Julius Baer & Co. Ltd. Currency risks on the banking book are transferred to the trading book. The balance sheets of the vast majority of Group entities are managed in local currency and they are only allowed to take on exchange rate exposure against their local currency in exceptional circumstances. Where they do occur, these exposures are limited and measured according to individual balance-sheet-management guidelines and are also included in the Group's VaR calculations. The local-currency shareholders' equity of these Group entities are not hedged against exchange rate risk at Group level.

## OPERATIONAL RISK

Operational risk is defined as the risk of losses arising as a result either of the inadequacy or failure of internal processes, people or systems or as a consequence of external events.

### **Framework for the management of operational risk**

The framework used to manage and limit operational risk is defined by the Group Risk Management function. This framework is based on a structured approach whose objective is to apply a set of uniform standards and methodologies for identifying, evaluating, monitoring, controlling and reporting risks across the Group. A further objective is to allow individual business areas and legal entities sufficient flexibility to adapt the specific components of this framework to meet their particular needs while at the same time ensuring that Group-wide minimum standards continue to be met.

The key components of this framework are described below:

- Organisational structure: the tasks, responsibilities and processes for managing operational risk, and the relevant escalation procedures relating thereto, are set out in a series of directives, guidelines and manuals.
- Willingness to assume risk and levels of risk tolerance: operational risk appetite and the underlying level of operational risk tolerance is determined by the Board of Directors and the Executive Board as part of their annual review of the overall risk landscape. The processes for monitoring risk appetite and the level of risk tolerance include directives, limits and defined levels of authority, which are also reflected in the Group's business strategy and personnel policy.
- Control system: the control environment which has been established to manage operational risk requires that activities are carried out in accordance with defined directives and guidelines, so that processes operate as specified. Under this approach, controls are integrated into business processes wherever possible. Key controls are carried out in a timely fashion and their results are monitored by Risk Management. In addition, the quality and completeness of certain key controls is subject to independent verification, which ensures that their specifications and effectiveness are assessed on a regular basis. In addition there are independent control functions in place that monitor certain specific operational risks.
- Register of operational risks: the individual legal entities maintain operational risk registers listing the operational risks which have been identified as inherent to their specific business activities and the measures which have been put in place to eliminate or reduce them. These operational risks are classified and evaluated according to a uniform, Group-wide risk taxonomy and a uniform quantitative risk-evaluation template charting potential risks and the probability of their occurrence.
- Record of operational risk events: Losses arising as a result of operational risk are recorded by Risk Management in a Group-wide database. Systematic evaluation of these events enables operational weaknesses to be identified so that appropriate measures can be taken to remedy them.

- Self evaluation of risks and of the quality of the control system: these self evaluations are carried out by the individual specialised areas and legal entities with the assistance of Risk Management. The process involves applying a uniform risk taxonomy to identify inherent operational risks and their causes, to evaluate the effectiveness of the controls and other risk-minimising measures in place and to determine the level of residual risk. The results of these self evaluations are incorporated into the Group-wide risk landscape which is presented to the Executive Board, the Chairman's & Risk Committee and the Audit Committee each year.
- Risk information consolidation process: the risk managers have unrestricted access to all the information they require to identify and evaluate operational risks in the areas for which they are responsible. This includes internal and external audit reports, data on operational losses, information from risk committees, quantitative risk indicators (Key Risk Indicators), control results, complaints from clients and other internal and external risk information. The resulting operational risk evaluation and the extent to which risk-minimising measures have been implemented are regularly reviewed and updated by the risk manager and those responsible for managing the business areas concerned. A further objective of these discussions is to identify potential new risks at an early stage and to determine possible initiatives to address them.
- Reporting to senior management: a number of formal risk reports are submitted to management and the Board of Directors. These reports incorporate the key insights and developments relating to operational risks, thus ensuring that timely and appropriate action can be taken in response to operational risk events and to any activities which exceed current levels of operational risk appetite.

### **Business Continuity Management**

The objective of the Business Continuity Management (BCM) Programme is to establish and maintain the stability of the overall organisation in the event of massive disturbances to its operations and in crisis situations. The programme aims to protect the Group's reputation and to minimise any

financial loss to clients, the Group and its employees. To that end, Julius Baer has formulated a BCM strategy and implemented a set of Group-wide BCM directives and guidelines, which assign BCM tasks and responsibilities across the Group and define the structure of the crisis management organisation. These directives and guidelines also define the processes for planning, analysing and assessing recovery and continuity measures, and the procedures for communication and internal training.

The BCM Programme is based on national and international standards (such as ISO standards) and on the business continuity recommendations formulated by the Swiss Bankers' Association, some of which have been defined as compulsory by FINMA. The programme also reflects local BCM requirements applicable to BCM-relevant business units outside Switzerland.

Regular crisis organisation exercises are conducted to assess the effectiveness of these measures, and regular internal and external audits are carried out to review the content of the programme.

### **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.

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.

As described in the risk governance section of this report, the General Counsel and the Chief Risk Officer coordinate the management and control of legal and compliance risk. Legal and compliance risks are regularly reported to the Board of Directors. In line with the development of the legal and regulatory environment of the industry, the Group has consistently invested in personnel and technical resources to ensure adequate compliance coverage. Measures in place to ensure adherence to current standards include a comprehensive and continuously updated catalogue of directives and manuals and an extensive staff-training concept.

#### **Personnel risk**

Personnel risks such as bottleneck risk, motivational risk, adaptation risk and departure risk will continue to affect the Group in the years ahead. These individual types of risk interact with each other in a number of ways. Continuous change, the increasing burdens placed on managers and staff alike as a result of day-to-day business taking place alongside major projects, the relatively inclement economic outlook and current demographic trends are all factors which can be expected to affect a number of different risk areas in the next few years. Maintaining departure risk at modest levels requires work-structure models for staff that are flexible with regard to both time and location. These need to be complemented by modular compensation concepts. The bottleneck risk resulting from current demographic trends and political restrictions placed on migration can be addressed through attractive terms of employment, a contemporary and competitive working environment, education and training

tailored to individual job functions and strategically oriented staff-development and talent-management concepts. Motivational and adaptation risks are closely interrelated. They reflect the ongoing changes which are now inherent in day-to-day operations. In order to take appropriate, targeted action to address these risks, employee surveys and regular dialogue with employees are important. The essential point is for people to understand why change is necessary. They also need to be fairly remunerated for the substantial amount of work they are willing to carry out. Dealing with these issues appropriately is something Julius Baer regards as an important management task, and it is one to which the Group accords commensurate priority.

#### **Insurance**

In line with general industry practice, and in addition to controlling and minimising the operational risks described above, we also endeavour to cover or reduce their potential adverse financial impact by mitigating the risk of loss in specific areas of our business activities through insurance solutions.

### **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 which Bank Julius Baer & Co. Ltd., the Group's main operating entity, has established in the course of its more than 125 years. 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 a strong external credit rating.

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 capital ratios for common equity 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 required for each capital category, the Group's internal assessment of aggregate risk exposure requiring equity capital provision, the views of rating agencies, and comparison to peer institutions based on the Group's business mix and market presence.

In 2016, the scope of consolidation used for the calculation of capital adequacy is identical to that applied for accounting purposes. Note 26A provides an overview of the Group's consolidated companies.

The Group's calculations of its risk-weighted assets published in the Annual Report are identical to those carried out for regulatory reporting purposes.

The effects of Basel III and of the changes to IAS 19 with regard to pension fund liabilities are gradually incorporated into the Group's calculations of risk-weighted assets and eligible equity capital during the period from 2014 to 2018. Furthermore, recognition of tier 1 and tier 2 instruments which are not compliant with Basel III requirements are gradually discontinued between 2013 and 2022.

The Basel III international standard approach requires CET1 equivalent to at least 4.5% of risk-weighted assets, plus a CET1 capital buffer of 2.5%, plus 1.5% of additional tier 1 (AT1) capital (or better-quality capital), plus 2% of supplementary tier 2 capital (or better-quality capital). In aggregate, this amounts to an overall capital requirement of at least 10.5% of risk-weighted assets. FINMA minimum capital requirements for the Group are 7.8% for CET1, 1.8% for AT1 and 2.4% for tier 2, which puts its overall minimum capital requirement at 12% of risk-weighted assets. At present, the Group is also required to hold an additional anti-cyclical CET1 capital buffer for mortgages on residential properties in Switzerland which adds a further 0.2% to its minimum capital requirement of 12% of risk-weighted assets. The capital held by the Group at 31 December 2016 and at 31 December 2015 was sufficient to meet the relevant BIS and FINMA requirements.

## Capital ratios

	31.12.2016 Basel III phase-in <sup>1</sup> CHF m	31.12.2015 Basel III phase-in <sup>1</sup> CHF m
<b>Risk-weighted positions</b>		
Credit risk	14,902.8	13,775.4
Non-counterparty-related risk	506.7	510.0
Market risk	957.7	776.5
Operational risk	4,634.6	4,232.9
<b>Total</b>	<b>21,001.8</b>	<b>19,294.8</b>
<b>Eligible capital</b>		
CET1 capital <sup>2</sup>	3,444.2	3,534.2
Tier 1 capital <sup>2</sup>	3,597.0	3,534.2
of which hybrid tier 1 capital instruments <sup>3</sup>	1,134.7	908.0
Tier 2 capital	70.2	214.2
of which lower tier 2 capital instruments	-	171.4 <sup>4</sup>
Total capital	3,667.2	3,748.4
CET1 capital ratio	16.4%	18.3%
Tier 1 capital ratio	17.1%	18.3%
Total capital ratio	17.5%	19.4%

<sup>1</sup> The Basel III effects, but also the effects of IAS 19 revised relating to pension liabilities, will be phased in between 2014 and 2018 for the calculation of the eligible capital. All listed capital instruments of Julius Baer are fully compliant with the Basel III guidelines as at the end of 2016.

<sup>2</sup> During the phase-in period the amount of intangibles which has to be deducted directly from CET1 increases proportionally over time and the remaining amount of intangibles which is allowed to be deducted from additional tier 1 capital decreases respectively. As soon as the remaining amount of intangibles is lower than the additional tier 1 capital the CET1 capital will be lower than the tier 1 capital.

<sup>3</sup> The hybrid tier 1 instruments are tier 1 bonds issued by Julius Baer Group Ltd. in 2012, 2014, 2015 and 2016.

<sup>4</sup> Julius Baer Group Ltd. exercised its call option for an early repayment in full at par value plus accrued interests on the reset date of 23 December 2016 and redeemed the 4.50% lower tier 2 subordinated bonds issued in 2011 with final maturity in 2021.

Further details regarding tier 1 capital instruments can be found in the Regulatory Disclosures section of [www.juliusbaer.com](http://www.juliusbaer.com). Please also refer to debt issued, Note 16.

The principal adjustment to the Group's total equity under IFRS 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. In addition to the table below, a separate Basel III pillar 3 report has been prepared

which shows a full reconciliation between all components of the Group's eligible regulatory capital and its reported IFRS balance sheet as at 31 December 2016. This report, which is published in the Regulatory Disclosures section of [www.juliusbaer.com](http://www.juliusbaer.com), has been prepared in accordance with the FINMA regulations governing the disclosure of the composition of eligible regulatory capital (information will be available at the end of April 2017).

## Capital components

	31.12.2016 Basel III phase-in CHF m	31.12.2015 Basel III phase-in CHF m
Gross common equity tier 1 capital <sup>1</sup>	5,339.7	4,939.4
of which non-controlling interests	9.4	3.8
Effects of IAS19 revised relating to pension liabilities	81.0	132.8
Goodwill and other intangible assets	-1,670.8	-1,250.9
Other deductions	-305.7	-287.1
<b>Common equity tier 1 capital</b>	<b>3,444.2</b>	<b>3,534.2</b>
Tier 1 capital instruments	1,134.7	908.0
of which tier 1 bonds (Basel III-compliant capital instruments)	1,134.7	908.0
Goodwill and intangible assets, offset against tier 1 capital instruments	-981.9	-908.0
<b>Additional tier 1 capital</b>	<b>152.8</b>	<b>-</b>
Tier 1 capital	3,597.0	3,534.2
Tier 2 capital	70.2	214.2
of which lower tier 2 capital (phase-out capital instrument)	-	171.4
of which other tier 2 capital	70.2	42.8
<b>Total capital</b>	<b>3,667.2</b>	<b>3,748.4</b>

<sup>1</sup> Phase-in of 40% of non-controlling interests of CHF 9.4 million (31.12.2015: phase-in of 60% of CHF 6.4 million)

Required capital (see table below) for credit risks arising from amounts due from banks, loans, financial investments and derivative financial instruments accounts for more than 71% (2015: 71%) of the total required capital. Capital required

for non-counterparty risk (2016: 2%; 2015: 3%) and market risk (2016: 5%; 2015: 4%) is of minor significance. The capital required to cover operational risk accounts for more than 22% of total required capital (2015: 22%).

## Minimum capital requirement

	31.12.2016 Basel III phase-in CHF m	31.12.2015 Basel III phase-in CHF m
Credit risk	1,192.2	1,102.0
of which for equity securities in the banking book	9.8	4.4
Non-counterparty-related risk	40.5	40.8
Market risk	76.6	62.1
Operational risk	370.8	338.7
<b>Total</b>	<b>1,680.1</b>	<b>1,543.6</b>

### **Leverage ratio**

In November 2014, FINMA published a new 'Leverage Ratio' circular, which sets out the rules for calculating the leverage ratio in Switzerland. In addition to the existing requirement for banks to hold eligible capital proportionate to their risk-weighted assets, the circular defines the leverage ratio as a new, non-risk-based metric. The leverage ratio is defined as the ratio between eligible (tier 1) core capital and total exposure. Total exposure encompasses all balance-sheet and off-balance-sheet positions, and the new 'Leverage Ratio' circular defines how these are to be calculated. The Basel Committee on Banking Supervision will define the requirements which it will place on the leverage ratio from 2018 after the conclusion of an observation

period. That period will also be used to clarify a number of currently open questions regarding the calculation of total exposure. The indicative leverage ratio requirement, which is not yet binding at this stage, is three percent. This may however be subject to change once the observation period has concluded.

Basel III regulations also require publication of the leverage ratio from 2015 onwards. This requirement is contained in the revised version of the FINMA 'Disclosure – Banks' circular, which came into effect on 1 January 2015. Additional qualitative and quantitative information relating to the leverage ratio will be published in a separate disclosure report. This report will be available on the [www.juliusbaer.com](http://www.juliusbaer.com) website from the end of April 2017.

## INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

### 1 NET INTEREST AND DIVIDEND INCOME

	2016 CHF m	2015 CHF m	Change %
Interest income on amounts due from banks	41.1	38.3	7.2
Interest income on loans	522.2	444.5	17.5
Interest income on financial investments available-for-sale	252.3	191.4	31.8
Total interest income using the effective interest method	815.6	674.3	21.0
Dividend income on financial investments available-for-sale	7.3	10.3	-29.0
Interest income on trading portfolios	29.1	23.6	23.1
Dividend income on trading portfolios	191.9	139.1	38.0
Total interest and dividend income	1,043.9	847.2	23.2
Interest expense on amounts due to banks	13.9	8.7	59.9
Interest expense on amounts due to customers	51.2	49.5	3.5
Interest expense on debt issued	64.8	50.7	27.8
Interest expense on financial assets <sup>1</sup>	36.8	26.8	37.2
Total interest expense using the effective interest method	166.8	135.7	22.8
<b>Total</b>	<b>877.1</b>	<b>711.5</b>	<b>23.3</b>

<sup>1</sup> Interest expense on financial assets is related to negative effective interests on the respective financial instruments.

### 2 NET COMMISSION AND FEE INCOME

	2016 CHF m	2015 CHF m	Change %
Advisory and management commissions	950.5	857.8	10.8
Investment fund fees	179.0	227.3	-21.2
Fiduciary commissions	8.0	6.4	24.3
Total commission and fee income from asset management	1,137.6	1,091.5	4.2
Brokerage commissions and income from securities underwriting	538.8	551.6	-2.3
Commission income from credit-related activities	7.7	6.7	14.3
Commission and fee income on other services	87.1	82.3	5.8
Total commission and fee income	1,771.1	1,732.1	2.3
Commission expense	206.2	209.7	-1.7
<b>Total</b>	<b>1,564.9</b>	<b>1,522.4</b>	<b>2.8</b>

### 3 NET TRADING INCOME

	2016 CHF m	2015 CHF m	Change %
Debt instruments	50.1	30.0	67.1
Equity instruments	-166.6	-104.0	-60.2
Foreign exchange	449.0	509.8	-11.9
<b>Total</b>	<b>332.5</b>	<b>435.8</b>	<b>-23.7</b>

### 4 OTHER ORDINARY RESULTS

	2016 CHF m	2015 CHF m	Change %
Net gains/(losses) from disposal of financial investments available-for-sale	4.0	0.9	358.4
Impairment on financial investments available-for-sale	-1.6	-7.0	-
Income from investments in associates	40.4	5.9	584.0
Real estate income	5.5	5.3	4.1
Other ordinary income	30.4	20.2	50.7
Other ordinary expenses	0.8	0.5	63.5
<b>Total</b>	<b>77.9</b>	<b>24.7</b>	<b>215.1</b>

### 5 PERSONNEL EXPENSES

	2016 CHF m	2015 CHF m	Change %
Salaries and bonuses	1,106.6	988.8	11.9
Contributions to staff pension plans (defined benefits)	13.2 <sup>1</sup>	69.6	-81.0
Contributions to staff pension plans (defined contributions)	27.4	27.0	1.5
Other social security contributions	89.6	76.1	17.7
Share-based payments	70.8	60.0	18.0
Other personnel expenses	28.2	42.6	-33.7
Reimbursement of personnel expenses	-	-27.9 <sup>2</sup>	-
<b>Total</b>	<b>1,335.9</b>	<b>1,236.1</b>	<b>8.1</b>

<sup>1</sup> Including the effect of a plan amendment in the amount of CHF 62.8 million, see Note 22.

<sup>2</sup> Represents a reimbursement from Bank of America in the amount of CHF 27.9 million for certain payments related to retention plans in the acquisition of Merrill Lynch's International Wealth Management (IWM) business.

## 6 GENERAL EXPENSES

	2016 CHF m	2015 CHF m	Change %
Occupancy expense	90.1	83.8	7.5
IT and other equipment expense	72.8	64.6	12.6
Information, communication and advertising expense	173.0	162.2	6.7
Service expense, fees and taxes	239.8	207.7	15.5
Valuation allowances, provisions and losses	40.4	574.6 <sup>1</sup>	-
Other general expenses	7.1	7.3	-2.8
<b>Total</b>	<b>623.2</b>	<b>1,100.2</b>	<b>-43.4</b>

<sup>1</sup> Including the provision in the amount of USD 547.25 million related to the agreement in principle with the US Attorney's Office for the Southern District of New York with respect to a resolution regarding Julius Baer's legacy US cross-border business (see Note 18).

## 7 INCOME TAXES

	2016 CHF m	2015 CHF m	Change %
Income tax on profit before taxes (expected tax expense)	165.6	30.5	442.2
Effect of tax rate differences in foreign jurisdictions	-6.2	-20.4	-
Effect of domestic tax rate differences	24.2	1.6	-
Income subject to a reduced tax rate	-81.5	-43.4	-
Effect of utilisation of prior-year losses	-0.8	-2.2	-
Effect from not capitalised losses	16.3	7.8	-
Adjustments related to prior years	-0.2	-8.3	-
Write-off of deferred tax assets	-	0.2	-
Non-deductible expenses	12.9	51.5	-
Other	0.2	-1.0	-
<b>Actual income tax expense</b>	<b>130.4</b>	<b>16.3</b>	<b>-</b>

The tax rate of Switzerland of 22% (2015: 22%) was applied as the basis for the above expected tax expenses. This tax rate reflects the Swiss weighted average rate from the operational companies excluding Julius Baer Group Ltd.

Unrecognised accumulated loss carryforwards in the amount of CHF 281.1 million (2015: CHF 242.9 million) exist in the Group that do not expire.

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INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

	2016 CHF m	2015 CHF m	Change %
Domestic income taxes	108.1	2.8	-
Foreign income taxes	22.4	13.5	65.5
<b>Total</b>	<b>130.4</b>	<b>16.3</b>	<b>701.4</b>

Current income taxes	122.0	76.5	59.4
Deferred income taxes	8.4	-60.3	-
<b>Total</b>	<b>130.4</b>	<b>16.3</b>	<b>701.4</b>

**Tax effects relating to components of other comprehensive income**

	Before-tax amount CHF m	Tax (expense)/ benefit CHF m	2016 Net-of-tax amount CHF m
<b>Items that may be reclassified to the income statement</b>			
Net unrealised gains/(losses) on financial investments available-for-sale	29.1	-9.3	19.8
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	8.1	-0.3	7.8
Translation differences	22.8	-	22.8
Realised (gains)/losses on translation differences reclassified to the income statement	-0.0	-	-0.0
<b>Items that will not be reclassified to the income statement</b>			
Remeasurement of defined benefit obligation	25.0	-6.1	18.9
<b>Other comprehensive income</b>	<b>84.9</b>	<b>-15.8</b>	<b>69.2</b>

	Before-tax amount CHF m	Tax (expense)/ benefit CHF m	2015 Net-of-tax amount CHF m
Items that may be reclassified to the income statement			
Net unrealised gains/(losses) on financial investments available-for-sale	-97.4	11.6	-85.8
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	0.3	0.0	0.3
Translation differences	-79.6	-	-79.6
Realised (gains)/losses on translation differences reclassified to the income statement	0.2	-	0.2
Items that will not be reclassified to the income statement			
Remeasurement of defined benefit obligation	-126.1	27.7	-98.4
<b>Other comprehensive income</b>	<b>-302.6</b>	<b>39.4</b>	<b>-263.2</b>



## 8 EARNINGS PER SHARE AND SHARES OUTSTANDING

	2016	2015
<b>Basic earnings per share</b>		
Net profit (CHF m)	619.4	121.2
Weighted average number of shares outstanding	217,404,899	218,613,533
Basic earnings per share (CHF)	2.85	0.55

<b>Diluted earnings per share</b>		
Net profit (CHF m)	619.4	121.2
Less (profit)/loss on equity derivative contracts (CHF m)	-1.5	-0.1
Net profit for diluted earnings per share (CHF m)	617.9	121.1
Weighted average number of shares outstanding	217,404,899	218,613,533
Dilution effect	-48,478	-7,076
Weighted average number of shares outstanding for diluted earnings per share	217,356,421	218,606,457
Diluted earnings per share (CHF)	2.84	0.55

	31.12.2016	31.12.2015
<b>Shares outstanding</b>		
Total shares issued at the beginning of the year	223,809,448	223,809,448
Less treasury shares	6,346,886	5,269,422
<b>Total</b>	<b>217,462,562</b>	218,540,026

## INFORMATION ON THE CONSOLIDATED BALANCE SHEET

### 9A DUE FROM BANKS

	<b>31.12.2016</b> CHF m	31.12.2015 CHF m	Change CHF m
Due from banks	<b>11,391.0</b>	6,903.4	4,487.7
Allowance for credit losses	<b>-1.3</b>	-2.3	1.0
<b>Total</b>	<b>11,389.8</b>	6,901.1	4,488.7

Due from banks by type of collateral:

Securities collateral	<b>387.8</b>	1,024.6	-636.8
Without collateral	<b>11,001.9</b>	5,876.5	5,125.4
<b>Total</b>	<b>11,389.8</b>	6,901.1	4,488.7

### 9B LOANS

	<b>31.12.2016</b> CHF m	31.12.2015 CHF m	Change CHF m
Loans	<b>29,173.2</b>	27,913.7	1,259.6
Mortgages	<b>9,317.6</b>	8,549.9	767.7
Subtotal	<b>38,490.8</b>	36,463.5	2,027.3
Allowance for credit losses	<b>-71.8</b>	-82.6	10.8
<b>Total</b>	<b>38,419.0</b>	36,380.9	2,038.1

Loans by type of collateral:

Securities collateral	<b>22,964.8</b>	20,171.5	2,793.4
Mortgage collateral	<b>9,329.8</b>	8,640.2	689.6
Other collateral (mainly cash and fiduciary deposits)	<b>6,053.6</b>	7,450.7	-1,397.1
Without collateral	<b>70.8</b>	118.6	-47.8
<b>Total</b>	<b>38,419.0</b>	36,380.9	2,038.1

## 9C ALLOWANCE FOR CREDIT LOSSES

	Specific CHF m	2016 Collective CHF m	Specific CHF m	2015 Collective CHF m
Balance at the beginning of the year	<b>58.5</b>	<b>26.3</b>	29.0	22.8
Write-offs	<b>-27.3</b>	-	-2.5	-
Increase in allowance for credit losses	<b>15.6</b>	<b>3.9</b>	35.7	6.2
Decrease in allowance for credit losses	<b>-0.1</b>	<b>-4.4</b>	-3.6	-2.5
Translation differences and other adjustments	<b>0.4</b>	<b>-0.0</b>	-0.1	-0.1
<b>Balance at the end of the year</b>	<b>47.2</b>	<b>25.9</b>	58.5	26.3

## 9D IMPAIRED LOANS

	31.12.2016 CHF m	31.12.2015 CHF m	Change CHF m
Gross loans	<b>83.3</b>	72.2	11.1
Specific allowance for credit losses	<b>-47.2</b>	-58.5	11.3
<b>Net loans</b>	<b>36.2</b>	13.7	22.5

## 10 TRADING ASSETS AND LIABILITIES

	<b>31.12.2016</b> CHF m	31.12.2015 CHF m	Change CHF m
<b>Trading assets</b>			
Debt instruments	<b>1,415.0</b>	1,155.7	259.3
<i>of which quoted</i>	<b>1,337.4</b>	1,097.5	240.0
<i>of which unquoted</i>	<b>77.5</b>	58.2	19.3
Equity instruments	<b>5,846.9</b>	5,802.0	44.9
<i>of which quoted</i>	<b>5,466.0</b>	5,389.5	76.5
<i>of which unquoted</i>	<b>380.8</b>	412.5	-31.7
Precious metals (physical)	<b>398.8</b>	2,026.3	-1,627.5
<b>Total</b>	<b>7,660.7</b>	8,984.0	-1,323.3
<b>Trading liabilities</b>			
Short positions – debt	<b>48.0</b>	117.2	-69.3
<i>of which quoted</i>	<b>44.7</b>	116.2	-71.5
<i>of which unquoted</i>	<b>3.2</b>	1.0	2.3
Short positions – equity	<b>111.0</b>	73.6	37.4
<i>of which quoted</i>	<b>96.0</b>	54.0	41.9
<i>of which unquoted</i>	<b>15.0</b>	19.6	-4.5
<b>Total</b>	<b>159.0</b>	190.8	-31.8

## 11A FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	31.12.2016 CHF m	31.12.2015 CHF m	Change CHF m
<b>Money market instruments</b>	<b>3,785.0</b>	2,298.1	1,487.0
Government and agency bonds	3,477.0	3,560.1	-83.1
Financial institution bonds	6,295.5	6,187.1	108.4
Corporate bonds	4,500.0	4,387.7	112.4
Other bonds	43.5	42.3	1.2
<b>Debt instruments</b>	<b>14,316.0</b>	14,177.2	138.8
<i>of which quoted</i>	<i>13,259.3</i>	<i>13,210.8</i>	<i>48.5</i>
<i>of which unquoted</i>	<i>1,056.8</i>	<i>966.4</i>	<i>90.3</i>
<b>Equity instruments</b>	<b>165.5</b>	97.2	68.3
<i>of which quoted</i>	<i>26.0</i>	<i>15.7</i>	<i>10.3</i>
<i>of which unquoted</i>	<i>139.5</i>	<i>81.5</i>	<i>58.0</i>
<b>Total</b>	<b>18,266.6</b>	16,572.5	1,694.1

## 11B FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE – CREDIT RATINGS

			31.12.2016 CHF m	31.12.2015 CHF m	Change CHF m
<b>Debt instruments by credit rating classes</b>	<b>Fitch, S&amp;P</b>	<b>Moody's</b>			
1-2	AAA – AA-	Aaa – Aaa3	9,491.3	9,122.4	368.9
3	A+ – A-	A1 – A3	4,458.7	4,662.0	-203.3
4	BBB+ – BBB-	Baa1 – Baa3	266.7	286.6	-19.8
5-7	BB+ – CCC-	Ba1 – Caa3	52.1	42.9	9.3
8-9	CC – D	Ca – C	-	4.3	-4.3
Unrated			47.2	59.1	-12.0
<b>Total</b>			<b>14,316.0</b>	14,177.2	138.8

## 12 GOODWILL, 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
<b>Historical cost</b>							
Balance on 01.01.2015	1,680.3	1,287.7	479.0	3,446.9	403.2	193.2	596.4
Translation differences	-48.7	-20.0	-1.4	-70.1	-	-1.9	-1.9
Additions	-	-	81.4	81.4	4.1	20.4	24.5
Additions from business combinations	80.8	42.3	0.0	123.1	-	2.3	2.3
Disposals/transfers <sup>1</sup>	-	-	1.8	1.8	-	6.8	6.8
Balance on 31.12.2015	1,712.5	1,309.9	557.1	3,579.4	407.3	207.2	614.5
Translation differences	21.8	7.7	-0.0	29.5	-	-1.3	-1.3
Additions	-	-	139.1	139.1	4.2	29.6	33.8
Additions from business combinations	337.1	104.9	12.3	454.3	-	5.4	5.4
Disposals/transfers <sup>1</sup>	-	-	18.7	18.7	-	10.5	10.5
Balance on 31.12.2016	2,071.3	1,422.5	689.8	4,183.6	411.5	230.5	642.0

### Depreciation, amortisation and impairment

Balance on 01.01.2015	-	810.6	272.4	1,083.0	81.8	131.9	213.7
Translation differences	-	-2.7	-0.5	-3.1	-	-0.6	-0.6
Charge for the period	-	126.2	58.6 <sup>2</sup>	184.8	9.5	25.0 <sup>2</sup>	34.5
Disposals/transfers <sup>1</sup>	-	-	1.6	1.6	-	6.4	6.4
Balance on 31.12.2015	-	934.0	329.0	1,263.1	91.3	150.0	241.3
Translation differences	-	1.8	-0.1	1.7	-	-0.4	-0.4
Charge for the period	-	68.5	34.6 <sup>3</sup>	103.1	11.5	26.1 <sup>3</sup>	37.6
Disposals/transfers <sup>1</sup>	-	-	18.6	18.6	-	10.3	10.3
Balance on 31.12.2016	-	1,004.4	345.0	1,349.4	102.8	165.4	268.2

### Carrying value

Balance on 31.12.2015	1,712.5	375.9	228.0	2,316.4	316.0	57.2	373.2
<b>Balance on 31.12.2016</b>	<b>2,071.3</b>	<b>418.1</b>	<b>344.8</b>	<b>2,834.3</b>	<b>308.7</b>	<b>65.1</b>	<b>373.8</b>

<sup>1</sup> Includes also derecognition of fully depreciated and amortised assets

<sup>2</sup> Includes impairment of CHF 2.9 million related to software and other property and equipment not used anymore

<sup>3</sup> Includes impairment of CHF 2.5 million related to software and other property and equipment not used anymore

In 2016, the Group adjusted the useful life of software up to a maximum of ten years. This change in estimate reduced the amortisation of software accordingly.

	Balance on 01.01.2016 CHF m	Additions CHF m	Disposals CHF m	Translation differences CHF m	Balance on 31.12.2016 CHF m
<b>Goodwill</b>					
Julius Baer Private Banking	1,614.6	19.8	-	-	<b>1,634.4</b>
GPS	97.8	-	-	21.8	<b>119.6</b>
Kairos	-	317.3	-	-	<b>317.3</b>
<b>Total</b>	<b>1,712.5</b>	<b>337.1</b>	<b>-</b>	<b>21.8</b>	<b>2,071.3</b>

### 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 group of assets that generates cash inflows independently from other assets) and is subsequently compared to the carrying amount of that unit. Within the Group, cash inflows are not attributable to either any dimension (e.g. geographical areas, booking centres, clients or products) or group of assets. In addition, management makes operating decisions based on information on the Group level (see also Note 20 regarding the determination of the segments). Therefore, the goodwill is allocated to and tested on the level of the Group, except for GPS and Kairos, which are tested on a stand-alone basis. GPS and Kairos are each regarded a cash-generating unit as their cash inflows are generated independently from other assets.

The acquisition of Merrill Lynch's International Wealth Management business did not change the legal or organisational structure of the Group, as the acquired businesses have been immediately fully integrated into the existing Group business organisation.

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 units based on its own financial planning, taking into account the following key parameters and their single components which are relevant for all cash-generating units:

- 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. However, the Group expects in the medium and long term a favourable development of the private banking activities which is reflected in the respective growth of the key parameters, but the Group cannot exclude short-term market disruptions. The Group also takes into consideration its relative strength as a pure private banking provider vis-à-vis its peers, 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 which are necessary to maintain the level of economic benefits expected to arise from the underlying assets in their current condition. The resulting free cash flows are discounted to present value, using a pre-tax discount rate of 8.2% (2015: 8.9%) for Julius Baer Private Banking. For GPS, the pre-tax discount rate used is 21.6% (2015: 21.8%), for Kairos, the pre-tax discount rate used is 15.8%.

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 and/or started 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 long-term growth rate beyond the planning horizon for assets under management is assumed at 1% for all cash-generating units. This growth rate is considerably below the actual average rate of the last five years.

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. forecast/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 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 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 forecast period. Under these scenarios, the reasonably possible changes in key assumptions would not result in the carrying amount exceeding the recoverable amount. Therefore, 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.



### 13 OPERATING LEASE COMMITMENTS

	<b>31.12.2016</b> CHF m	31.12.2015 CHF m
Not later than one year	<b>67.0</b>	62.6
Later than one year and not later than five years	<b>180.6</b>	168.9
Later than five years	<b>119.4</b>	78.5
<b>Subtotal</b>	<b>366.9</b>	310.0
Less sublease rentals received under non-cancellable leases	<b>23.0</b>	23.3
<b>Total</b>	<b>343.9</b>	286.6

Expenses for operating leases in the gross amount of CHF 67.3 million are included in operating expenses for the 2016 financial year (2015: CHF 59.7 million).

### 14 ASSETS PLEDGED OR CEDED TO SECURE OWN COMMITMENTS AND ASSETS SUBJECT TO RETENTION OF TITLE

	Carrying value CHF m	<b>31.12.2016</b> Effective commitment CHF m	Carrying value CHF m	31.12.2015 Effective commitment CHF m
Securities	<b>976.2</b>	<b>976.2</b>	1,477.4	1,465.8
Other	<b>16.3</b>	<b>7.5</b>	16.3	14.4
<b>Total</b>	<b>992.4</b>	<b>983.6</b>	1,493.7	1,480.1

The assets are mainly pledged for Lombard limits at central banks, stock exchange securities deposits and collateral in OTC derivatives trading.

## 15 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

	2017 CHF m	2018 CHF m	2019 CHF m	2020 CHF m	2021 CHF m	2022– 2026 CHF m	un- assigned CHF m	31.12.2016 CHF m	31.12.2015 CHF m
Fixed rate	4,913.1	130.4	5.4	39.7	-	-	-	<b>5,088.6</b>	1,766.9
Interest rates (ranges in %)	0.1–76.8	1.05–13.0	3.0–5.4	1.2–2.2		-	-	-	-
Floating rate	1,125.8	321.5	254.4	145.0	267.1	370.9	871.1	<b>3,355.8</b>	2,496.2
<b>Total</b>	<b>6,038.9</b>	<b>451.9</b>	<b>259.8</b>	<b>184.7</b>	<b>267.1</b>	<b>370.9</b>	<b>871.1</b>	<b>8,444.4</b>	4,263.1

The table above indicates the maturities of the structured debt issues of Bank Julius Baer & Co. Ltd. with fixed interest rate coupons ranging from 0.1% up to 76.8%. 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.

As the redemption amount on the structured debt issues is linked to changes in stock prices, indices, currencies or other assets, the Group cannot

determine the difference between the carrying amount and the amount the Group would be contractually required to pay at maturity to the holder of the structured debt issues.

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.

## 16 DEBT ISSUED

	31.12.2016 CHF m	31.12.2015 CHF m
Money market instruments	78.8	0.1
Bonds	1,134.7	1,152.6
<b>Total</b>	<b>1,213.5</b>	<b>1,152.7</b>

### Bonds

Issuer/Year of issue	Stated interest rate %		Currency	Notional amount m	31.12.2016 Total CHF m	31.12.2015 Total CHF m
<b>Julius Baer Group Ltd.</b>						
2011 <sup>1</sup>	4.50	Lower tier 2 bond	CHF	250.0	-	244.6
<b>Julius Baer Group Ltd.</b>						
2012 <sup>2</sup>	5.375	Perpetual tier 1 subordinated bond	CHF	250.0	248.7	249.3
<b>Julius Baer Group Ltd.</b>						
2014 <sup>3</sup>	4.25	Perpetual tier 1 subordinated bond	CHF	350.0	346.7	343.9
<b>Julius Baer Group Ltd.</b>						
2015 <sup>4</sup>	5.90	Perpetual tier 1 subordinated bond	SGD	450.0	318.6	314.7
<b>Julius Baer Group Ltd.</b>						
2016 <sup>5</sup>	5.75	Perpetual tier 1 subordinated bond	SGD	325.0	220.6	-
<b>Total</b>					<b>1,134.7</b>	<b>1,152.6</b>

<sup>1</sup> Own bonds of CHF 2.9 million were offset with bonds outstanding in 2015.

The effective interest rate amounts to 4.89%.

<sup>2</sup> Own bonds of CHF 1.0 million are offset with bonds outstanding (2015: none).

The effective interest rate amounts to 5.59%.

<sup>3</sup> Own bonds of CHF 0.1 million are offset with bonds outstanding (2015: CHF 2.0 million).

The effective interest rate amounts to 4.41%.

<sup>4</sup> No own bonds are offset with bonds outstanding (2015: none).

The effective interest rate amounts to 6.128%.

<sup>5</sup> No own bonds are offset with bonds outstanding.

The effective interest rate amounts to 5.951%.

### Lower tier 2 capital

Lower tier 2 capital consists of subordinated unsecured bonds ('bonds'), fully paid up and listed on the SIX Swiss Exchange. The bonds were issued by Julius Baer Group Ltd. (the 'Issuer') in December 2011 in the amount of CHF 250 million. From 1 January 2013 onwards, the proportion of the issued lower tier 2 capital which may be allocated, in the form of complementary (tier 2) capital, towards meeting the Group's capital adequacy requirements is reduced by 10% each year. These tier 2 bonds constitute valid and legally binding obligations of the Issuer enforceable in accordance with their terms and rank at least pari passu with all other unsecured and subordinated obligations of the Issuer. The maturity date of the bonds is 23 December 2021. From the issue date (23 December 2011) to the reset date (23 December 2016), the bonds pay a fixed rate of interest of 4.50% per annum and during the period (reset period) commencing on the reset date and ending on the maturity date (23 December 2021) a fixed rate of interest each year equal to the sum of the benchmark rate (i.e. the five-year CHF mid-market swap rate calculated on the basis of the rate displayed on ISDAFIX page CHFSFIX at 11:00 a.m. [CET] on the date falling five business days before the reset date) and a fixed margin of 3.815%. The interest is payable annually, in arrears and on a 30/360-day basis, on 23 December (the 'interest payment date'). Julius Baer Group Ltd. may redeem the bonds on the reset date (23 December 2016) and upon the occurrence of a capital event or a tax event as defined in the prospectus in whole but not in part at the par value per bond plus accrued but unpaid interest thereon, upon giving not less than 30 days' notice to the holders of the bonds.

The lower tier 2 capital was repaid on 23 December 2016 at nominal value plus accrued interest.

### Perpetual tier 1 subordinated bonds

The maturities of the perpetual tier 1 subordinated bonds issued by Julius Baer Group Ltd. are essentially perpetual. These bonds are unsecured, subordinate to all borrowings (with the exception of the remainder of the tier 1 capital), fully paid up, capable of sustaining losses and devoid of any voting rights. The bonds can first be redeemed, at the Issuer's discretion, five to six years after their

issue date, and at yearly intervals thereafter, provided the regulator approves such redemption. In addition, the bonds may also be redeemed upon a regulatory event or tax event, as described in the prospectus. In the case of a viability event occurring, i.e. at a point in time where there is a threat of insolvency ('Point of non-viability' or 'PONV'), as described in Article 29 of the Capital Adequacy Ordinance of the Swiss Financial Market Supervisory Authority FINMA (CAO), all monies (including par value and any interest) due on the bonds will automatically cease to be payable and the bonds will be completely written off (i.e. their value will be written down to zero). Should a trigger event occur – i.e. should tier 1 common equity (under Basel III) fall below 5.125% (2012 and 2014 issues) or 7.0% (2015 and 2016 issues) – the value of the bonds will be written down to ensure that the Write-Down Threshold Ratio which originally triggered the event is restored to a level equal to or exceeding its trigger level. Here, too, in a worst-case scenario, all monies due on the bonds will cease to be payable in their entirety. In the event of the monies payable on the bonds ceasing to be payable either in part or in full, no subsequent increase in the value of the bonds is envisaged or permitted. From the issue date to the reset date the bonds will pay interest at a fixed rate. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate and a margin. Interest on the bonds is payable, in arrears on a 30/360-day basis, until the bonds have either been redeemed or fully written off. Interest payments on the bonds are prohibited in the event of this being ordered by the regulator (FINMA) or should there be insufficient retained earnings on the balance sheet of Julius Baer Group Ltd. to finance the payment of interest on tier 1 capital and to make any distributions already planned in respect of the previous financial year. Once suspended, any interest payments will permanently cease to be payable. Such interest payments are not cumulative, nor will they be paid at any future date. In the event of interest payments on the bonds being suspended, the Board of Directors of Julius Baer Group Ltd. will not be permitted to recommend any dividend payments to the Annual General Meeting until such time as interest payments on the bonds are resumed. Moreover, in the event of interest payments on the

bonds being suspended, Julius Baer Group Ltd. will not repurchase any of its own shares, neither directly nor indirectly.

#### *2012 issue*

The perpetual tier 1 subordinated bond was issued by Julius Baer Group Ltd. on 18 September 2012. The bonds can first be redeemed, at the Issuer's discretion, five and a half years after their issue date (i.e. on 19 March 2018). From the issue date to the reset date (19 March 2018) the bonds will pay interest at a fixed rate of 5.375% per annum. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate (i.e. the five-year mid-market CHF swap rate) and a margin of 4.98%. Interest on the bonds is payable annually in arrears on 19 March in each year.

#### *2014 issue*

The perpetual tier 1 subordinated bond was issued by Julius Baer Group Ltd. on 5 June 2014. The bonds can first be redeemed, at the Issuer's discretion, six years after their issue date (i.e. on 5 June 2020). From the issue date to the reset date (5 June 2020) the bonds will pay interest at a fixed rate of 4.25% per annum. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate (i.e. the five-year mid-market CHF swap rate) and a margin of 3.7625%. Interest on the bonds is payable annually in arrears on 5 June in each year.

#### *2015 issue*

The perpetual tier 1 subordinated bond, which is denominated in SGD, was issued by Julius Baer Group Ltd. on 18 November 2015. The bonds can first be redeemed, at the Issuer's discretion, five years after their issue date (i.e. on 18 November 2020). From the issue date to the reset date (18 November 2020) the bonds will pay interest at a fixed rate of 5.9% per annum. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate (i.e. the five-year SGD swap offer rate) and a margin of 3.32%. Interest on the bonds is payable semi-annually in arrears on 18 May and 18 November in each year.

#### *2016 issue*

The perpetual tier 1 subordinated bond, which is denominated in SGD, was issued by Julius Baer Group Ltd. on 20 October 2016. The bonds can first be redeemed, at the Issuer's discretion, on 20 April 2022. From the issue date to the reset date (20 April 2022) the bonds will pay interest at a fixed rate of 5.75% per annum. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate (i.e. the five-year SGD swap offer rate) and a margin of 3.915%. Interest on the bonds is payable semi-annually in arrears on 20 April and 20 October in each year.

## 17A DEFERRED TAX ASSETS

	31.12.2016 CHF m	31.12.2015 CHF m
Balance at the beginning of the year	23.8	15.3
Income statement – credit	4.1	8.7
Income statement – charge	-3.6	-1.0
Acquisition of subsidiaries	5.2	0.1
Recognised directly in OCI	0.3	1.1
Translation differences and other adjustments	-1.1	-0.3
<b>Balance at the end of the year</b>	<b>28.8</b>	<b>23.8</b>

The components of deferred tax assets are as follows:

Operating loss carryforwards	21.6	18.9
Employee compensation and benefits	4.0	4.4
Financial investments available-for-sale	1.4	-
Property and equipment	0.3	0.1
Valuation adjustments on loans	1.5	0.5
<b>Total</b>	<b>28.8</b>	<b>23.8</b>

## 17B DEFERRED TAX LIABILITIES

	31.12.2016 CHF m	31.12.2015 CHF m
Balance at the beginning of the year	41.6	137.9
Income statement – charge	13.1	1.5
Income statement – credit	-4.1	-54.1
Acquisition of subsidiaries	9.1	0.0
Recognised directly in OCI	16.1	-38.3
Translation differences and other adjustments	2.1	-5.4
<b>Balance at the end of the year</b>	<b>77.8</b>	<b>41.6</b>

The components of deferred tax liabilities<sup>1</sup> are as follows:

Provisions	1.7	1.4
Property and equipment	15.0	15.4
Financial investments available-for-sale	24.9	19.6
Intangible assets	49.6	47.7
Other	14.1	11.6
Deferred tax liability before set-off	105.3	95.7
Offset of pension liability taxes	-27.5	-54.1
<b>Total</b>	<b>77.8</b>	<b>41.6</b>

<sup>1</sup> The temporary differences associated with investments in subsidiaries do not lead to deferred tax liabilities, as the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

## 18 PROVISIONS

	Legal risks CHF m	Other CHF m	2016 Total CHF m	2015 Total CHF m
Balance at the beginning of the year	571.9	3.2	575.2	89.5
Utilised during the year	-563.6	-1.2	-564.8	-65.6
Provisions made during the year	19.3	0.9	20.1	534.1 <sup>1</sup>
Provisions reversed during the year	-5.2	-0.1	-5.3	-7.5
Acquisition of subsidiaries	1.2	-	1.2	0.4
Translation differences	-3.4	-	-3.4	24.2
<b>Balance at the end of the year</b>	<b>20.2</b>	<b>2.8</b>	<b>23.0</b>	<b>575.2</b>

<sup>1</sup> Including the provision in the amount of USD 547.25 million related to the agreement in principle with the US Attorney's Office for the Southern District of New York with respect to a resolution regarding Julius Baer's legacy US cross-border business.

### Maturity of provisions

Up to one year	10.6	0.5	11.1	553.7
Over one year	9.5	2.3	11.8	21.5

### Introduction

The Group operates in a legal and regulatory environment that exposes it to significant litigation, compliance, reputational and other risks arising from disputes and regulatory proceedings.

Non-compliance with regulatory requirements may result in regulatory authorities taking enforcement action or initiating criminal proceedings against the Group and its employees. Possible sanctions could include the revocation of licences to operate certain businesses, the suspension or expulsion from a particular jurisdiction or market of any of the Group's business organisations or their key personnel and the imposition of fines and censures on companies and employees. Regulators in certain markets may determine that industry practices, e.g. regarding the provision of services to clients, are or have become inconsistent with their interpretations of existing local laws and regulations.

The risks described below may not be the only risks to which the Group is exposed. The additional risks not presently known or risks and proceedings currently deemed immaterial may also impair the Group's future business, results of operations, financial condition and prospects. The realisation of one or more of these risks may individually or

together with other circumstances materially adversely affect the Group's business, results of operations, financial condition and prospects.

### Legal proceedings/contingent liabilities

The Group is involved in various legal, regulatory and administrative proceedings concerning matters arising within 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 liability on the part of the Group and if the amount of such obligation or loss can already be reasonably estimated.

In rare cases in which the amount cannot be estimated reliably due to the early stage of the proceedings, the complexity of the proceedings and/or other factors, no provision is recognised but the case is disclosed as a contingent liability as of

31 December 2016. The contingent liabilities might have a material effect on the Group or for other reasons might be of interest for investors and other stakeholders.

In 2010 and 2011, litigation was commenced against Bank Julius Baer & Co. Ltd. (the 'Bank') and numerous other financial institutions by the liquidators of the Fairfield funds (the 'Fairfield Liquidators'), having acted as feeder funds for the Madoff fraudulent investment schemes. In the direct claims against the Bank, the Fairfield Liquidators are seeking to recover a total amount of approximately USD 64 million in the courts of New York (including USD 17 million that relates to redemption payments made to clients of ING Bank (Suisse) SA, which merged with the Bank in 2010, and approximately USD 25 million that relates to redemption payments made to clients of Merrill Lynch Bank (Suisse) SA, which merged with the Bank in 2013, such claims being subject to acquisition-related representation and warranties provisions). The proceedings in the courts of the British Virgin Islands, where an amount of approximately USD 8.5 million have been claimed from the Bank, were finally dismissed in favour of the Bank with a ruling of the Privy Council, the highest court of appeals for the British Virgin Islands. In addition to the direct claims against the Bank, the Fairfield Liquidators have made combined claims in the amount of approximately USD 1.8 billion against more than 80 defendants. Only a fraction of this amount is sought against the Bank and its beneficial owners. The combined claims aggregate the damages asserted against all defendants, such that a reliable allocation of the claimed amounts between the Bank and the other defendants cannot be made at this time. Finally, in further proceedings, the trustee of Madoff's broker-dealer company (the 'Trustee') seeks to recover over USD 83 million in the courts of New York (including USD 46 million that relates to redemption payments made to clients of Merrill Lynch Bank (Suisse) SA, which merged with the Bank in 2013, such claims being subject to acquisition-related representation and warranties provisions), largely in relation to the same redemption payments which are the subject matter of the claims asserted by the Fairfield Liquidators. As most of the aforementioned litigation remains in the preliminary procedural stages, a meaningful

assessment of the potential outcome is not yet possible. The Bank is challenging these actions on procedural and substantive grounds and has taken further measures to defend and protect its interests. In addition, as the BVI Courts oversee the Fairfield Funds' liquidation proceedings, the Bank introduced an application challenging the Fairfield Liquidators' authority to pursue the US Litigation. The BVI trial court dismissed the application. The Bank and other defendants have appealed the dismissal and the argument is scheduled to be heard in 2017. Further, the Fairfield Liquidators sought, and ultimately obtained, sanction from the BVI Courts to proceed with the litigation in the United States. The Bank and other defendants are challenging this sanction decision as well. In view of this pending application in the BVI and as the Fairfield cases pending in the courts of New York remain in preliminary stages, a meaningful assessment of the potential outcome is not yet possible. Finally, it is also worth mentioning that in the proceedings initiated by the Trustee, the Bankruptcy Court in New York issued a ruling in November 2016, reconfirming the extraterritoriality principles set by the District Court for the Southern District of New York which stated that the US Bankruptcy Code does not apply extraterritorially to allow for the recovery of fund payments received by a foreign bank ('foreign transferee') from a foreign fund ('foreign transferor'). While this ruling is in favour of the Bank and the other defendants, it is expected that the Trustee will appeal the ruling.

In a landmark decision on so-called retrocessions, the Swiss Federal Supreme Court ruled in 2012 that the receipt of fund trailer fees by a bank in connection with a Discretionary Portfolio Management mandate may create a potential conflict of interest in the execution of the mandate. The Court considered that by receiving trailer fees in the context of such mandate, a bank may be inclined not to act in the best interest of the client. Therefore, based on applicable Swiss mandate law a bank shall not only account for fund trailer fees obtained from third parties in connection with a client's mandate, but also be obliged to forward respective amounts to a client, provided the client has not validly waived to reclaim such fees. Bank Julius Baer & Co. Ltd. has assessed the Court decision, the mandate structures to which the Court decision might be



applicable and the documentation as well as the impact of respective waivers and the communicated bandwidths having been introduced some years ago, and implemented appropriate measures to address the matter.

Bank Julius Baer & Co. Ltd. is confronted with a claim by the liquidator of a foreign corporation arguing that the Bank did not prevent two of its clients from embezzling assets of the foreign corporation. In this context, the liquidator in 2013 presented a draft complaint for an amount of EUR 12 million (plus accrued interest from 2009) and filed a payment order ('Betreibungsbegehren') against the Bank in the amount of CHF 422 million (plus accrued interest from 2009). In June 2014, the liquidator presented another amended draft complaint for an amount of EUR 290 million (plus accrued interest as of September 2009). The Bank has formally repelled the payment order and is contesting the claim whilst taking appropriate measures to defend its interests.

On 31 March 2014, the Swiss Competition Commission ('COMCO') opened an investigation regarding possible collusion in foreign exchange trading against several banks amongst which also Bank Julius Baer & Co. Ltd. According to its media release of 28 September 2015, the COMCO in addition opened an investigation regarding potential collusive behaviour in precious metal trading. Subject to these investigations are Swiss and foreign financial institutes which are active in foreign exchange and precious metal trading, including Julius Baer. The aim of the investigations, which are part of respective international inquiries, is to clarify possible unlawful collusion amongst market participants and possible violation of market behaviour regulations. Julius Baer, with its primary focus on foreign exchange and precious metals trading for private clients, continues to support the investigation of the COMCO and related inquiries of other authorities in Switzerland and abroad.

In September 2014, the Bundesanstalt für vereinigungsbedingte Sonderaufgaben ('BvS') initiated legal proceedings in Zurich against Bank Julius Baer & Co. Ltd., claiming approximately CHF 97 million plus accrued interests since 1994.

BvS claims to be the German authority responsible for managing the assets of the former German Democratic Republic ('GDR'). BvS claims that the former Bank Cantrade Ltd., which the Bank acquired through its acquisition of Bank Ehinger & Armand von Ernst AG from UBS AG in 2005, allowed unauthorised withdrawals between 1990 and 1992 from the account of a foreign GDR trade company. The Zurich District Court has dismissed the claim on 9 December 2016. BvS has appealed such verdict. In addition, the claim has been notified by the Bank vis-à-vis the seller under the 2005 transaction agreement with regard to representations and warranties granted in respect of the acquired entities.

In the context of an investigation against a former client regarding alleged participation in an environmental certificate trading related tax fraud in France, a formal procedure ('mise en examen') into suspected lack of due diligence in financial transactions has been initiated against Bank Julius Baer & Co. Ltd. in June 2014. In October 2014, as a precautionary measure, the Bank made the required security deposit in the amount of EUR 3.75 million with the competent French court. The Bank is cooperating with the French authorities within the confines of applicable laws to clarify the situation and to protect its interests.

In April 2015, Bank Julius Baer & Co. Ltd. was served with 62 claims in Geneva totalling approximately CHF 20 million plus accrued interest. The claimants, being part of a larger group of former clients of an external asset manager claiming damages in a total amount of approximately CHF 40 million, argue lack of due diligence on the part of the Bank in the context of the late external asset manager allegedly having used his personal account and company account with the Bank for flow-through client transactions and pooling of client funds. On 16 October 2015, such claims have been formalised by 51 out of the 62 claimants, claiming a total amount of CHF 11.7 million plus accrued interest. In October 2016, the Bank was served with another claim by additional 15 claimants, claiming a total amount of CHF 4.5 million plus accrued interest. The Bank is contesting the claim and has taken appropriate measures to defend its interests.

Bank Julius Baer & Co. Ltd. is confronted with a claim by a former client arguing that the Bank initiated transactions without appropriate authorisations and that the Bank has not adhered to its duties of care, trust, information and warnings. In April 2015, the client presented a complaint for an amount of USD 70 million (plus accrued interest) and BRL 24 million. The Bank is contesting the claim whilst taking appropriate measures to defend its interests.

In November 2014, Bank Julius Baer & Co. Ltd. was served in Geneva with a claim by an investment fund, acting on its behalf and on behalf of three other funds, that were former clients of Bank of China (Suisse) S.A. having been acquired by Bank Julius Baer & Co. Ltd., in the total amount of USD 29 million (plus accrued interests). Additionally, in October 2015, the claimant filed an amendment of claim in court, by which additionally USD 39 million is claimed. The claimant argues that Bank of China (Suisse) S.A. acted not only as a custodian bank, but also as secured creditor and manager of the funds, and tolerated excess in leverage. It claims that the funds suffered a severe loss consequently to the liquidation of almost the entire portfolio of their assets in May 2010, arguing that this liquidation was performed by Bank of China (Suisse) SA without the consent of the funds' directors and was ill-timed, disorderly and occurred in exceptionally unusual market conditions. The Bank is contesting the claim whilst taking appropriate measures to defend its interests. In addition, such claims are subject to acquisition-related representations and warranties.

In October 2015, Julius Baer International Ltd., UK, has been presented a complaint by three associated clients claiming failings with respect to the suitability of investments made on their behalf, obtaining appropriate instructions, the provision of appropriate information and the monitoring processes. As a consequence, the clients claimed a loss of approximately USD 37 million. In December 2016, the clients have provided Julius Baer International Limited and Bank Julius Baer & Co. Ltd. with a draft of their particulars of claim, specifying their claim to approximately USD 20.6 million. Julius Baer International Ltd. is handling and reporting this case in line with local rules and regulations.

Bank Julius Baer & Co. Ltd. has received inquiries from authorities investigating corruption and bribery allegations surrounding Fédération Internationale de Football Association (FIFA) in Switzerland and the USA. These requests focus on persons named in the so-called 'FIFA Indictment' of 20 May 2015 (Indictment filed in United States v. Webb [E.D.N.Y. 15 CR 0252 (RJD)(RML)]) and in the respective superseding indictment of 25 November 2015. The authorities in Switzerland and abroad have, in addition to the corruption and bribery allegations, opened investigations and are inquiring whether financial institutions failed to observe due diligence standards as applied in financial services and in particular in the context of anti-money laundering laws in relation to suspicious and potentially illegal transactions. The Bank is supporting the inquiries and cooperating with the authorities in the investigations on this matter.

## 19 SHARE CAPITAL

	Registered shares (CHF 0.02 par)	
	<i>Number</i>	<i>CHF m</i>
Balance on 01.01.2015	223,809,448	<b>4.5</b>
<i>of which entitled to dividends</i>	223,809,448	<b>4.5</b>
Balance on 31.12.2015	223,809,448	<b>4.5</b>
<i>of which entitled to dividends</i>	223,809,448	<b>4.5</b>
<b>Balance on 31.12.2016</b>	223,809,448	<b>4.5</b>
<i>of which entitled to dividends</i>	223,809,448	<b>4.5</b>

## ADDITIONAL INFORMATION

### 20 REPORTING BY SEGMENT

The Julius Baer Group engages exclusively in private banking activities primarily in Switzerland, Europe, Asia and South America. This focus on pure-play private banking includes certain internal supporting functions which serve entirely the core business activities. Revenues from private banking activities primarily encompass commissions 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, which is responsible for allocating resources and assesses the financial performance of the business. The Executive Board of the Group has been identified as the chief operating decision maker, as this board is responsible for the implementation of the overall strategy and the operational management of the whole Group. The Executive Board of the Group as at 31 December 2016 is composed of the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Risk Officer, Chief Communications Officer, General Counsel and Business Representative.

Various management reports with discrete financial information are prepared at regular intervals for various management levels. However, the Executive Board of the Group reviews and uses for its management decisions the consolidated financial reports 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 Group consists of a single reportable segment. This is in line with the strategy and business model of the Group and reflects the management structure and the use of information by management in making operating decisions. The acquired Merrill Lynch International Wealth Management business did not change the management structure, as it has been fully integrated into the existing structures of the Group. Although GPS and Kairos represent separate cash-generating units for the purpose of the goodwill impairment testing (refer to Note 12 for details), they do not constitute segments on their own.

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

	<b>31.12.2016</b>	31.12.2015	<b>2016</b>	2015	<b>2016</b>	2015
	Total assets CHF m	CHF m	Operating income CHF m	CHF m	Investments CHF m	CHF m
Switzerland	<b>80,573</b>	69,605	<b>1,865</b>	1,814	<b>119</b>	113
Europe (excl. Switzerland)	<b>25,080</b>	17,595	<b>465</b>	406	<b>462</b>	5
Americas	<b>1,338</b>	1,565	<b>106</b>	142	<b>3</b>	13
Asia and other countries	<b>20,599</b>	19,385	<b>560</b>	532	<b>48</b>	101
Less consolidation items	<b>31,383</b>	24,034	<b>143</b>	200		
<b>Total</b>	<b>96,207</b>	84,116	<b>2,852</b>	2,694	<b>633</b>	231

The information about geographical areas is based on the domicile of the reporting entity. This geographical information does not reflect the way the Group is managed.

## 21 RELATED PARTY TRANSACTIONS

	31.12.2016 CHF m	31.12.2015 CHF m
<b>Key management personnel compensation<sup>1</sup></b>		
Salaries and other short-term employee benefits	16.4	12.8
Post-employment benefits	0.8	0.6
Share-based payments	6.8	6.6
<b>Total</b>	<b>24.0</b>	<b>20.0</b>
<b>Receivables from</b>		
key management personnel	19.9	21.5
<b>Total</b>	<b>19.9</b>	<b>21.5</b>
<b>Liabilities to</b>		
key management personnel	16.6	7.9
own pension funds	8.2	7.2
<b>Total</b>	<b>24.8</b>	<b>15.1</b>
<b>Credit guarantees to</b>		
key management personnel	0.4	0.4
<b>Total</b>	<b>0.4</b>	<b>0.4</b>
<b>Income from services provided to</b>		
key management personnel	0.6	0.3
<b>Total</b>	<b>0.6</b>	<b>0.3</b>

<sup>1</sup> Key management personnel consists of the Board of Directors and the Executive Board of Julius Baer Group Ltd.

The Executive Board of the Group company consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Communications Officer, the Chief Operating Officer, the General Counsel, the Chief Risk Officer and the Business Representative in 2016.

The Executive Board of the Group company consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Communications Officer, the Chief Operating Officer, the General Counsel and the Chief Risk Officer in 2015.

For shareholdings of the Board of Directors and Executive Board, see section Financial Statements Julius Baer Group Ltd. 2016.

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 adjusted for reduced credit risk.

## 22 PENSION PLANS AND OTHER EMPLOYEE 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 under the Swiss pension law. Employees and pensioners or their survivors receive statutorily determined benefits upon leaving the Group or retiring as well as in the event of death or invalidity. These benefits are the result of the conversion rate applied on the accumulated balance of the individual plan participant's pension account at the retirement date. The accumulated balance equals the sum of the regular employer's and employee's contribution that have been made during the employment period, including the accrued interest on these amounts. However, these plans do not fulfil all the criteria of a defined contribution pension plan according to IAS 19 and are therefore treated as defined benefit pension plans for the purpose of the Group's financial statements.

The pension obligations are largely covered through pension plan assets of pension funds that are legally separated and independent from the Group. In case the plans become significantly underfunded over an extended time period according to the Swiss pension law basis, the Group and the employees share the risk of additional payments into the pension fund. The pension funds are managed by a board of trustees consisting of representatives of the employees and the employer. Management of the pension funds includes the pursuit of a medium- and long-term consistency and sustainability between the pension plans' assets and liabilities, based on a diversified investment strategy correlating with the maturity of the pension obligations. The organisation, management, financing and investment strategy of the pension plans comply with the legal requirements, the foundation charters and the applicable pension regulations.

	2016 CHF m	2015 CHF m
<b>1. Development of pension obligations and assets</b>		
Present value of defined benefit obligation at the beginning of the year	-2,597.9	-2,417.7
Acquisitions	-10.2	-
Current service cost	-68.4	-63.3
Employees' contributions	-39.0	-34.6
Interest expense on defined benefit obligation	-21.5	-32.0
Past service cost, curtailments, settlements, plan amendments	57.9	-1.4
Benefits paid (including benefits paid directly by employer)	40.4	41.4
Transfer payments in/out	-0.5	-0.0
Experience gains/(losses) on defined benefit obligation	-18.3	-47.2
Actuarial gains/(losses) arising from change in demographic assumptions	4.9	75.9
Actuarial gains/(losses) arising from change in financial assumptions	-47.9	-124.4
Translation differences	13.1	5.5
Present value of defined benefit obligation at the end of the year	-2,687.3	-2,597.9
<i>whereof due to active members</i>	-1,701.3	-1,689.2
<i>whereof due to deferred members</i>	-83.4	-71.7
<i>whereof due to pensioners</i>	-902.6	-836.9
Fair value of plan assets at the beginning of the year	2,346.6	2,283.3
Acquisitions	6.6	-
Interest income on plan assets	20.2	30.9
Employees' contributions	39.0	34.6
Employer's contributions	106.1	78.7
Curtailments, settlements, plan amendments	-0.6	-2.9
Benefits paid by fund	-40.4	-41.4
Transfer payments in/out	0.5	0.0
Administration cost (excluding asset management cost)	-0.9	-0.9
Return on plan assets (excluding interest income)	85.8	-30.8
Translation differences	-12.5	-5.0
Fair value of plan assets at the end of the year	2,550.4	2,346.6
	31.12.2016 CHF m	31.12.2015 CHF m
<b>2. Balance sheet</b>		
Fair value of plan assets	2,550.4	2,346.6
Present value of defined benefit obligation	-2,683.9	-2,597.9
Present value of unfunded benefit obligation	-3.4	-
Net defined benefit asset/(liability)	-136.9	-251.3

	2016 CHF m	2015 CHF m
<b>3. Income statement</b>		
Current service cost	-68.4	-63.3
Interest expense on defined benefit obligation	-21.5	-32.0
Past service cost, curtailments, settlements, plan amendments	57.3 <sup>1</sup>	-4.3
Interest income on plan assets	20.2	30.9
Administration cost (excluding asset management cost)	-0.9	-0.9
Defined benefit cost recognised in the income statement	-13.2	-69.6
<i>whereof service cost</i>	-12.0	-68.5
<i>whereof net interest on the net defined benefit/(liability) asset</i>	-1.3	-1.1

<sup>1</sup> In 2016, the Group amended its defined benefit plans in Switzerland and therefore recalculated its defined benefit obligation (DBO). The amendments are related to a lower conversion rate, a higher pension age and higher savings contributions and resulted in a reduction of the defined benefit obligation by CHF 62.8 million, which was recognised in the income statement.

#### 4. Movements in defined benefit liability

Net defined benefit asset/(liability) at the beginning of the year	-251.3	-134.4
Acquisitions	-3.6	-
Translation differences	0.6	0.4
Defined benefit cost recognised in the income statement	-13.2	-69.6
Benefits paid by employer	0.0	0.0
Employer's contributions	106.1	78.7
Remeasurements of the net defined benefit liability/(asset)	24.5	-126.6
<b>Amount recognised in the balance sheet</b>	<b>-136.9</b>	<b>-251.3</b>

#### Remeasurements of the net defined benefit liability/(asset)

Actuarial gains/(losses) of defined benefit obligation	-61.3	-95.7
Return on plan assets (excluding interest income)	85.8	-30.8
<b>Total recognised in other comprehensive income</b>	<b>24.5</b>	<b>-126.6</b>

#### 5. Composition of plan assets

Cash	125.1	44.7
Debt instruments	776.6	747.2
Equity instruments	757.0	775.1
Real estate	408.0	344.9
Alternative investments	262.9	230.1
Other	220.6	204.6
<b>Total</b>	<b>2,550.4</b>	<b>2,346.6</b>



	2016 <i>in %</i>	2015 <i>in %</i>
<b>6. Aggregation of plan assets – quoted market prices in active markets</b>		
Cash	4.9	1.9
Debt instruments	29.2	30.5
Equity instruments	29.7	33.1
Real estate	7.2	7.5
Other	13.5	11.3
<b>Total</b>	<b>84.5</b>	<b>84.3</b>

	2016 <i>CHF m</i>	2015 <i>CHF m</i>
<b>7. Sensitivities</b>		
Decrease of discount rate -0.25%		
Effect on defined benefit obligation	-73.4	-72.7
Effect on service cost	-2.4	-2.3
Increase of discount rate +0.25%		
Effect on defined benefit obligation	69.4	68.7
Effect on service cost	2.2	2.1
Decrease of salary increase -0.25%		
Effect on defined benefit obligation	9.0	5.5
Effect on service cost	0.9	0.5
Increase of salary increase +0.25%		
Effect on defined benefit obligation	-9.2	-5.4
Effect on service cost	-0.9	-0.6
Life expectancy		
Increase in longevity by one additional year	53.3	49.6

### **Actuarial calculation of pension assets and obligations**

The latest actuarial calculation was carried out as at 31 December 2016. The actuarial assumptions are based on local economic conditions and are as follows for Switzerland, which accounts for about 96% (2015: 96%) of all benefit obligations and plan assets:

	<b>2016</b>	2015
Discount rate	<b>0.55%</b>	0.75%
Average future salary increases	<b>0.50%</b>	1.00%
Future pension increases	<b>0.00%</b>	0.00%
Duration (years)	<b>14</b>	15

### **Investment in Julius Baer Group Ltd. shares**

The pension plan assets are invested in accordance with local laws and do not include shares of Julius Baer Group Ltd.

### **Expected employer contributions**

The expected employer contributions for the 2017 financial year related to defined benefit plans are estimated at CHF 84.8 million.

### **Outstanding liabilities to pension plans**

The Group had outstanding liabilities to various pension plans in the amount of CHF 8.2 million (2015: CHF 7.2 million).

### **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 27.4 million for the 2016 financial year (2015: CHF 27.0 million).

## 23 SECURITIES TRANSACTIONS

### Securities lending and borrowing transactions / repurchase and reverse repurchase transactions

	31.12.2016 CHF m	31.12.2015 CHF m
<b>Receivables</b>		
Receivables from cash provided in securities borrowing transactions	16.2	17.3
<i>of which recognised in due from banks</i>	16.2	17.3
Receivables from cash provided in reverse repurchase transactions	1.4	866.2
<i>of which recognised in due from banks</i>	1.4	646.0
<i>of which recognised in loans</i>	-	220.2
<b>Obligations</b>		
Obligations to return cash received in securities lending transactions	1,301.2	1,028.4
<i>of which recognised in due to banks</i>	1,301.2	1,028.4
Obligations to return cash received in repurchase transactions	248.3	307.7
<i>of which recognised in due to banks</i>	248.3	307.7
<b>Securities collateral</b>		
Own securities lent as well as securities provided as collateral for borrowed securities under securities borrowing and repurchase transactions	2,342.3	2,026.5
<i>of which securities the right to pledge or sell has been granted without restriction</i>	2,342.3	2,026.5
<i>of which recognised in trading assets</i>	1,543.2	1,580.1
<i>of which recognised in financial investments available-for-sale</i>	799.1	446.4
Securities borrowed as well as securities received as collateral for loaned securities under securities lending and reverse repurchase transactions	2,138.7	2,841.8
<i>of which repledged or resold securities</i>	2,032.3	1,432.3

The Group enters into fully collateralised securities borrowing and securities lending transactions and repurchase and reverse repurchase agreements that may result in credit exposure in the event that the counterparty may be unable to fulfil the contractual obligations. Generally, the transactions are carried out under standard agreements employed by market participants (e.g. Global Master Securities Lending Agreements or Global Master Repurchase

Agreements). The related credit risk exposures are controlled by daily monitoring and adjusted collateralisation of the positions. The financial assets which continue to be recognised are typically transferred in exchange for cash or other financial assets. The related liabilities can therefore be assumed to be approximately the same as the carrying amount of the transferred financial assets.

## 24 DERIVATIVE FINANCIAL INSTRUMENTS

### Derivatives held for trading

	Contract/ Notional amount CHF m	Positive replacement value CHF m	Negative replacement value CHF m
<b>Foreign exchange derivatives</b>			
Forward contracts	68,917.7	804.2	720.0
Futures	97.6	0.1	0.1
Cross-currency swaps	267.9	-	5.0
Options (OTC)	39,215.9	460.7	362.9
<b>Total foreign exchange derivatives 31.12.2016</b>	<b>108,499.1</b>	<b>1,264.9</b>	<b>1,088.0</b>
Total foreign exchange derivatives 31.12.2015	105,942.6	1,011.4	800.1
<b>Interest rate derivatives</b>			
Swaps	8,797.4	108.8	103.4
Futures	791.9	1.4	1.7
Options (OTC)	261.8	13.1	6.9
<b>Total interest rate derivatives 31.12.2016</b>	<b>9,851.1</b>	<b>123.2</b>	<b>112.0</b>
Total interest rate derivatives 31.12.2015	9,767.1	112.0	111.0
<b>Precious metals derivatives</b>			
Forward contracts	1,687.4	18.9	61.7
Futures	180.4	1.3	0.0
Options (OTC)	2,788.7	191.0	37.4
<b>Total precious metals derivatives 31.12.2016</b>	<b>4,656.5</b>	<b>211.2</b>	<b>99.1</b>
Total precious metals derivatives 31.12.2015	2,940.9	159.6	36.9
<b>Equity/indices derivatives</b>			
Futures	1,812.3	48.5	43.0
Options (OTC)	10,303.4	176.2	181.3
Options (traded)	9,525.9	853.2	670.4
<b>Total equity/indices derivatives 31.12.2016</b>	<b>21,641.6</b>	<b>1,077.9</b>	<b>894.7</b>
Total equity/indices derivatives 31.12.2015	19,738.1	895.2	1,361.1
<b>Other derivatives</b>			
Futures	144.1	0.5	2.7
<b>Total other derivatives 31.12.2016</b>	<b>144.1</b>	<b>0.5</b>	<b>2.7</b>
Total other derivatives 31.12.2015	127.8	10.3	-

**Derivatives held for trading (continued)**

	Contract/ Notional amount CHF m	Positive replacement value CHF m	Negative replacement value CHF m
<b>Credit derivatives</b>			
Credit default swaps	295.0	0.1	6.7
Total return swaps	66.5	2.3	0.2
Other credit derivatives	39.4	-	10.2
<b>Total credit derivatives 31.12.2016</b>	<b>401.0</b>	<b>2.4</b>	<b>17.1</b>
Total credit derivatives 31.12.2015	180.5	0.6	9.9
<b>Total derivatives held for trading 31.12.2016</b>	<b>145,193.5</b>	<b>2,680.1</b>	<b>2,213.5</b>
Total derivatives held for trading 31.12.2015	138,697.1	2,189.1	2,318.9

**Derivatives held for hedging**

**Derivatives designated as fair value hedges**

Interest rate swaps	2,171.1	10.8	71.9
<b>Total derivatives held for hedging 31.12.2016</b>	<b>2,171.1</b>	<b>10.8</b>	<b>71.9</b>
Total derivatives held for hedging 31.12.2015	1,442.5	-	72.5
<b>Total derivative financial instruments 31.12.2016</b>	<b>147,364.6</b>	<b>2,690.9</b>	<b>2,285.3</b>
Total derivative financial instruments 31.12.2015	140,139.6	2,189.1	2,391.4

## 25A FINANCIAL INSTRUMENTS BY CATEGORY

### Financial assets

	Carrying value CHF m	31.12.2016 Fair value CHF m	Carrying value CHF m	31.12.2015 Fair value CHF m
<b>Cash, loans and receivables</b>				
Cash	13,599.5	13,599.5	9,185.7	9,185.7
Due from banks	11,389.8	11,395.5	6,901.1	6,909.0
Loans	38,419.0	38,873.2	36,380.9	36,850.6
Accrued income	282.8	282.8	326.9	326.9
<b>Total</b>	<b>63,691.1</b>	<b>64,151.0</b>	<b>52,794.7</b>	<b>53,272.2</b>
<b>Held for trading</b>				
Trading assets	7,261.8	7,261.8	6,957.7	6,957.7
Derivative financial instruments	2,680.1	2,680.1	2,189.1	2,189.1
<b>Total</b>	<b>9,941.9</b>	<b>9,941.9</b>	<b>9,146.8</b>	<b>9,146.8</b>
<b>Derivatives designated as hedging instruments</b>				
Derivative financial instruments	10.8	10.8	-	-
<b>Total</b>	<b>10.8</b>	<b>10.8</b>	<b>-</b>	<b>-</b>
<b>Designated at fair value</b>				
Financial assets designated at fair value	252.4	252.4	197.0	197.0
<b>Total</b>	<b>252.4</b>	<b>252.4</b>	<b>197.0</b>	<b>197.0</b>
<b>Available-for-sale</b>				
Financial investments available-for-sale	18,266.6	18,266.6	16,572.5	16,572.5
<b>Total</b>	<b>18,266.6</b>	<b>18,266.6</b>	<b>16,572.5</b>	<b>16,572.5</b>
<b>Total financial assets</b>	<b>92,162.8</b>	<b>92,622.7</b>	<b>78,710.9</b>	<b>79,188.4</b>

## Financial liabilities

	Carrying value CHF m	31.12.2016 Fair value CHF m	Carrying value CHF m	31.12.2015 Fair value CHF m
<b>Financial liabilities at amortised costs</b>				
Due to banks	10,076.8	10,076.9	4,672.0	4,672.3
Due to customers	67,495.2	67,496.9	64,781.4	64,782.8
Debt issued	1,213.5	1,254.0	1,152.7	1,191.8
Accrued expenses	187.7	187.7	154.4	154.4
<b>Total</b>	<b>78,973.2</b>	<b>79,015.5</b>	<b>70,760.4</b>	<b>70,801.3</b>
<b>Held for trading</b>				
Trading liabilities	159.0	159.0	190.8	190.8
Derivative financial instruments	2,213.5	2,213.5	2,318.9	2,318.9
<b>Total</b>	<b>2,372.4</b>	<b>2,372.4</b>	<b>2,509.7</b>	<b>2,509.7</b>
<b>Derivatives designated as hedging instruments</b>				
Derivative financial instruments	71.9	71.9	72.5	72.5
<b>Total</b>	<b>71.9</b>	<b>71.9</b>	<b>72.5</b>	<b>72.5</b>
<b>Designated at fair value</b>				
Financial liabilities designated at fair value	8,444.4	8,444.4	4,263.1	4,263.1
Other liabilities	41.2 <sup>1</sup>	41.2	24.5 <sup>2</sup>	24.5
<b>Total</b>	<b>8,485.6</b>	<b>8,485.6</b>	<b>4,287.6</b>	<b>4,287.6</b>
<b>Total financial liabilities</b>	<b>89,903.1</b>	<b>89,945.5</b>	<b>77,630.3</b>	<b>77,671.1</b>

<sup>1</sup> Relates to the deferred purchase price of Fransad Gestion SA, NSC Asesores, S.C., and GPS Investimentos Financeiros e Participações S.A., see Notes 26B and 27.

<sup>2</sup> Relates to the deferred purchase price of WMPartners Wealth Management Ltd., Fransad Gestion SA and NSC Asesores, S.C., see Notes 26B and 27.

The following methods are used in measuring 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 carrying 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. Generally, the Libor rate is used to calculate the net present value of the loans and mortgages, as these assets are fully collateralised and therefore the specific counterparty risk has no material impact on the fair value measurement.

**Trading assets and liabilities, financial investments available-for-sale, derivative financial instruments and financial liabilities designated at fair value**

Refer to Note 25B for details regarding the valuation of these instruments.



## 25B FINANCIAL INSTRUMENTS – FAIR VALUE DETERMINATION

### Level 1

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

### Level 2

For financial instruments for which quoted market prices are not directly available or are not derived from active markets, 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. This is the case for the majority of OTC derivatives, most unquoted financial instruments, and other items that are not traded in active markets. The main pricing models and valuation techniques applied to these financial instruments include forward pricing and swap models using present-value calculations, and option models such as the Black-Scholes 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.

### Level 3

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.

*Financial investments available-for-sale:* The Group holds certain equity instruments, which are required for the operation of the Group and are reported as financial instruments available-for-sale, with changes in the fair value recognised in other comprehensive income. The determination of the fair value is based on the published net asset value of the investees. The net asset values are adjusted by management for any necessary impacts from events which may

have an influence on the valuation (adjusted net asset method). In 2016, dividends related to these investments in the amount of CHF 7.3 million have been recognised in the income statement.

*Financial instruments designated at fair value:* The Group issues to its private clients certain specific structured notes, which are intended to be fully invested in private equity investments. Since the notes may not be fully invested in private equity as from the beginning, the portion currently not yet invested is placed in money market instruments, short-term debt funds, or held in cash. Although the clients contractually bear all the related risks and rewards from the underlying investments, these financial instruments are not derecognised from the Group's balance sheet due to the strict derecognition criteria required by IFRS. Therefore, the private equity investments as well as the money market instruments are recorded as financial assets designated at fair value. Any changes in the fair value or any other income from the private equity investments, as well as any income related to the money market instruments, are recorded in the income statement. However, as the clients are entitled to all rewards related to the investments, these amounts net out in the respective line item in the income statement. Hence, any change in the valuation inputs has no impact on the Group's income statement or shareholders' equity.

To measure the fair values of the private equity investments, the Group generally relies on the valuations as provided by the respective private equity funds managing the investments. These funds in turn use their own valuation techniques, such as market approaches or income approaches, including their own input factors into the applied models. Therefore, the private equity investments are reported in level 3 of the fair value hierarchy, as the fair values are determined based on models with unobservable market inputs. The related issued notes are reported as financial liabilities designated at fair value and classified as level 3 instruments, due to the related private equity investments being part of the valuation of the notes.

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

	31.12.2016			
	Quoted market price Level 1 CHF m	Valuation technique market- observable inputs Level 2 CHF m	Valuation technique non-market- observable inputs Level 3 CHF m	Total CHF m
<b>Assets and liabilities measured at fair value</b>				
Trading assets – debt instruments	1,368.3	46.7	-	1,415.0
Trading assets – equity instruments	5,465.6	381.3	-	5,846.9
<b>Total trading assets</b>	<b>6,833.9</b>	<b>428.0</b>	<b>-</b>	<b>7,261.8</b>
Foreign exchange derivatives	8.6	1,256.3	-	1,264.9
Interest rate derivatives	1.4	132.7	-	134.1
Precious metal derivatives	1.3	209.9	-	211.2
Equity/indices derivatives	48.5	1,029.4	-	1,077.9
Credit derivatives	-	2.4	-	2.4
Other derivatives	0.5	-	-	0.5
<b>Total derivative financial instruments</b>	<b>60.2</b>	<b>2,630.7</b>	<b>-</b>	<b>2,690.9</b>
<b>Financial assets designated at fair value</b>	<b>128.3</b>	<b>29.2</b>	<b>94.8</b>	<b>252.4</b>
Financial investments available-for-sale – money market instruments	596.4	3,188.7	-	3,785.0
Financial investments available-for-sale – debt instruments	13,402.1	914.0	-	14,316.0
Financial investments available-for-sale – equity instruments	26.0	18.8	120.7	165.5
<b>Total financial investments available-for-sale</b>	<b>14,024.5</b>	<b>4,121.4</b>	<b>120.7</b>	<b>18,266.6</b>
<b>Total assets</b>	<b>21,046.9</b>	<b>7,209.3</b>	<b>215.5</b>	<b>28,471.7</b>
Short positions – debt instruments	44.6	3.4	-	48.0
Short positions – equity instruments	96.0	15.0	-	111.0
<b>Total trading liabilities</b>	<b>140.5</b>	<b>18.4</b>	<b>-</b>	<b>159.0</b>
Foreign exchange derivatives	6.4	1,081.6	-	1,088.0
Interest rate derivatives	1.7	182.1	-	183.8
Precious metal derivatives	0.0	99.0	-	99.1
Equity/indices derivatives	43.0	851.7	-	894.7
Credit derivatives	-	17.1	-	17.1
Other derivatives	2.7	-	-	2.7
<b>Total derivative financial instruments</b>	<b>53.8</b>	<b>2,231.5</b>	<b>-</b>	<b>2,285.3</b>
<b>Financial liabilities designated at fair value</b>	<b>-</b>	<b>8,180.8</b>	<b>263.6</b>	<b>8,444.4</b>
<b>Total liabilities</b>	<b>194.4</b>	<b>10,430.7</b>	<b>263.6</b>	<b>10,888.7</b>

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				31.12.2015
	Quoted market price Level 1 CHF m	Valuation technique market- observable inputs Level 2 CHF m	Valuation technique non-market- observable inputs Level 3 CHF m	Total CHF m
Assets and liabilities measured at fair value				
Trading assets – debt instruments	773.6	382.1	-	1,155.7
Trading assets – equity instruments	5,388.1	413.9	-	5,802.0
Total trading assets	6,161.7	795.9	-	6,957.7
Foreign exchange derivatives	5.0	1,006.4	-	1,011.4
Interest rate derivatives	2.2	109.8	-	112.0
Precious metal derivatives	1.0	158.6	-	159.6
Equity/indices derivatives	22.3	872.9	-	895.2
Credit derivatives	-	0.6	-	0.6
Other derivatives	10.3	-	-	10.3
Total derivative financial instruments	40.8	2,148.3	-	2,189.1
Financial assets designated at fair value	121.8	27.0	48.2	197.0
Financial investments available-for-sale – money market instruments	-	2,298.1	-	2,298.1
Financial investments available-for-sale – debt instruments	10,395.2	3,782.0	-	14,177.2
Financial investments available-for-sale – equity instruments	15.7	7.2	74.3	97.2
Total financial investments available-for-sale	10,410.9	6,087.3	74.3	16,572.5
Total assets	16,735.2	9,058.5	122.5	25,916.2
Short positions – debt instruments	81.2	36.0	-	117.2
Short positions – equity instruments	54.0	19.6	-	73.6
Total trading liabilities	135.2	55.6	-	190.8
Foreign exchange derivatives	4.8	795.2	-	800.1
Interest rate derivatives	3.4	180.0	-	183.5
Precious metal derivatives	0.0	36.9	-	36.9
Equity/indices derivatives	20.2	1,340.9	-	1,361.1
Credit derivatives	-	9.9	-	9.9
Other derivatives	0.0	-	-	0.0
Total derivative financial instruments	28.5	2,362.9	-	2,391.4
Financial liabilities designated at fair value	-	4,059.7	203.4	4,263.1
Total liabilities	163.7	6,478.2	203.4	6,845.3

The fair value of financial instruments disclosed at fair value is determined as follows:

	<b>31.12.2016</b>			
	Quoted market price Level 1 CHF m	Valuation technique market- observable inputs Level 2 CHF m	Valuation technique non-market- observable inputs Level 3 CHF m	<b>Total</b> CHF m
<b>Assets and liabilities disclosed at fair value</b>				
Cash	13,599.5	-	-	13,599.5
Due from banks	-	11,395.5	-	11,395.5
Loans	-	38,873.2	-	38,873.2
Accrued income	-	282.8	-	282.8
<b>Total assets</b>	<b>13,599.5</b>	<b>50,551.5</b>	<b>-</b>	<b>64,151.0</b>
Due to banks	-	10,076.9	-	10,076.9
Due to customers	-	67,496.9	-	67,496.9
Debt issued	1,254.0	-	-	1,254.0
Accrued expenses	-	187.7	-	187.7
Other liabilities	-	-	41.2	41.2
<b>Total liabilities</b>	<b>1,254.0</b>	<b>77,761.5</b>	<b>41.2</b>	<b>79,056.7</b>

	<b>31.12.2015</b>			
	Quoted market price Level 1 CHF m	Valuation technique market- observable inputs Level 2 CHF m	Valuation technique non-market- observable inputs Level 3 CHF m	<b>Total</b> CHF m
<b>Assets and liabilities disclosed at fair value</b>				
Cash	9,185.7	-	-	9,185.7
Due from banks	-	6,909.0	-	6,909.0
Loans	-	36,850.6	-	36,850.6
Accrued income	-	326.9	-	326.9
<b>Total assets</b>	<b>9,185.7</b>	<b>44,086.5</b>	<b>-</b>	<b>53,272.2</b>
Due to banks	-	4,672.3	-	4,672.3
Due to customers	-	64,782.8	-	64,782.8
Debt issued	1,191.8	-	-	1,191.8
Accrued expenses	-	154.4	-	154.4
Other liabilities	-	-	24.5	24.5
<b>Total liabilities</b>	<b>1,191.8</b>	<b>69,609.5</b>	<b>24.5</b>	<b>70,825.8</b>

## 25C FINANCIAL INSTRUMENTS – TRANSFERS BETWEEN LEVEL 1 AND LEVEL 2

	<b>31.12.2016</b> CHF m	31.12.2015 CHF m
<b>Transfers from level 1 to level 2</b>		
Trading assets	1.3	121.7
Derivative financial instruments	-	106.2
Financial investments available-for-sale	-	2,187.0
Trading liabilities	-	4.7
Derivative financial instruments	-	313.0
Financial liabilities designated at fair value	-	321.5
<b>Transfers from level 2 to level 1</b>		
Trading assets	244.0	38.5
Financial investments available-for-sale	2,141.4	580.0
Trading liabilities	0.5	0.5

The transfers between level 1 and 2, and vice versa, occurred due to changes in the direct availability of quoted market prices. Transfers between the levels are deemed to have occurred at the end of the reporting period.

## 25D FINANCIAL INSTRUMENTS – OFFSETTING

As a private bank, the Group aims to enter into securities transactions and derivative financial instruments. In order to control the credit exposure and reduce the credit risk related to these transactions, the Group applies credit mitigation strategies in the ordinary course of business. The Group enters into master netting agreements with counterparties to mitigate the credit risk of securities lending and borrowing transactions, repurchase and reverse repurchase transactions and over-the-counter derivative transactions. Such arrangements include Global Master Securities Lending Agreements or Global Master Repurchase Agreements, as well as ISDA Master Agreements for derivatives.

The majority of exposures to securities transactions and over-the-counter derivative financial instruments are collateralised, with the collateral being prime financial instruments or cash.

However, under IFRS, to be able to offset transactions with the same counterparty on the balance sheet, the right of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable for all counterparties in the event of default, insolvency or bankruptcy. As the Group's arrangements may not fulfil the strict offsetting criteria as required by IFRS, the Group does not offset the respective amounts related to these transactions on the balance sheet. Consequently, the remaining credit risk on securities lending and borrowing as well as on repurchase and reverse repurchase transactions is fully mitigated.

*Securities transactions:* As the Group does not apply netting on its balance sheet, the cash collateral provided in securities borrowing and reverse repurchase transactions in the amount of CHF 17.6 million (2015: CHF 883.5 million) and the cash collateral received in securities lending and repurchase transactions in the amount of CHF 1,549.5 million (2015: CHF 1,336.1 million) as disclosed in Note 23 are not offset with the respective counterparty positions in the balance sheet.

*Derivative financial instruments:* The derivative financial instruments consist of over-the-counter as well as exchange-traded derivatives. The majority of over-the-counter derivatives in the total amount of CHF 1,786.1 million (positive replacement values) and CHF 1,567.4 million (negative replacement values) are subject to an enforceable netting agreement. Transactions with other banks are generally collateralised with other financial instruments (derivatives) which are recognised on the Group's balance sheet. With non-banking counterparties, the collateral recognised is generally cash balances. None of these balances related to the derivatives transactions are offset on the balance sheet. Additionally, there are derivative financial instruments in the amount of CHF 664.3 million (2015: CHF 462.9 million) which could be offset with the corresponding outstanding amount.

Refer to the Credit Risk section for further analysis of the Group's credit risk strategies and exposure.

## 26A COMPANIES CONSOLIDATED AS AT 31 DECEMBER 2016

### Listed company which is consolidated

	Place of listing	Head Office	Currency	Share capital <i>m</i>	Capitalisation as at 31.12.2016 <i>m</i>
Julius Baer Group Ltd.	SIX Swiss Exchange	Zurich	CHF	4.5	10,123

Swiss securities number: 10 248 496, Bloomberg: BAER VX, Reuters: BAER.VX

### Unlisted operational companies which are consolidated

	Head Office	Currency	Share capital <i>m</i>	Equity interest %
Bank Julius Baer & Co. Ltd.	Zurich	CHF	575.000	100
<i>Branches in Basle, Berne, Crans-Montana, Geneva, Guernsey, Hong Kong, Kreuzlingen, Lausanne, Lucerne, Lugano, Singapore, Sion, St. Gallen, St. Moritz, Verbier, Zug, Zurich</i>				
<i>Representative Offices in Abu Dhabi, Dubai, Istanbul, Moscow, Panama City, Santiago de Chile, Shanghai, Tel Aviv including</i>				
Bank Julius Baer Nominees (Singapore) Pte. Ltd.	Singapore	SGD	0.000	100
Arpese SA	Lugano	CHF	0.400	100
Bank Julius Bär Europe AG	Frankfurt	EUR	15.000	100
<i>Branches in Duesseldorf, Hamburg, Kiel, Mannheim, Munich, Stuttgart, Würzburg including</i>				
Julius Bär Capital GmbH	Frankfurt	EUR	0.026	100
Bank Julius Baer Luxembourg S.A.	Luxembourg	EUR	33.165	100
Bank Julius Baer (Monaco) S.A.M.	Monaco	EUR	60.000	100
Fransad Gestion SA	Geneva	CHF	1.000	100
Julius Baer Investment Ltd.	Zurich	CHF	0.100	100
<i>including</i>				
Julius Baer Consultores S.A.	Caracas	BSF	2.150	100
Julius Baer Trust Company (Singapore) Ltd.	Singapore	SGD	2.812	100

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	Head Office	Currency	Share capital m	Equity interest %
JB Participações Brasil Ltda.	São Paulo	BRL	394.016	100
<i>including</i>				
<i>GPS Investimentos Financeiros e Participações S.A.</i>	<i>São Paulo</i>	<i>BRL</i>	<i>0.280</i>	<i>100</i>
<i>including</i>				
<i>GPS Planejamento Financeiro Ltda.</i>	<i>São Paulo</i>	<i>BRL</i>	<i>0.207</i>	<i>100</i>
<i>Branches in Rio de Janeiro, Belo Horizonte</i>				
JB Participations Ltd.	Zurich	CHF	15.000	100
Julius Baer Advisory S.A.E.	Cairo	EGP	12.847	100
Julius Baer Advisory (Uruguay) S.A.	Montevideo	UYU	0.087	100
Julius Baer Agencia de Valores, S.A.U.	Madrid	EUR	0.902	100
Julius Baer Capital (Guernsey) I Ltd. (in liquidation)	Guernsey	CHF	0.000	100
Julius Baer (Chile) SpA	Santiago de Chile	CLP	498.928	100
Julius Baer Consultores (Peru) S.A.C.	Lima	PEN	4.164	100
Julius Baer Family Office & Trust Ltd.	Zurich	CHF	0.100	100
<i>including</i>				
<i>Julius Baer Trust Company (New Zealand) Limited</i>	<i>Auckland</i>	<i>CHF</i>	<i>0.105</i>	<i>100</i>
Julius Baer Fiduciaria S.p.A.	Milan	EUR	0.100	100
Julius Baer Financial Services (Channel Islands) Ltd.	Jersey	GBP	0.025	100
Julius Baer Financial Services (Israel) Ltd.	Tel Aviv	ILS	11.000	100
Julius Baer Gestión, SGIIC, S.A.U.	Madrid	EUR	2.100	100
Julius Baer International Advisory (Uruguay) S.A.	Montevideo	USD	1.600	100
Julius Baer International Limited	London	GBP	122.200	100
<i>Branch in Dublin</i>				
Julius Baer International Panama Inc.	Panama City	CHF	19.383	100
<i>including</i>				
<i>Julius Baer Bank &amp; Trust (Bahamas) Ltd.</i>	<i>Nassau</i>	<i>CHF</i>	<i>20.000</i>	<i>100</i>
<i>including</i>				
<i>Julius Baer Trust Company (Bahamas) Ltd. (in liquidation)</i>	<i>Nassau</i>	<i>CHF</i>	<i>2.000</i>	<i>100</i>



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ADDITIONAL INFORMATION

	Head Office	Currency	Share capital m	Equity interest %
JULIUS BAER INTERNATIONAL SHARED SERVICES CENTER (URUGUAY) S.A.	Montevideo	UYU	1.340	100
Julius Baer Investment Advisory GesmbH	Vienna	EUR	0.050	100
Julius Baer Investment Services S.à r.l.	Luxembourg	EUR	1.250	100
Julius Baer Investments S.A.S. (in liquidation)	Paris	EUR	3.811	100
Julius Baer Investments (Panama) S.A.	Panama City	USD	22.630	100
Julius Bär Lizenzverwertungsgesellschaft AG	Zug	CHF	0.100	100
Julius Baer Portfolio Managers Limited	London	GBP	0.054	100
Julius Baer Trust Company (Channel Islands) Limited	Guernsey	CHF	0.065	100
Julius Baer Wealth Advisors (India) Private Limited <i>Branches in Bangalore, Chennai, Kolkata, New Delhi including</i>	Mumbai	INR	10,081.410	100
<i>Julius Baer Capital (India) Private Limited</i>	<i>Mumbai</i>	<i>INR</i>	<i>2,334.350</i>	<i>100</i>
Julius Bär Wealth Management AG <i>Branch in Tokyo</i>	Erlenbach	CHF	5.700	100
Julius Baer Wealth Management (Monaco) S.A.M.	Monaco	EUR	0.465	100
Julius Baer (Bahrain) B.S.C. (c)	Manama	BHD	1.000	100
Julius Baer (Lebanon) S.A.L.	Beirut	LBP	2,000.000	100
Julius Baer (Middle East) Ltd.	Dubai	USD	22.000	100
Julius Baer (Netherlands) B.V.	Amsterdam	EUR	0.000	100
Julius Baer (Uruguay) S.A.	Montevideo	UYU	25.169	100
Kairos Investment Management S.p.A. <i>including</i>	Milan	EUR	2.355	80
<i>KAIROS ASSET MANAGEMENT SA</i>	<i>Lugano</i>	<i>EUR</i>	<i>0.600</i>	<i>100</i>
<i>Kairos Investment Management B.V.</i>	<i>Amsterdam</i>	<i>EUR</i>	<i>1.000</i>	<i>100</i>
<i>– including Kairos Investment Management Limited</i>	<i>London</i>	<i>GBP</i>	<i>5.884</i>	<i>100</i>
<i>Kairos Julius Baer SIM S.p.A.</i>	<i>Milan</i>	<i>EUR</i>	<i>10.000</i>	<i>100</i>
<i>– Representative Offices in Rome, Turin</i>				
<i>Kairos Partners SGR S.p.A.</i>	<i>Milan</i>	<i>EUR</i>	<i>5.084</i>	<i>100</i>

	Head Office	Currency	Share capital m	Equity interest %
PINVESTAR AG	Zug	CHF	0.100	100
PT Julius Baer Advisors Indonesia (in liquidation)	Jakarta	IDR	6,725.000	100
URSA Company Ltd. (in liquidation)	Grand Cayman	CHF	0.500	100
WMPartners Wealth Management Ltd.	Zurich	CHF	1.000	100
Aktiengesellschaft formerly Waser Söhne & Cie, Werdmühle Altstetten	Zurich	CHF	2.260	100
LOTECO Foundation	Zurich	CHF	0.100	100

**Major changes in the companies consolidated:**

- Kairos Investment Management S.p.A., Milan, new
- GPS Investimentos Financeiros e Participações S.A., São Paulo, new 100%

- Commerzbank International S.A. Luxembourg, new and renamed into Bank Julius Baer Luxembourg S.A., Luxembourg

## 26B INVESTMENTS IN ASSOCIATES

	Head Office	Currency	Share capital <i>m</i>	Equity interest <i>%</i>
<b>Associates</b>				
NSC Asesores, S.C., Asesor en Inversiones Independiente	Mexico City	MXN	1.884	40
			<b>31.12.2016</b>	31.12.2015
			<i>CHF m</i>	<i>CHF m</i>
Balance at the beginning of the year			<b>90.3</b>	66.0
Additions			-	28.9
Disposals			<b>-99.8<sup>1</sup></b>	-
Income			<b>48.7<sup>2</sup></b>	5.9
Dividend paid			<b>-10.2</b>	-4.4
Translation differences			<b>0.4</b>	-6.1
<b>Balance at the end of the year</b>			<b>29.4</b>	90.3

<sup>1</sup> Relates to the increase of the Group's participation in Kairos, see Note 27.

<sup>2</sup> Includes the revaluation to fair value of Kairos.

The total comprehensive income of the associated companies amounts to CHF 3.6 million (2015: CHF 26.1 million for Kairos Investment Management SpA and NSC Asesores).

### NSC Asesores

On 6 November 2015, the Group acquired 40% of the Mexico-City-based NSC Asesores, S.C., Asesor en Inversiones Independiente, which is specialised in discretionary portfolio management and advisory services for high net worth individuals. The Group

paid half of the consideration in the amount of CHF 14.5 million in cash for this interest, which was fully funded by existing excess capital of the Group. The Group agreed on two additional payments on 6 November 2016 (CHF 7.1 million performed as agreed) and 2017, respectively, for the outstanding purchase price. The Group also received two options to acquire additional interests of 30% per option in NSC Asesores at a predetermined relative price. The options will be exercisable in 2018 and 2021, respectively.

## 26C UNCONSOLIDATED STRUCTURED ENTITIES

The Group is involved in the set-up and operation of a limited number of structured entities such as segregated portfolio companies, private equity feeder funds, umbrella funds and similar vehicles in the legal form of limited partnerships (L.P.), which are invested in segregated portfolios or feeder funds. All the L.P. serve as investment vehicles for the Group's clients. The Group generally acts as investment manager and custodian bank and also holds the management shares of the L.P. These shares are

equipped with voting rights, but do not provide any participating rights in the underlying investments. The Group receives a market-based fixed fee for its services and has no interests in the underlying segregated portfolios or feeder funds. Therefore, due to the missing exposure, or rights, to variable returns from its involvement with the segregated portfolios or feeder funds, the Group does not have control over the underlying investments, but only consolidates the limited partnerships.

## 27 ACQUISITIONS

Apart from the acquisition of Merrill Lynch's International Wealth Management business (see Note 30 for details), the following transactions were executed:

### Kairos (2016)

In November 2015, the Group agreed to exercise its option and to increase its stake in Kairos Investment Management S.p.A. by acquiring an additional 60.1% interest of the Milan-based company, following its initial purchase of 19.9% in 2013. The transaction was exercised on 1 April 2016. The Group paid the consideration for this additional interest in the amount of CHF 301.5 million in cash which was fully funded by existing excess capital of the Group. As part of the transaction, the Group realised a net gain in the amount of CHF 38.6 million on the revaluation to fair value of the 19.9% interest

previously held as an investment in associates, including foreign exchange translation losses, which was recognised in other ordinary results in 2016.

Kairos is specialised in wealth and asset management, including investment solutions and advice and fits into the Group's growth strategy. The Group and Kairos have agreed to pursue the listing of Kairos in a subsequent step through an offering of a minority percentage of Kairos' share capital. Kairos continues to operate under its brand.

For the 12 months ended 31 December 2016, Kairos recorded CHF 80.1 million operating income and CHF 22.7 million net profit. Since its acquisition on 1 April 2016, Kairos has contributed CHF 64.5 million operating income and CHF 18.8 million net profit to the Group's results.

The assets and liabilities of Kairos were recorded provisionally as follows:

	Fair value CHF m
<b>Purchase price</b>	
in cash	301.5
contribution of the 19.9% interest (at fair value)	99.8
<b>Total</b>	401.4
Due from banks	31.9
Deferred tax assets	5.2
All other assets	23.2
<b>Assets acquired</b>	60.3
Deferred tax liabilities	7.1
All other liabilities	37.3
<b>Liabilities assumed</b>	44.3
<b>Goodwill and other intangible assets and non-controlling interests</b>	
Goodwill	317.3
Customer relationships	89.4
Non-controlling interests	21.3
<b>Total</b>	385.4

**Julius Bär Wealth Management AG  
(formerly named TFM Asset Management AG)  
(2016)**

On 1 April 2016, the Group exercised its call option to acquire the outstanding 40% interest in its Japanese-market-focused subsidiary Julius Bär Wealth Management AG (JBWM), formerly named TFM Asset Management AG. The Group paid CHF 2.5 million in cash for this additional interest which was fully funded by existing excess capital of the Group. JBWM, a Switzerland-registered independent asset management company, specialises in discretionary asset management services for HNW Japanese and Swiss private clients and holds investment advisory and investment management licences granted by the Japanese FSA.

Changes in ownership interests while retaining control are accounted for as transactions with equity holders in their capacity as equity holders, i.e., the difference of CHF 2.1 million between the amount of the former non-controlling interest and the fair value of the consideration paid is recognised directly in equity (retained earnings). In addition, no changes in the carrying amount of assets, including goodwill, or liabilities are recognised.

**Commerzbank International S.A. Luxembourg/  
Bank Julius Baer Luxembourg S.A., Luxembourg  
(2016)**

On 4 July 2016, the Group acquired Commerzbank International S.A. Luxembourg, a fully licensed private bank. This transaction will significantly strengthen the Group's presence in Luxembourg and in addition will provide the Group with further strategic flexibility for its European business, also due to the included booking platform. The purchase price of CHF 84.9 million was paid in cash and fully funded by existing excess capital of the Group. The acquired entity has been renamed into Bank Julius Baer Luxembourg S.A., Luxembourg.

For the 12 months ended 31 December 2016, Commerzbank International S.A. Luxembourg/Bank Julius Baer Luxembourg S.A. recorded CHF 94.5 million operating income and CHF 63.5 million net profit. Since its acquisition on 4 July 2016, the entity has contributed CHF 14.9 million operating income and CHF –6.9 million net profit to the Group's results.

The assets and liabilities of Commerzbank International SA Luxembourg/Bank Julius Baer Luxembourg were recorded provisionally as follows:

	Fair value CHF m
<b>Purchase price</b>	
in cash	84.9
<b>Total</b>	84.9
Cash	272.9
Due from banks	637.8
Loans <sup>1</sup>	344.6
Software	1.9
All other assets	78.7
<b>Assets acquired</b>	1,335.8
Due to banks	27.2
Due to customers	1,249.1
Provisions	1.2
Deferred tax liabilities	2.0
All other liabilities	15.9
<b>Liabilities assumed</b>	1,295.5
<b>Goodwill and other intangible assets</b>	
Goodwill	19.0
Customer relationships	15.2
Software	10.3
<b>Total</b>	44.6

<sup>1</sup> At the acquisition date, the gross contractual amount of loans acquired was CHF 344.6 million.

**GPS Investimentos Financeiros e Participações S.A. (2016)**

On 25 March 2014, the Group acquired an additional 50% interest in São-Paulo-based GPS Investimentos Financeiros e Participações S.A., which includes GPS Planejamento Financeiro Ltda. and CFO Administração de Recursos Ltda. ('GPS'). This transaction increased the Group's participation in GPS to 80% from the 30% acquired in May 2011. On 25 March 2014, the Group paid half of the consideration in the amount of CHF 55.8 million in cash for this additional interest which was fully funded by existing excess capital of the Group. In addition, the Group agreed on two additional payments on 25 March 2015 and 10 December 2015, which were performed. As part of the transaction, the Group realised a net gain in the amount of CHF 14.8 million on the revaluation to fair value of the 30% interest previously held as an investment in associates, including foreign exchange translation losses, which was recognised in other ordinary results in 2014.

On 1 March 2016, the Group exercised the forward contract to acquire the remaining 20% interest of its Brazilian subsidiary GPS Investimentos Financeiros e Participações S.A. (GPS). The purchase price of CHF 28.6 million will be payable in four tranches, whereof the first tranche has been paid at acquisition date and was fully funded by existing excess capital of the Group. The outstanding amounts of the future instalments are recognised as a liability.

Changes in ownership interests while retaining control are accounted for as transactions with equity holders in their capacity as equity holders, i.e., the difference of CHF 21.5 million between the amount of the former non-controlling interest and the fair value of the consideration paid is recognised directly in equity (retained earnings). In addition, no changes in the carrying amount of assets, including goodwill, or liabilities are recognised.

GPS is specialised in discretionary portfolio management and advisory services. The acquisition supports the Group's strategic intention to build its wealth management business in one of the most attractive and promising domestic wealth management markets. GPS continues to operate under its brand.



The assets and liabilities of GPS were recorded as follows (unchanged since 2014):

	Fair value CHF m
<b>Purchase price</b>	
in cash	55.8
contribution of the 30% interest (at fair value)	66.9
deferred purchase price (liabilities)	55.8
<b>Total</b>	178.5
<b>Assets acquired</b>	
Due from banks	4.7
All other assets	7.3
<b>Total</b>	12.0
<b>Liabilities assumed</b>	
Deferred tax liabilities	18.5
All other liabilities	13.2
<b>Total</b>	31.7
<b>Goodwill and other intangible assets and non-controlling interests</b>	
Goodwill	151.4
Customer relationships	54.4
Non-controlling interests	7.6
<b>Total</b>	198.2

### Fransad Gestion SA (2015)

On 3 November 2015, the Group acquired the Swiss independent wealth manager Fransad Gestion SA which is based in Geneva. Fransad complements the Group's existing independent wealth management business and strengthens the Group's position in French-speaking Switzerland.

The purchase price of CHF 16.6 million, including the deferred portion due in March 2018, has been and will be paid in cash and is fully funded by existing excess capital of the Group.

The assets and liabilities of Fransad Gestion SA were recorded as follows:

	Fair value CHF m
<b>Purchase price</b>	
in cash	12.1
deferred purchase price (liabilities)	4.5
<b>Total</b>	16.6
Due from banks	3.9
All other assets	2.6
<b>Assets acquired</b>	6.5
All other liabilities	4.2
<b>Liabilities assumed</b>	4.2
<b>Goodwill and other intangible assets</b>	
Goodwill	5.9
Customer relationships	8.3
<b>Total</b>	14.3

## 28 SHARE-BASED PAYMENTS AND OTHER COMPENSATION PLANS

The programmes described below reflect the plan landscape as at 31 December 2016. All plans are reviewed annually to reflect any regulatory changes and/or market conditions. The Group's overall compensation landscape is described in the chapter Remuneration Report of this Annual Report.

The Group hedges its liabilities from share-based payments by purchasing the shares from the market on grant date through the LOTEKO Foundation. Until vesting, the granted shares are administered by the foundation.

### **Deferred variable compensation plans**

#### *Cash-based variable compensation –*

##### *Deferred Cash Plan*

The Deferred Cash Plan (DCP) promotes sound business activities by remaining subject to forfeiture while providing an inherently less volatile payout than shares. The DCP grant is made once a year as part of the annual variable compensation awarded to the individual concerned and participation is determined on an annual basis. These deferred cash awards vest in equal one-third tranches over a three-year plan period subject to continued employment. Where share-based plans are not permissible under local legislation, employee annual awards are fully deferred through the DCP.

#### *Equity-based variable compensation –*

##### *Premium Share Plan*

The Premium Share Plan (PSP) is designed to link a portion of the employee's variable compensation to the long-term success of the Group through its share price. A PSP grant is made once a year as part of the annual variable compensation awarded to the individual concerned and participation is determined on an annual basis. The employee is granted a number of shares equal in value to the deferred element. These shares vest in equal one-third tranches over a three-year plan period. At the end of the plan period, subject to continued employment, the employee then receives an additional share award representing a further one-third of the number of shares granted to him or her at the beginning of the plan period.

#### *Equity-based variable compensation –* *Equity Performance Plan*

The Equity Performance Plan (EPP) is a key part of the Julius Baer compensation model. One of the Compensation Committee's objectives was to create a robust long-term incentive mechanism for key employees. The EPP is an equity plan which seeks to create a retention element for key employees and to link a significant portion of the executive compensation to the future performance of the Julius Baer Group.

Eligibility for the EPP is based on various factors, which include nomination by the CEO, overall role within Julius Baer and total variable compensation. All members of the Executive Board, key employees, and employees defined as risk takers by virtue of their function within the organisation are considered for the EPP based on their specific role. The size of the grant awarded to each individual varies based on factors which include, but are not limited to, seniority, contribution to Julius Baer, defined total pay mix and level of responsibility.

The EPP is an annual rolling equity grant (made in February each year) that awards Performance Units to eligible executives subject to service and performance-based requirements. The EPP award reflects the value of the employee for the future success of the business and more closely links an individual's compensation to his or her contribution to the future performance of the Julius Baer Group.

The goal of the EPP is to incentivise participants in two ways:

- Firstly, by the nature of its construction, the ultimate value of the award to the participants fluctuates with the market value of Julius Baer shares.
- Secondly, the Performance Units are contingent on continued service and two key performance indicators (KPIs), cumulative Economic Profit (cEP) and relative Total Shareholder Return (rTSR). The service condition requires that the participant remains with Julius Baer for three

years after the grant (through a cliff-vesting mechanism). The performance of the two KPIs determines the number of shares the participant ultimately receives.

The number of shares delivered under the EPP is between 0% and 150% of the number of Performance Units granted in any given year (with each individual KPI being capped at a maximum multiplying factor of 200%). The cap serves to limit EPP awards so as to avoid any unforeseen outcome of the final EPP multiplier resulting in unintentionally high or excessive levels of compensation. A high level of performance is required to attain a maximum share delivery (creating a maximum uplift of 50% of the Performance Units granted), with low-level performance leading to potential nil compensation.

The KPI targets are set based on the strategic three-year budget/plan that is approved by the Board of Directors on an annual basis. Extremely high (and, thus, unrealistic) performance targets are avoided, so as not to incentivise excessive risk taking by executives and other managerial staff.

*Integration Incentive Award (for former Bank of America Merrill Lynch relationship managers)*  
As part of Julius Baer's integration of Bank of America Merrill Lynch's IWM business, key relationship managers from IWM were offered participation in the Integration Incentive Award (a cash- and share-based plan) which was designed to incentivise individuals to join Julius Baer and move clients and assets to the Group. In 2015, new grants under the Integration Incentive Award were solely awarded in conjunction with the final transfer of the business in India.

The Integration Incentive Award plan runs for a maximum of five years, with cash being paid out on a rolling six-month basis over the first three years and shares being delivered to participants on the fourth and fifth anniversaries of the grant date. At the end of the plan period, subject to continued employment, the employee receives an additional share award representing one-third of the number of shares granted to him or her at the beginning of the plan period.

In the event of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested cash and/or shares are forfeited.

*Incentive Share Plan (ISP, applied as part of the variable compensation for 2012)*

At the start of the plan period, 15% to 40% (the maximum deferral percentage applies to variable compensation of CHF 1 million and above or the local currency equivalent) of the executives' 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 tranches over the three-year plan period, subject to continued employment.

Participants in the ISP 2012 are granted a pre-fixed number of incentive shares, which cliff-vest at the end of the three-year plan period, subject to continued employment. The number of incentive shares granted is determined based on the number of shares from bonus deferral: members of the Executive Board were eligible for twice the number of additional shares in comparison to participants who are not members of the Executive Board.

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.

*Long-Term Incentive Plan (LTI)*

In certain specific situations the Group may also offer incentives outside the annual compensation cycle. Compensatory payments to new hires for deferred awards they have forfeited by resigning from their previous employer or retention payments to key employees during extraordinary or critical circumstances may be made by granting individuals an equity-based LTI.

An LTI granted in these circumstances generally runs over a three-year plan period. The Group currently operates two different vesting schedules for this plan: (1) three equal one-third tranches

vesting over a three-year period, (2) cliff-vesting of all granted shares in one single tranche at the end of a three-year period.

The shares are transferred to participants at the time of vesting, subject to continued employment and any other conditions set out in the plan rules. All grants made in 2015 and 2016 are free from restrictions upon vesting. In the event of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested shares are forfeited.

No LTI grants were awarded to members of the Executive Board in 2015 or 2016.

*Staff Participation Plan (SPP)*

The SPP is offered to most of the Group's global employee population. Some individuals or employees in specific locations are excluded from

participating because, for example, the employees concerned are participants in another Group equity-based plan or because the SPP cannot be offered in a particular jurisdiction for legal or regulatory reasons. Under this plan, eligible participants may voluntarily purchase Julius Baer shares at the prevailing market price and for every three shares so purchased they will receive one additional share free of charge. These free shares vest after three years, subject to continued employment. Purchases under the SPP only occur once a year.

The objective of this plan is to strengthen the employee's identification with the Group, to encourage entrepreneurial spirit, to generate greater interest in the business through ownership, and to provide employees with financial recognition for their long-term dedication to the Group.

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

	<b>31.12.2016</b>		<b>31.12.2015</b>	
	Number of units Economic Profit	Number of units Total Shareholder Return	Number of units Economic Profit	Number of units Total Shareholder Return
<b>Equity Performance Plan</b>				
Unvested units outstanding, at the beginning of the year	<b>554,532</b>	<b>554,532</b>	233,545	233,545
Granted during the year	<b>319,569</b>	<b>319,569</b>	322,455	322,455
Forfeited during the year	<b>-88,020</b>	<b>-88,020</b>	-1,468	-1,468
Unvested units outstanding, at the end of the year	<b>786,081</b>	<b>786,081</b>	554,532	554,532

	<b>31.12.2016</b>	<b>31.12.2015</b>
<b>Premium Share Plan</b>		
Unvested shares outstanding, at the beginning of the year	<b>1,148,056</b>	830,261
Granted during the year	<b>746,934</b>	734,474
Vested during the year	<b>-440,697</b>	-353,645
Forfeited during the year	<b>-95,400</b>	-63,034
Unvested shares outstanding, at the end of the year	<b>1,358,893</b>	1,148,056
Weighted average fair value per share granted (CHF)	<b>39.28</b>	43.84
Fair value of outstanding shares at the end of the year (CHF 1,000)	<b>61,463</b>	55,864

	<b>31.12.2016</b>	<b>31.12.2015</b>
<b>Incentive Share Plan</b>		
Unvested shares outstanding, at the beginning of the year	<b>472,545</b>	671,118
Vested during the year	<b>-472,545</b>	-190,629
Forfeited during the year	-	-7,944
Unvested shares outstanding, at the end of the year	-	472,545
Fair value of outstanding shares at the end of the year (CHF 1,000)	-	22,994

	Number of units Economic Profit	31.12.2015 Number of units Relative Share Price
<b>Incentive Share Plan</b>		
Unvested units outstanding, at the beginning of the year	125,781	125,781
Exercised during the year	-124,867	-124,867
Forfeited during the year	-914	-914
Unvested units outstanding, at the end of the year	-	-

	31.12.2016	31.12.2015
<b>Integration Incentive Award</b>		
Unvested shares outstanding, at the beginning of the year	714,609	751,893
Granted during the year	-	19,035
Forfeited during the year	-46,346	-56,319
Unvested shares outstanding, at the end of the year	668,263	714,609
Weighted average fair value per share granted (CHF)	-	46.79
Fair value of outstanding shares at the end of the year (CHF 1,000)	30,226	34,773

	31.12.2016	31.12.2015
<b>Long-Term Incentive Plan</b>		
Unvested shares outstanding, at the beginning of the year	376,041	390,647
Granted during the year	456,459	243,916
Vested during the year	-177,397	-197,535
Forfeited during the year	-74,842	-60,987
Unvested shares outstanding, at the end of the year	580,261	376,041
Weighted average fair value per share granted (CHF)	41.05	47.74
Fair value of outstanding shares at the end of the year (CHF 1,000)	26,245	18,298

	31.12.2016	31.12.2015
<b>Staff Participation Plan</b>		
Unvested shares outstanding, at the beginning of the year	110,266	113,384
Granted during the year	47,918	36,135
Vested during the year	-39,075	-36,099
Forfeited during the year	-3,503	-3,154
Unvested shares outstanding, at the end of the year	115,606	110,266
Weighted average fair value per share granted (CHF)	42.74	45.94
Fair value of outstanding shares at the end of the year (CHF 1,000)	5,229	5,366

Compensation expense recognised for the various participation plans are:

	31.12.2016 CHF m	31.12.2015 CHF m
<b>Compensation expense</b>		
Equity Performance Plan	22.6	13.1
Premium Share Plan	25.8	23.3
Incentive Share Plan	0.5	6.5
Integration Incentive Award	8.1	8.5
Long-Term Incentive Plan	12.0	6.9
Staff Participation Plan	1.8	1.6
<b>Total</b>	<b>70.8</b>	<b>60.0</b>



## 29 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 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 which are managed by or deposited with associates of the Group are not considered assets managed by or deposited with the Group and are therefore not included in the respective numbers.

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

**Assets under management**

	2016 CHF m	2015 CHF m	Change %
Assets with discretionary mandate	<b>54,904</b>	45,420	20.9
Other assets under management	<b>277,083</b>	253,589	9.3
Assets in collective investment schemes managed by the Group <sup>1</sup>	<b>4,174</b>	678	515.6
<b>Total assets under management (including double counting)</b>	<b>336,161</b>	299,687	12.2
<i>of which double counting</i>	<b>6,106</b>	4,884	25.0
Change through net new money	<b>11,865</b>	12,070	
Change through market and currency impacts	<b>13,395</b>	-10,413	
Change through acquisition	<b>11,267<sup>2</sup></b>	8,017 <sup>3</sup>	
Change through divestment	<b>-53</b>	-584 <sup>4</sup>	
Client assets	<b>391,620</b>	363,781 <sup>5</sup>	7.7

<sup>1</sup> Collective investment schemes in 2015 are related to GPS Investimentos Financeiros e Participações S.A., São Paulo, in 2016 additionally to Kairos Investment Management S.p.A., Milan.

<sup>2</sup> In April 2016, the Group increased its participation in Kairos Investment Management S.p.A., Milan, to 80%.  
In July 2016, the Group acquired Commerzbank International S.A. Luxembourg.

<sup>3</sup> In March 2015, the Group acquired the business of Leumi Private Bank Ltd.  
On 21 September 2015, the Group acquired the business of Merrill Lynch's International Wealth Management (IWM) in India.  
In November 2015, the Group acquired Fransad Gestion SA, Geneva.

<sup>4</sup> Relates to the asset outflow at Julius Baer Investments S.A.S., Paris, which was acquired as part of Merrill Lynch's International Wealth Management (IWM) business and that Group management decided to close.

<sup>5</sup> Excluding assets which were previously counted as assets under management and assets under custody.

### Breakdown of assets under management

	2016 %	2015 %
<b>By types of investment</b>		
Equities	27	27
Bonds (including convertible bonds)	19	19
Investment funds	24	23
Money market instruments	6	4
Client deposits	17	21
Structured products	5	5
Other	2	1
<b>Total</b>	<b>100</b>	<b>100</b>
<b>By currencies</b>		
CHF	11	12
EUR	22	21
USD	45	46
GBP	4	4
SGD	2	2
HKD	3	3
RUB	1	-
CAD	1	1
Other	11	11
<b>Total</b>	<b>100</b>	<b>100</b>

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.

## 30 ACQUISITION OF MERRILL LYNCH'S INTERNATIONAL WEALTH MANAGEMENT BUSINESS

### Transaction summary

On 13 August 2012, the Group announced to acquire Merrill Lynch's International Wealth Management (IWM) business outside the US from Bank of America. The acquisition was structured as a combination of legal entity acquisitions and business transfers. Principal closing occurred on 1 February 2013. Since then, legal entity purchases and asset transfers have happened during the integration period which ended in the first quarter of 2015. However, the final transfers in India were completed in the second half of 2015.

The income and expenses related to the AuM which are booked with the Group were recorded according to the Group's accounting policies. In addition, the Group received from Merrill Lynch & Co., Inc. the revenues related to the AuM reported (i.e. the AuM transferred to the Group but not yet booked by the Group) and was charged with platform and other central service costs by Merrill Lynch & Co., Inc. These revenues were recognised in commission income with the related cost expensed through other general expenses. Any other expenses were also recorded according to the Group's accounting policies.

### Purchase price

The consideration payable in USD to Merrill Lynch & Co., Inc. was 1.2% of AuM, payable as and when AuM were transferred to a Julius Baer booking platform. In addition, the Group paid CHF-for-CHF for any net asset value of the companies and businesses that were transferred in the acquisition, as and when the companies and businesses to which the net asset value was attributable were transferred.

### Financing of the transaction

The Group put the following funding in place:

- the issuance of the consideration shares out of authorised share capital to Merrill Lynch & Co., Inc. in the amount of CHF 243 million at a predetermined share price;
- the issuance of shares through a public rights offering in the amount of CHF 492 million in October 2012;

- existing excess capital in the amount of CHF 488 million; and
- the issuance of perpetual tier 1 subordinated bonds in the amount of CHF 250 million in September 2012.

Consideration was transferred as follows:

- first USD 150 million in cash;
- subsequent USD 500 million payable 50% in cash and 50% in shares of Julius Baer Group Ltd.; and
- remainder in cash.

### Final status as at 31 December 2015

As at 31 December 2015, AuM in the amount of CHF 58.6 billion (fair value as of the respective acquisition date) have been booked with the Group, whereof CHF 2.3 billion have been reclassified to assets under custody.

The transaction resulted in the recognition of goodwill and intangible assets (customer relationships) in the amount of CHF 813.2 million. This amount consists of the following components:

- the contractual consideration of 1.2% of the AuM booked;
- adjustments due to the remeasurement to fair value of the assets acquired and the liabilities assumed in the process of the purchase price allocation;
- the increase in the fair value as compared to the contractually agreed value of USD 35.20 for the shares of Julius Baer Group Ltd. provided as part of the consideration; and
- foreign exchange fluctuations.

Therefore, the purchase price of CHF 982.1 million was paid for goodwill and intangible assets and net asset values of the acquired legal entities.

The legal entities as well as the business acquired have been fully integrated into the existing Group structure (including rebranding of the continued legal entities).

The assets and liabilities of the acquired IWM entities and businesses were recorded as follows:

	Fair value CHF m
<b>Purchase price</b>	
in cash	690.5
in shares of Julius Baer Group Ltd.	291.6
<b>Total</b>	982.1
<b>Assets acquired</b>	
Cash	271.5
Due from banks	8,298.0
Loans <sup>1</sup>	4,000.5
Deferred tax assets	0.1
All other assets	158.3
<b>Total</b>	12,728.4
<b>Liabilities assumed</b>	
Due to banks	3,589.5
Due to customers	8,726.5
Deferred tax liabilities	26.6
All other liabilities	217.0
<b>Total</b>	12,559.5
<b>Goodwill and other intangible assets related to legal entity acquisitions and to business transfers</b>	
Goodwill	481.0
Customer relationships	332.2
<b>Total</b>	813.2

<sup>1</sup> At the acquisition dates, the gross contractual amount of loans acquired was CHF 4,000.5 million.

### 31 REQUIREMENTS OF SWISS BANKING LAW

The Group is subject to supervision by the Swiss Financial Market Supervisory Authority (FINMA), which requires Switzerland-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 based on the regulations of the Swiss Code of Obligation, on Swiss Banking Law and the Ordinance thereto, and on the guidelines of the FINMA Circular 2015/1 'Accounting Banks'.

The following main differences exist between IFRS and Swiss GAAP (true and fair view) which are relevant to the Group:

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.

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

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.

Swiss GAAP allows the application of IAS 19 for the accounting for defined benefit plans. However, the remeasurement of the net defined benefit liability is recognised in the income statement and comprises movements in actuarial gains and losses and return on plan assets (excluding net interest cost). Under IFRS, these components are recognised directly in equity.

### 32 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 2016 financial year.

# REPORT OF THE STATUTORY AUDITOR TO THE ANNUAL GENERAL MEETING OF JULIUS BAER GROUP LTD., ZURICH



## Statutory Auditor's Report

To the General Meeting of Julius Baer Group Ltd., Zurich

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of Julius Baer Group Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated income statement and statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 78 to 188) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

#### Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters



Goodwill impairment testing



Litigation and regulatory proceedings



Valuation of financial instruments



Impairment of loans

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



## Goodwill impairment testing

### Key Audit Matter

As at 31 December 2016, the Group recognises goodwill of CHF 2,071.3m arising from a number of historic and recent acquisitions.

Due to the significance of the Group's recognised goodwill and the inherent uncertainty of forecasting and discounting future cash flows, this is deemed to be a significant area of judgment.

Goodwill impairment testing is performed at the level of cash generating units ('CGUs') and relies on estimates of value-in-use based on discounted future cash flows.

Uncertainty is typically highest for those CGUs where headroom between value-in-use and carrying value is limited and where the value-in-use is most sensitive to estimates of future cash flows and other key assumptions.

### Our response

Our procedures included the assessment of the Group's process and key controls for the testing of goodwill impairment, including the assumptions used.

We tested key assumptions forming the Group's value-in-use calculations, including the cash flow projections and discount rates. We assessed the reasonableness of cash flow projections and compared key inputs, such as the discount rates and growth rates, to externally available industry, economic and financial data and the Group's own historical data and performance.

With the assistance of our own valuation specialists, we critically assessed the assumptions and methodologies used to determine the value-in-use for those CGUs where significant goodwill was found to be sensitive to changes in those assumptions. On an overall basis, we also evaluated the aggregate values-in-use determined by the Group to its market capitalisation.

Additionally, we considered whether the Group's disclosures of the application of judgment in estimating key assumptions and the sensitivity of the results of those estimates adequately reflect the risk associated with goodwill impairment.

For further information on goodwill impairment testing, also refer to note 12 to the consolidated financial statements on pages 132 to 134.



## Litigation and regulatory proceedings

### Key Audit Matter

As at 31 December 2016, the Group recognizes provisions for legal risks of CHF 20.2m arising from litigation and regulatory proceedings (together 'legal and regulatory matters').

The Group is involved in a number of legal and regulatory matters which could have a material effect on the Group but do not qualify for the recognition of a provision. These matters are disclosed as contingent liabilities.

The recognition and measurement of provisions and the measurement and disclosure of contingent

### Our response

Our procedures included the assessment of key controls over the identification, evaluation and measurement of potential obligations arising from legal and regulatory matters.

We paid particular attention to significant matters that experienced notable developments or that emerged during the period. For matters identified, we considered whether an obligation exists, the appropriateness of provisioning and/or disclosure based on the facts and circumstances available.

In order to assess the facts and circumstances, we obtained and assessed the relevant regulatory and litigation documents and interviewed the Group's internal and external legal counsels. We also critically





liabilities in respect of legal and regulatory matters requires significant judgment.

assessed the assumptions made and key judgments applied and considered possible alternative outcomes.

Additionally we considered whether the Group's disclosures of the application of judgment in estimating provisions and contingent liabilities adequately reflected the uncertainties associated with legal and regulatory matters.

For further information on litigation and regulatory proceedings, also refer to note 18 to the consolidated financial statements on pages 141 to 144.



#### Valuation of financial instruments

##### Key Audit Matter

As at 31 December 2016, the Group reports financial assets of CHF 28,471.7m and financial liabilities of CHF 10,888.7m measured at fair value representing 29.6% and 12.0% of total assets and total liabilities respectively.

Due to the significance of such financial instruments to the balance sheet and the degree of complexity involved, there is estimation uncertainty with regard to the valuation of financial instruments.

The fair value of financial instruments that are traded in an active market is determined based on quoted market prices. The exercise of judgment and the use of estimates and assumptions is in particular required for instruments where observable market prices or market parameters are not available. For such instruments the fair value is determined through the use of valuation techniques or models applied by the Group.

##### Our response

Our procedures included the assessment of key controls over the identification, measurement and management of valuation risk, as well as evaluating the methodologies and input parameters used by the Group in determining fair values.

For the Group's fair value models, we involved our own valuation specialists to assess the appropriateness of the models and inputs. We further compared observable inputs against independent sources and externally available market data and re-performed independent valuations for a sample of instruments with the assistance of our own valuation specialists.

Additionally, we assessed whether the fair value determination is appropriately disclosed.

For further information on the valuation of financial instruments, also refer to notes 25B and 25C to the consolidated financial statements on pages 159 to 163.



#### Impairment of loans

##### Key Audit Matter

As at 31 December 2016, the Group reports loans of CHF 38,490.8m representing 40.0% of total assets and records allowances for credit losses of CHF 71.8m.

Loans are measured at amortised cost considering any impairment losses. The impairment of loans is estimated through the application of judgment and use of assumptions. This particularly applies to the

##### Our response

Our procedures included the assessment of key controls over the approval, recording and monitoring of loans and an evaluation of the methodologies, inputs and assumptions used by the Group to assess the adequacy of impairment allowances for individually assessed loans.

For a sample of loans with specific allowances for credit losses we evaluated the Group's individual



specific allowances measured on an individual basis for credit losses established for impaired loan amounts.

The portfolios which give rise to the greatest uncertainty are typically those with concentration risks in collaterals that are potentially more sensitive to global economic trends.

impairment assessment and specifically challenged the Group's assumptions used, including the value of realisable collateral and the estimated recoverability. Based on a retrospective review, we further critically assessed whether the Group revised its estimates and assumptions for specific allowances established in prior year.

We also tested a sample of individually significant exposures which had not been identified as potentially impaired by the Group and assessed whether appropriate consideration was given to the collectability of future cash flows and the valuation of the underlying collaterals.

For further information on impairment of loans, also refer to notes 9B, 9C and 9D to the consolidated financial statements on pages 128 to 129.

#### **Other Information in the Annual Report**

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Responsibility of the Board of Directors for the Consolidated Financial Statements**

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

#### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



### Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the 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

A handwritten signature in dark ink, appearing to read 'Rickert'.

Philipp Rickert  
Licensed Audit Expert  
Auditor in Charge

A handwritten signature in dark ink, appearing to read 'Castagna'.

Cataldo Castagna  
Licensed Audit Expert

Zürich, 31 January 2017



## IV. FINANCIAL STATEMENTS JULIUS BAER GROUP LTD. 2016

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## INCOME STATEMENT

	2016 CHF m	2015 CHF m
Interest income	37.6	21.4
Interest expense	46.8	49.4
Result from interest	-9.2	-28.0
Income from participations	457.7	115.4
Revaluation of participations	12.9	6.0
Depreciation of participations	99.7	131.3
Result from participations	371.0	-9.9
Other ordinary income	101.3	104.9
Other ordinary expense	15.2	-
<b>Operating income</b>	<b>447.9</b>	<b>67.0</b>
Personnel expenses	16.0	15.7
General expenses	23.5	25.1
<b>Operating expenses</b>	<b>39.5</b>	<b>40.8</b>
<b>Gross profit</b>	<b>408.3</b>	<b>26.2</b>
Extraordinary income	0.0	2.7
Taxes	2.4	6.6
<b>Net profit</b>	<b>406.0</b>	<b>22.3</b>

## BALANCE SHEET

	31.12.2016 CHF m	31.12.2015 CHF m
<b>Assets</b>		
Due from banks	772.1	604.6
Other assets	33.5	27.9
Accrued income and prepaid expenses	263.7	123.7
<b>Total current assets</b>	<b>1,069.2</b>	<b>756.3</b>
Other financial investments	480.3	480.3
Participations	4,132.4	3,749.5
<b>Total non-current assets</b>	<b>4,612.7</b>	<b>4,229.8</b>
<b>Total assets</b>	<b>5,681.9</b>	<b>4,986.0</b>
Due from Group companies	1,270.3	1,085.5
<b>Liabilities and equity</b>		
Interest-bearing liabilities	564.0	-
Accrued expenses and deferred income	36.5	35.6
<b>Total short-term liabilities</b>	<b>600.5</b>	<b>35.6</b>
Debt issued	1,145.2	1,167.5
Other liabilities	15.0	21.6
<b>Total long-term liabilities</b>	<b>1,160.2</b>	<b>1,189.1</b>
<b>Total liabilities</b>	<b>1,760.8</b>	<b>1,224.7</b>
Share capital	4.5	4.5
Statutory capital reserve	1,851.9	2,098.0
<i>of which tax-exempt capital contribution reserve</i>	<i>1,851.9</i>	<i>2,098.0</i>
Statutory retained earnings reserve	271.1	230.2
<i>of which reserve for treasury shares</i>	<i>270.2</i>	<i>229.4</i>
Voluntary retained earnings reserve	1,386.1	1,403.8
Profit carried forward	1.7	2.5
Net profit	406.0	22.3
<b>Total equity</b>	<b>3,921.1</b>	<b>3,761.3</b>
<b>Total liabilities and equity</b>	<b>5,681.9</b>	<b>4,986.0</b>
Due to Group companies	564.0	-

## NOTES

	<b>31.12.2016</b> <i>CHF m</i>	31.12.2015 <i>CHF m</i>
<b>Contingent liabilities</b>		
Surety and guarantee obligations and assets pledged in favour of third parties	<b>2,759.1</b>	2,455.1

## BASIS OF ACCOUNTING

The stand-alone financial statements of Julius Baer Group Ltd. are prepared in accordance with the guidelines of the Swiss Code of Obligations.

The financial statements 2015 were prepared for the first time according to the revised Swiss Code of Obligation.

## PARTICIPATIONS

Refer to the consolidated financial statements, Note 26A, for a complete list of the participations.

The participations are measured based on the principle of individual evaluation. For the material or strategic participations, a multiple method based on prices to assets under management is applied. For smaller participations, the net asset value according to IFRS is used.

Income from participations is recorded based on an economic standpoint, i.e. at the same time as the corresponding income is recorded at the subsidiary.

## STATUTORY CAPITAL RESERVE

The statutory capital reserve represents the additional proceeds (premium) received from the issue of shares by Julius Baer Group Ltd. The redemption of this statutory capital reserve is exempt from taxation, similar to the share capital.

## TREASURY SHARES

In the statutory financial statements of Julius Baer Group Ltd., treasury shares held by Julius Baer Group Ltd. itself are deducted directly from equity. For treasury shares held by other Group companies, a reserve for treasury shares is stated in equity.

While Julius Baer Group Ltd. did not hold any treasury shares in 2016 and 2015, different Group entities held 6,346,886 treasury shares in 2016 (2015: 5,269,422).

## DEBT ISSUED

Refer to the consolidated financial statements, Note 16, for a complete list of the debt issued.

Debts issued are recorded at nominal value. Any agios are recognised in other liabilities and amortised up to the maturity date or the first possible redemption date, respectively.

## AUTHORISED CAPITAL

Refer to consolidated financial statements, Note 19.



## NOTES

## FEES PAID TO AUDITOR

	2016 CHF m	2015 CHF m
<b>Fees paid to auditor</b>		
Audit services	1.2	1.3
Other services	0.1	0.3
<b>Total</b>	<b>1.3</b>	<b>1.5</b>

## SHARE-BASED PAYMENTS

	Number Equity securities	2016 Value Equity securities CHF m	Number Equity securities	2015 Value Equity securities CHF m
<b>Equity plans</b>				
Total granted during the year	34,750	1.4	27,052	1.4
of which members of executive bodies	33,975	1.4	25,870	1.3
of which employees	775	0.0	1,182	0.1

	Number Units	2016 Value Units CHF m	Number Units	2015 Value Units CHF m
<b>Plans based on units</b>				
Total granted during the year	45,806	1.7	53,669	2.1
of which members of executive bodies	40,131	1.5	48,249	1.9
of which employees	5,675	0.2	5,420	0.2

## NOTES

## FULL-TIME EQUIVALENTS

The annual average number of full-time equivalents for the reporting year, as well as the previous year, did not exceed 50.

## SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

There are no events to report that had an influence on the balance sheet or income statement for the 2016 financial year.

SIGNIFICANT SHAREHOLDERS/  
PARTICIPANTS

Based on notifications received by Julius Baer Group Ltd., each of the following shareholders/participants held 3% or more of the voting rights in Julius Baer Group Ltd. as at 31 December 2016<sup>1</sup>:

Shareholder/participant <sup>3</sup>	Disclosure of purchase positions <sup>2</sup>	Disclosure of sale positions <sup>2</sup>
MFS Investment Management <sup>4</sup>	9.98%	
Harris Associates L.P. <sup>5</sup>	4.95%	
BlackRock, Inc. <sup>6</sup>	4.51%	0.0400%
Bank of America Corporation <sup>7</sup>	3.76%	
Wellington Management Group LLP <sup>8</sup>	3.06%	
Invesco Ltd. <sup>9</sup>	3.02%	

<sup>1</sup> 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. Please note that the above figures are based on reports made before respectively after the following events: a) capital increase by way of rights offering completed on 17 October 2012 with the issuance of 20,316,285 newly registered shares of Julius Baer Group Ltd.; b) capital increase out of authorised share capital completed on 24 January 2013 with the issuance of 7,102,407 newly registered shares of Julius Baer Group Ltd.

<sup>2</sup> 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).  
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).  
The implementing provisions on disclosure law have been integrated into the new FINMA Financial Market Infrastructure Ordinance (FMIO-FINMA), which has entered into force on 1 January 2016. Purchase positions must be disclosed pursuant to art. 14 para. 1 a FMIO-FINMA and sales positions pursuant to art. 14 para. 1 b FMIO-FINMA.

<sup>3</sup> Please note that a change in the holding of voting rights within reportable thresholds does not trigger a notification duty. Further details on individual shareholdings can be found on [www.juliusbaer.com/shareholders](http://www.juliusbaer.com/shareholders) or on [www.six-exchange-regulation.com](http://www.six-exchange-regulation.com) in the section Publications > Significant Shareholders, Issuer Julius Bär Gruppe AG.

<sup>4</sup> MFS Investment Management, Boston/USA, and its subsidiaries (reported on 30 December 2013)

<sup>5</sup> Harris Associates L.P., Chicago/USA (reported on 30 November 2016)

<sup>6</sup> BlackRock, Inc., New York/USA, and its subsidiaries (reported on 22 July 2016)

<sup>7</sup> Bank of America Corporation, Charlotte/USA, and its directly and indirectly held subsidiaries (reported on 16 August 2012)

<sup>8</sup> Wellington Management Group LLP, Boston/USA (reported on 22 November 2016)

<sup>9</sup> Invesco Ltd., Hamilton/Bermuda (reported on 25 January 2016)

## SHAREHOLDINGS OF THE BOARD OF DIRECTORS AND EXECUTIVE BOARD

Number of shares

### Shareholdings of the members of the Board of Directors<sup>1</sup>

Daniel J. Sauter – Chairman	<b>2016</b>	<b>172,495</b>
	2015	155,128
Gilbert Achermann	<b>2016</b>	<b>9,705</b>
	2015	7,715
Ann Almeida (joined the Board in 2016)	<b>2016</b>	<b>-</b>
	2015	n.a.
Andreas Amschwand	<b>2016</b>	<b>9,705</b>
	2015	7,715
Heinrich Baumann	<b>2016</b>	<b>15,432</b>
	2015	13,442
Paul Man Yiu Chow (joined the Board in 2015)	<b>2016</b>	<b>1,990</b>
	2015	-
Claire Giraut	<b>2016</b>	<b>18,995</b>
	2015	17,005
Gareth Penny	<b>2016</b>	<b>20,105</b>
	2015	20,715
Charles G. T. Stonehill	<b>2016</b>	<b>20,365</b>
	2015	18,375
<b>Total</b>	<b>2016</b>	<b>268,792</b>
<b>Total</b>	2015	240,095

<sup>1</sup> Including shareholdings of related parties

None of the Board members held any option positions on Julius Baer Group Ltd. shares as at year-end 2016 and 2015.

Share ownership guidelines for the members of the Board of Directors and the members of the Executive Board were introduced with effect from 2014.

The Chairman of the Board of Directors is required to build up and maintain 25,000 vested shares of Julius Baer Group Ltd., the other members of the Board 7,500 each, respectively.

The targeted number of Julius Baer Group Ltd. shares has to be built up over a period of three years following election (and reached at year-end of the respective year) and maintained until the Board member leaves the Board of Directors.

Board members who were elected and/or re-elected in 2014 (i.e. all Board members except for Paul Man Yiu Chow and Ann Almeida) are required to reach the targeted number of shares by year-end 2017. Paul Man Yiu Chow is required to reach the targeted number of shares by year-end 2018 and Ann Almeida by year-end 2019, respectively.

Number of shares

**Shareholdings of the members of the Executive Board<sup>1</sup>**

Boris F.J. Collardi, Chief Executive Officer	<b>2016</b>	<b>260,253</b>
	2015	205,882
Dieter A. Enkelmann, Chief Financial Officer	<b>2016</b>	<b>86,000</b>
	2015	87,719
Jan A. Bielinski, Chief Communications Officer	<b>2016</b>	<b>34,896</b>
	2015	33,511
Giovanni M.S. Flury, Business Representative (member of the Executive Board January–December 2016)	<b>2016</b>	-
	2015	n.a.
Gregory F. Gatesman, Chief Operating Officer (left the Executive Board at the end of 2016)	<b>2016</b>	-
	2015	6,000
Christoph Hiestand, General Counsel	<b>2016</b>	<b>14,100</b>
	2015	9,469
Bernhard Hodler, Chief Risk Officer	<b>2016</b>	<b>30,000</b>
	2015	43,632
<b>Total</b>	<b>2016</b>	<b>425,249</b>
Total	2015	386,213

<sup>1</sup> Including shareholdings of related parties

None of the members of the Executive Board held any option positions on Julius Baer Group Ltd. shares as at year-end 2016 and 2015.

Share ownership guidelines for the members of the Board of Directors and the members of the Executive Board were introduced with effect from 2014.

The CEO is required to build up and maintain 100,000 vested shares of Julius Baer Group Ltd., the other members of the Executive Board the lower of 2.5 times the base salary or 30,000 shares.

The targeted number of Julius Baer Group Ltd. shares has to be built up over a period of three years (and reached at year-end of the respective year) and maintained until the Executive Board member leaves his/her current position and/or the Julius Baer Group.

## PROPOSAL OF THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING ON 12 APRIL 2017

The Board of Directors proposes to the Annual General Meeting that the disposable profit for the 2016 financial year of CHF 407,660,882, consisting of net profit for the financial year in the amount of CHF 405,992,557 plus CHF 1,668,325 of profit carried forward, be distributed as follows:

- Allocation to voluntary retained earnings reserve:  
CHF 400,000,000
- Profit carried forward:  
CHF 7,660,882
- Dividend of CHF 1.20  
per share at CHF 0.02 par value
- Total dividends on the 223,809,448 shares  
entitled to dividends:  
CHF 268,571,338  
Total distribution, fully charged to statutory  
capital reserve

## DIVIDENDS

## DIVIDENDS

	Gross CHF	35% withholding tax CHF	Net CHF
<b>On approval of this proposal, the dividends amount to:</b>			
Dividend per share	1.20	-	1.20

The dividends will be paid from 18 April 2017.

On behalf of the Board of Directors

The Chairman



Daniel J. Sauter

# REPORT OF THE STATUTORY AUDITOR TO THE ANNUAL GENERAL MEETING OF JULIUS BAER GROUP LTD., ZÜRICH



## Statutory Auditor's Report

To the General Meeting of Julius Baer Group Ltd., Zurich

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Julius Baer Group Ltd., which comprise the balance sheet as at 31 December 2016, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 196 to 202) for the year ended 31 December 2016 comply with Swiss law and the company's articles of incorporation.

#### Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority



#### Valuation of participations

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



## Valuation of participations

### Key Audit Matter

As at 31 December 2016, the Company reports participations of CHF 4,132.4m. Participations consist of a portfolio of subsidiaries in the banking and financial services industry.

Participations are valued at a maximum of the acquisition costs less necessary value adjustments, taking into account the general principle of individual valuation. Participations are subject to annual impairment testing.

Although these participations are not considered to represent a higher risk of a material misstatement, their valuation is of significance due to their materiality in the context of the financial statements as a whole.

### Our response

Our procedures included the assessment of the investment valuation process. We evaluated the valuation methodology applied by referencing to accounting standards and industry practice and tested the techniques used to determine the value in use of the participations.

For the most significant participations where valuation methodologies were used, we recalculated the valuations and agreed the data inputs with available market information. For less significant participations where we had indications of possible impairment, we assessed their recoverability by comparing the carrying amount to their net asset value.

For further information on participations, also refer to the notes to the financial statements on page 198.

### Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.





As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the 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

Philipp Rickert  
Licensed Audit Expert  
Auditor in Charge

Cataldo Castagna  
Licensed Audit Expert

Zürich, 31 January 2017

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zürich

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## CORPORATE CONTACTS

### **Group Communications**

Jan A. Bielinski  
Chief Communications Officer  
Telephone +41 (0) 58 888 5777

### **Investor Relations**

Alexander C. van Leeuwen  
Telephone +41 (0) 58 888 5256

### **International Banking Relations**

Kaspar H. Schmid  
Telephone +41 (0) 58 888 5497



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JULIUS BAER GROUP LTD.  
Bahnhofstrasse 36  
P.O. Box  
8010 Zurich  
Switzerland  
Telephone +41 (0) 58 888 1111  
Fax +41 (0) 58 888 5517  
[www.juliusbaer.com](http://www.juliusbaer.com)

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is present in more than  
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including Zurich (Head Office),  
Dubai, Frankfurt, Geneva,  
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**ANNEX C**  
**JULIUS BAER GROUP LTD. HALF-YEAR REPORT 2017**



# Julius Bär

## HALF-YEAR REPORT 2017

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JULIUS BAER GROUP LTD.









## HALF-YEAR REPORT 2017 JULIUS BAER GROUP LTD.

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<b>3</b>	CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
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This Half-year Report also appears in German. The English version is prevailing.

## CONSOLIDATED INCOME STATEMENT

	Note	H1 2017 CHF m	H1 2016 CHF m	H2 2016 CHF m	Change to H1 2016 in %
Interest and dividend income		<b>651.9</b>	596.4	447.4	9.3
Interest expense		<b>85.6</b>	86.4	80.4	-0.9
Net interest and dividend income	1	<b>566.3</b>	510.0	367.1	11.0
Commission and fee income		<b>1,034.8</b>	835.8	935.3	23.8
Commission expense		<b>113.0</b>	96.5	109.6	17.1
Net commission and fee income	2	<b>921.8</b>	739.3	825.7	24.7
Net trading income	3	<b>90.0</b>	117.6	214.9	-23.4
Other ordinary results		<b>13.7</b>	57.7	20.2	-76.3
<b>Operating income</b>		<b>1,591.8</b>	1,424.6	1,427.8	11.7
Personnel expenses	4	<b>764.3</b>	632.1	703.8	20.9
General expenses	5	<b>311.4</b>	287.5	335.7	8.3
Depreciation of property and equipment		<b>19.7</b>	17.9	19.8	10.4
Amortisation of customer relationships		<b>36.3</b>	34.8	33.7	4.3
Amortisation and impairment of other intangible assets		<b>21.2</b>	12.4	22.2	70.8
<b>Operating expenses</b>		<b>1,153.0</b>	984.7	1,115.2	17.1
<b>Profit before taxes</b>		<b>438.9</b>	439.9	312.7	-0.2
Income taxes		<b>82.0</b>	77.7	52.7	5.5
<b>Net profit</b>		<b>356.8</b>	362.1	260.0	-1.5
Attributable to:					
Shareholders of Julius Baer Group Ltd.		<b>353.2</b>	361.8	257.5	-2.4
Non-controlling interests		<b>3.7</b>	0.3	2.4	-
		<b>356.8</b>	362.1	260.0	-1.5
<b>Share information</b>					
Basic earnings per share (EPS)		<b>1.63</b>	1.66	1.18	-2.2
Diluted earnings per share (EPS)		<b>1.63</b>	1.66	1.18	-2.0

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	H1 2017 CHF m	H1 2016 CHF m	H2 2016 CHF m	Change to H1 2016 in %
<b>Net profit recognised in the income statement</b>	<b>356.8</b>	362.1	260.0	-1.5
Other comprehensive income (net of taxes):				
<b>Items that may be reclassified to the income statement</b>				
Net unrealised gains/(losses) on financial investments available-for-sale	<b>37.6</b>	179.5	-159.7	
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	<b>2.9</b>	2.1	5.7	
Translation differences	<b>-10.0</b>	15.8	7.0	
Realised (gains)/losses on translation differences reclassified to the income statement	-	-0.0	-	
<b>Items that will not be reclassified to the income statement</b>				
Remeasurement of defined benefit obligation	<b>37.1</b>	-41.2	60.1	
<b>Other comprehensive income</b>	<b>67.6</b>	156.2	-87.0	
<b>Total comprehensive income</b>	<b>424.5</b>	518.3	173.0	
Attributable to:				
Shareholders of Julius Baer Group Ltd.	<b>420.7</b>	515.0	170.7	
Non-controlling interests	<b>3.8</b>	3.3	2.3	
	<b>424.5</b>	518.3	173.0	

## CONSOLIDATED BALANCE SHEET

	Note	30.06.2017 CHF m	31.12.2016 CHF m	30.06.2016 CHF m
<b>Assets</b>				
Cash		<b>12,085.3</b>	13,599.5	11,956.7
Due from banks	6	<b>6,855.1</b>	11,389.8	8,180.1
Loans	6	<b>40,733.4</b>	38,419.0	36,723.3
Trading assets		<b>10,287.4</b>	7,660.7	7,309.3
Derivative financial instruments		<b>2,035.0</b>	2,690.9	2,128.1
Financial assets designated at fair value		<b>255.0</b>	252.4	197.5
Financial investments available-for-sale	7	<b>16,335.5</b>	18,266.6	17,396.8
Investments in associates		<b>29.4</b>	29.4	28.2
Property and equipment		<b>363.8</b>	373.8	369.3
Goodwill and other intangible assets		<b>2,846.1</b>	2,834.3	2,783.8
Accrued income and prepaid expenses		<b>337.2</b>	327.2	358.8
Deferred tax assets		<b>26.9</b>	28.8	27.1
Other assets		<b>960.8</b>	335.0	291.7
<b>Total assets</b>		<b>93,150.8</b>	96,207.2	87,750.7

	Note	30.06.2017 CHF m	31.12.2016 CHF m	30.06.2016 CHF m
<b>Liabilities and equity</b>				
Due to banks		<b>6,089.5</b>	10,076.8	6,916.9
Due to customers		<b>65,763.3</b>	67,495.2	64,578.4
Trading liabilities		<b>195.3</b>	159.0	171.8
Derivative financial instruments		<b>2,223.4</b>	2,285.3	2,331.5
Financial liabilities designated at fair value		<b>11,201.7</b>	8,444.4	6,166.7
Debt issued	9	<b>1,253.6</b>	1,213.5	1,244.5
Accrued expenses and deferred income		<b>487.1</b>	620.3	431.2
Current tax liabilities		<b>109.8</b>	123.0	74.3
Deferred tax liabilities		<b>87.2</b>	77.8	86.6
Provisions	10	<b>23.0</b>	23.0	30.6
Other liabilities		<b>289.4</b>	335.1	546.7
<b>Total liabilities</b>		<b>87,723.3</b>	90,853.4	82,579.2
Share capital		<b>4.5</b>	4.5	4.5
Retained earnings		<b>5,906.6</b>	5,840.4	5,562.4
Other components of equity		<b>-184.1</b>	-251.6	-164.7
Treasury shares		<b>-320.9</b>	-263.1	-268.2
Equity attributable to shareholders of Julius Baer Group Ltd.		<b>5,406.1</b>	5,330.2	5,134.0
Non-controlling interests		<b>21.4</b>	23.6	37.6
<b>Total equity</b>		<b>5,427.5</b>	5,353.9	5,171.5
<b>Total liabilities and equity</b>		<b>93,150.8</b>	96,207.2	87,750.7

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital CHF m	Retained earnings <sup>1</sup> CHF m
At 1 January 2016	4.5	5,467.8
Net profit	-	361.8
Items that may be reclassified to the income statement	-	-
Items that will not be reclassified to the income statement	-	-
Total comprehensive income	-	361.8
Changes in non-controlling interests	-	-23.4 <sup>2</sup>
Dividends	-	-246.2
Dividend income on own shares	-	6.2
Share-based payments expensed	-	35.1
Share-based payments vested	-	-39.6
Changes in derivatives on own shares	-	-1.4
Acquisitions of own shares	-	-
Disposals of own shares	-	2.0
At 30 June 2016	4.5	5,562.4
At 1 July 2016	4.5	5,562.4
Net profit	-	257.5
Items that may be reclassified to the income statement	-	-
Items that will not be reclassified to the income statement	-	-
Total comprehensive income	-	257.5
Changes in non-controlling interests	-	-
Share-based payments expensed	-	35.7
Share-based payments vested	-	-9.8
Changes in derivatives on own shares	-	1.2
Acquisitions of own shares	-	-
Disposals of own shares	-	-6.5
At 31 December 2016	4.5	5,840.4
<b>At 1 January 2017</b>	<b>4.5</b>	<b>5,840.4</b>
Net profit	-	353.2
Items that may be reclassified to the income statement	-	-
Items that will not be reclassified to the income statement	-	-
Total comprehensive income	-	353.2
Dividends	-	-268.6
Dividend income on own shares	-	7.0
Share-based payments expensed	-	44.5
Share-based payments vested	-	-69.8
Changes in derivatives on own shares	-	1.1
Acquisitions of own shares	-	-
Disposals of own shares	-	-1.2
<b>At 30 June 2017</b>	<b>4.5</b>	<b>5,906.6</b>

<sup>1</sup> Retained earnings include the capital reserves of Bank Julius Baer & Co. Ltd. and the statutory capital reserve/retained earnings reserves of Julius Baer Group Ltd.

<sup>2</sup> Related to the acquisition of GPS Investimentos Financeiros e Participações S.A. and Julius Bär Wealth Management AG.

<sup>3</sup> Related to the acquisition of GPS Investimentos Financeiros e Participações S.A., Julius Bär Wealth Management AG and Kairos Investment Management SpA.

<sup>4</sup> Related to the acquisition of Kairos Investment Management SpA.

Other components of equity						
Financial investments available-for-sale, net of taxes CHF m	Remeasurement of defined benefit obligation CHF m	Translation differences CHF m	Treasury shares CHF m	Equity attributable to shareholders of Julius Baer Group Ltd. CHF m	Non-controlling interests CHF m	Total equity CHF m
23.1	-221.4	-119.6	-218.9	4,935.6	6.4	4,942.0
-	-	-	-	361.8	0.3	362.1
181.5	-	12.7	-	194.3	3.0	197.3
-	-41.2	-	-	-41.2	-	-41.2
181.5	-41.2	12.7	-	515.0	3.3	518.3
-	-	-	-	-23.4	29.9 <sup>3</sup>	6.5
-	-	-	-	-246.2	-2.1	-248.3
-	-	-	-	6.2	-	6.2
-	-	-	-	35.1	-	35.1
-	-	-	39.6	-	-	-
-	-	-	-9.5	-10.8	-	-10.8
-	-	-	-182.0	-182.0	-	-182.0
-	-	-	102.5	104.5	-	104.5
204.6	-262.5	-106.9	-268.2	5,134.0	37.6	5,171.5
204.6	-262.5	-106.9	-268.2	5,134.0	37.6	5,171.5
-	-	-	-	257.5	2.4	260.0
-154.0	-	7.1	-	-147.0	-0.1	-147.0
-	60.1	-	-	60.1	-0.1	60.1
-154.0	60.1	7.1	-	170.7	2.3	173.0
-	-	-	-	-	-16.2 <sup>4</sup>	-16.2
-	-	-	-	35.7	-	35.7
-	-	-	9.8	-	-	-
-	-	-	6.0	7.2	-	7.2
-	-	-	-123.8	-123.8	-	-123.8
-	-	-	113.0	106.5	-	106.5
50.6	-202.4	-99.8	-263.1	5,330.2	23.6	5,353.9
50.6	-202.4	-99.8	-263.1	5,330.2	23.6	5,353.9
-	-	-	-	353.2	3.7	356.8
40.5	-	-10.1	-	30.5	0.1	30.6
-	37.0	-	-	37.0	0.0	37.1
40.5	37.0	-10.1	-	420.7	3.8	424.5
-	-	-	-	-268.6	-6.0	-274.6
-	-	-	-	7.0	-	7.0
-	-	-	-	44.5	-	44.5
-	-	-	69.8	-	-	-
-	-	-	4.7	5.7	-	5.7
-	-	-	-219.0	-219.0	-	-219.0
-	-	-	86.7	85.4	-	85.4
91.2	-165.4	-109.9	-320.9	5,406.1	21.4	5,427.5

## CONSOLIDATED STATEMENT OF CASH FLOWS

	30.06.2017 CHF m	30.06.2016 <sup>1</sup> CHF m
Net profit	356.8	362.1
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	19.7	17.9
– Amortisation and impairment of other intangible assets	57.5	47.2
– Allowance for credit losses	4.3	7.5
– Income from investment in associates	-	-48.0
– Deferred tax expense/(benefit)	-7.8	3.2
– Net loss/(gain) from investing activities	33.0	41.3
– Other non-cash income and expenses	44.5	35.1
Net increase/decrease in operating assets and liabilities:		
– Net due from/to banks	-3,768.7	2,020.6
– Trading portfolios and derivative financial instruments	-1,996.4	1,656.7
– Net loans/due to customers	-4,048.5	-551.5
– Accrued income, prepaid expenses and other assets	-635.4	271.5
– Accrued expenses, deferred income, other liabilities and provisions	-119.7	-680.2
Adjustment for income tax expenses	89.9	74.5
Income taxes paid	-103.4	-72.9
Cash flow from operating activities	-10,074.4	3,185.1
Dividend of associates	-	9.5
Purchase of property and equipment and intangible assets	-78.5	-75.7
Disposal of property and equipment and intangible assets	0.0	0.0
Net (investment in)/divestment of financial investments available-for-sale	649.0	-551.1
Acquisition of subsidiaries and businesses, net of cash and cash equivalents acquired	-3.8	-279.3
Deferred payment of acquisition of subsidiaries and associates	-9.7	-4.1
Cash flow from investing activities	557.0	-900.6
Net money market instruments issued/(repaid)	30.1	68.8
Net movements in treasury shares and own equity derivative activity	-120.8	-82.1
Dividend payments	-268.6	-246.2
Issuance and repayment of financial liabilities designated at fair value	2,754.6	1,915.0
Changes in non-controlling interests	-	-9.6
Dividend payment to non-controlling interests	-6.0	-2.1
Cash flow from financing activities	2,389.4	1,643.9
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>-7,127.9</b>	<b>3,928.4</b>

<sup>1</sup> Half-year report 2016 included a condensed consolidated statement of cash flows only.



	30.06.2017 CHF m	30.06.2016 CHF m
Cash and cash equivalents at the beginning of the period	28,270.9	18,128.7
Cash flow from operating activities	-10,074.4	3,185.1
Cash flow from investing activities	557.0	-900.6
Cash flow from financing activities	2,389.4	1,643.9
Effects of exchange rate changes on cash and cash equivalents	481.7	322.8
<b>Cash and cash equivalents at the end of the period</b>	<b>21,624.6</b>	<b>22,379.9</b>

	30.06.2017 CHF m	30.06.2016 CHF m
<b>Cash and cash equivalents are structured as follows:</b>		
Cash	12,085.3	11,956.7
Money market instruments	2,968.9	2,723.0
Due from banks (original maturity of less than three months)	6,570.5	7,700.3
<b>Total</b>	<b>21,624.6</b>	<b>22,379.9</b>

	30.06.2017 CHF m	30.06.2016 CHF m
<b>Additional information</b>		
Interest received	462.6	397.5
Interest paid	-99.4	-100.6
Dividends on equities received (including associates)	188.7	195.8

## CONDENSED ACCOUNTING POLICIES AND VALUATION PRINCIPLES

This unaudited interim report was produced in accordance with International Accounting Standard 34, Interim Financial Reporting.

The condensed consolidated half-year financial statements of the Group as at, and for the six months ended, 30 June 2017 comprise of Julius Baer Group Ltd. and its subsidiaries. They were prepared on the basis of the accounting policies and valuation principles of the consolidated financial statements of Julius Baer Group Ltd. as at 31 December 2016.

### EVENTS AFTER THE BALANCE SHEET DATE

The Audit Committee of the Board of Directors, together with representatives of the Group Executive Board, approved the half-year condensed consolidated financial statements at its meeting on 21 July 2017. There were no significant events to report until this date.

	Exchange rates as at			Average exchange rates		
	30.06.2017	30.06.2016	31.12.2016	H1 2017	H1 2016	2016
USD/CHF	<b>0.9577</b>	0.9742	1.0164	<b>0.9850</b>	0.9840	0.9875
EUR/CHF	<b>1.0923</b>	1.0823	1.0720	<b>1.0780</b>	1.0950	1.0890
GBP/CHF	<b>1.2439</b>	1.3023	1.2559	<b>1.2530</b>	1.3950	1.3280

### IFRS 9 – FINANCIAL INSTRUMENTS

The new standard, which will be applicable as of 1 January 2018, includes the following changes to current accounting for financial instruments:

*Recognition and measurement:* The new standard uses two criteria to determine how financial assets should be classified and therefore measured: a) the entity's business model for managing the financial assets; and b) the contractual cash flow characteristics of the financial asset.

A business model refers to how an entity manages its financial assets in order to generate cash flows:

- by collecting contractual cash flows, i.e. cash flows stem primarily from interest payments and repayment of the principal;
- by selling the financial assets, i.e. cash flows stem primarily from buying and selling the financial asset; or
- by a combination of the two models above.

The additional criteria for determining the classification of a financial asset is whether the contractual cash flows are solely payments of principal and interest. Interest under this model can comprise a

return not only for the time value of money and credit risk but also for other components such as return for liquidity risk, amounts to cover expenses and a profit margin.

Based on an analysis of the business model and the nature of the contractual cash flows, a financial asset is measured at amortised cost, fair value through profit or loss, or fair value through other comprehensive income.

*Expected credit losses:* Contrary to the current impairment model for financial assets, the new standard requires an entity to recognise expected credit losses at inception and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. It is therefore no longer necessary for a trigger event to have occurred before credit losses are recognised.

In general, the expected credit loss model uses a dual measurement approach: if the credit risk of a financial asset has not increased significantly since its initial recognition, the financial asset will attract a loss allowance equal to 12-month expected losses. If its credit risk has increased significantly, it will attract an allowance equal to lifetime expected credit losses.

*Financial liabilities:* Financial liabilities are measured at amortised cost or fair value. 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.

*Hedge accounting:* The new standard puts in place a model that introduces significant improvements principally by aligning the accounting for hedges more closely with the underlying risk management purposes. To that effect, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Hedge qualification will be based on qualitative, forward-looking hedge effectiveness assessments, rather than on bright lines. There are also enhanced disclosure requirements about hedge accounting and risk management activities.

During the first half of 2017, the Group continued its assessment of the impact of the new standard on the Group's financial statements and expects the following:

*Recognition and measurement:* Based on the analyses of the two classification criteria 'contractual cash flow characteristics' and 'business model', the Group determined that the financial instruments currently reported at amortised cost generally fulfil the criteria and therefore will be measured at amortised cost on an ongoing basis. The same applies to the vast

majority of the debt financial instruments currently reported as available-for-sale and therefore measured at fair value through OCI, which will also be measured at fair value through OCI under the new standard. Certain equity instruments currently measured at fair value through OCI will be classified at fair value through profit or loss going forward. Therefore, the Group does not expect significant changes to the measurement basis arising from adopting the new classification and measurement model.

*Expected credit losses:* The Group has modelled its impairment loss estimation methodology to quantify the impact of the expected credit losses on its financial statements. The models are generally based on the financial instrument's probability of default (PD), its loss given default (LGD) and the exposure at default (EAD), taking into account the respective effective interest rates. These models are tailored to the Group's fully collateralised Lombard loans and mortgages, and the high-quality debt instruments in the Treasury portfolio. Although the Group is currently testing its models based on the available data, it has not yet a reliable estimate of the impact of the new expected credit loss model on its financial statements.

*Financial liabilities:* The Group will continue to apply its current measurement approach, including the use of the fair value option. No material changes are expected.

*Hedge accounting:* The Group expects that all its existing hedges that are designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9.

*Transition:* The Group will not restate prior periods.

## INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

### 1 NET INTEREST AND DIVIDEND INCOME

	H1 2017 CHF m	H1 2016 CHF m	H2 2016 CHF m	Change to H1 2016 in %
Interest income on amounts due from banks	22.6	19.9	21.2	13.5
Interest income on loans	301.6	253.1	269.2	19.2
Interest income on financial investments available-for-sale	129.0	120.9	131.3	6.6
Total interest income using the effective interest method	453.2	394.0	421.7	15.0
Dividend income on financial investments available-for-sale	7.6	7.3	0.0	4.0
Interest income on trading portfolios	9.9	15.0	14.0	-33.9
Dividend income on trading portfolios	181.2	180.2	11.7	0.6
Total interest and dividend income	651.9	596.4	447.4	9.3
Interest expense on amounts due to banks	8.8	7.4	6.5	18.2
Interest expense on amounts due to customers	32.8	34.2	17.0	-4.1
Interest expense on debt issued	31.3	30.6	34.2	2.3
Interest expense on financial assets <sup>1</sup>	12.7	14.2	22.6	-10.4
Total interest expense using the effective interest method	85.6	86.4	80.4	-0.9
<b>Total</b>	<b>566.3</b>	<b>510.0</b>	<b>367.1</b>	<b>11.0</b>

<sup>1</sup> Interest expense on financial assets is related to negative effective interests on the respective financial instruments.

### 2 NET COMMISSION AND FEE INCOME

	H1 2017 CHF m	H1 2016 CHF m	H2 2016 CHF m	Change to H1 2016 in %
Advisory and asset management fees	663.9	524.2	613.3	26.6
Brokerage commissions and income from securities underwriting	332.8	251.0	287.8	32.6
Commission income from credit-related activities	3.1	3.7	4.0	-15.0
Commission and fee income on other services	35.1	56.9	30.2	-38.3
Total commission and fee income	1,034.8	835.8	935.3	23.8
Commission expense	113.0	96.5	109.6	17.1
<b>Total</b>	<b>921.8</b>	<b>739.3</b>	<b>825.7</b>	<b>24.7</b>

### 3 NET TRADING INCOME

	H1 2017 CHF m	H1 2016 CHF m	H2 2016 CHF m	Change to H1 2016 in %
Debt instruments	38.1	14.2	35.9	169.0
Equity instruments	-155.4	-126.4	-40.2	23.0
Foreign exchange	207.3	229.8	219.2	-9.8
<b>Total</b>	<b>90.0</b>	<b>117.6</b>	<b>214.9</b>	<b>-23.4</b>

### 4 PERSONNEL EXPENSES

	H1 2017 CHF m	H1 2016 CHF m	H2 2016 CHF m	Change to H1 2016 in %
Salaries and bonuses	592.3	550.1	556.5	7.7
Contributions to staff pension plans (defined benefits)	35.4	-25.7 <sup>1</sup>	39.0	-
Contributions to staff pension plans (defined contributions)	19.8	12.7	14.7	55.5
Other social security contributions	51.7	45.7	43.9	13.3
Share-based payments	44.5	35.1	35.7	26.8
Other personnel expenses	20.6	14.2	14.0	44.9
<b>Total</b>	<b>764.3</b>	<b>632.1</b>	<b>703.8</b>	<b>20.9</b>

<sup>1</sup> Including the effect of a plan amendment in the amount of CHF 62.8 million.

### 5 GENERAL EXPENSES

	H1 2017 CHF m	H1 2016 CHF m	H2 2016 CHF m	Change to H1 2016 in %
Occupancy expense	47.5	42.7	47.4	11.4
IT and other equipment expense	36.9	32.9	39.8	12.0
Information, communication and advertising expense	90.2	81.4	91.6	10.8
Service expense, fees and taxes	121.0	109.6	130.3	10.5
Valuation allowances, provisions and losses	7.9	18.2	22.2	-56.8
Other general expenses	8.0	2.8	4.3	190.7
<b>Total</b>	<b>311.4</b>	<b>287.5</b>	<b>335.7</b>	<b>8.3</b>

## INFORMATION ON THE CONSOLIDATED BALANCE SHEET

### 6A DUE FROM BANKS

	<b>30.06.2017</b> CHF m	30.06.2016 CHF m	31.12.2016 CHF m	Change CHF m to 31.12.2016 in %
Due from banks	<b>6,856.6</b>	8,183.0	11,391.0	-39.8
Allowance for credit losses	<b>-1.5</b>	-2.9	-1.3	-
<b>Total</b>	<b>6,855.1</b>	8,180.1	11,389.8	-39.8

### 6B LOANS

	<b>30.06.2017</b> CHF m	30.06.2016 CHF m	31.12.2016 CHF m	Change CHF m to 31.12.2016 in %
Loans	<b>31,171.9</b>	28,038.2	29,173.2	6.9
Mortgages	<b>9,602.4</b>	8,767.9	9,317.6	3.1
Subtotal	<b>40,774.3</b>	36,806.1	38,490.8	5.9
Allowance for credit losses	<b>-41.0</b>	-82.8	-71.8	-
<b>Total</b>	<b>40,733.4</b>	36,723.3	38,419.0	6.0

### 6C ALLOWANCE FOR CREDIT LOSSES

	Specific CHF m	H1 2017 Collective CHF m	Specific CHF m	H1 2016 Collective CHF m	Specific CHF m	H2 2016 Collective CHF m
Balance at the beginning of the period	<b>47.2</b>	<b>25.9</b>	58.5	26.3	58.0	27.6
Write-offs	<b>-33.1</b>	-	-5.9	-	-21.3	-
Increase in allowance for credit losses	<b>2.9</b>	<b>3.0</b>	6.3	2.8	9.3	1.1
Decrease in allowance for credit losses	<b>-0.3</b>	<b>-1.3</b>	-0.1	-1.6	-	-2.8
Translation differences and other adjustments	<b>-1.8</b>	<b>0.1</b>	-0.8	0.0	1.2	-0.0
<b>Balance at the end of the period</b>	<b>14.9</b>	<b>27.6</b>	58.0	27.6	47.2	25.9

### 6D IMPAIRED LOANS

	<b>30.06.2017</b> CHF m	30.06.2016 CHF m	31.12.2016 CHF m	Change CHF m to 31.12.2016 in %
Gross loans	<b>43.4</b>	76.2	83.3	-48.0
Specific allowance for credit losses	<b>-14.9</b>	-58.0	-47.2	-
<b>Net loans</b>	<b>28.5</b>	18.1	36.2	-21.2

## 7A FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	<b>30.06.2017</b> CHF m	30.06.2016 CHF m	31.12.2016 CHF m	Change to 31.12.2016 in %
<b>Money market instruments</b>	<b>2,968.9</b>	2,723.0	3,785.0	-21.6
Government and agency bonds	<b>2,508.6</b>	3,411.3	3,477.0	-27.9
Financial institution bonds	<b>6,155.4</b>	6,406.3	6,295.5	-2.2
Corporate bonds	<b>4,504.8</b>	4,649.4	4,500.0	0.1
Other bonds	<b>13.4</b>	51.0	43.5	-69.3
<b>Debt instruments</b>	<b>13,182.2</b>	14,518.0	14,316.0	-7.9
<i>of which quoted</i>	<b>12,283.1</b>	13,532.5	13,259.3	-7.4
<i>of which unquoted</i>	<b>899.1</b>	985.5	1,056.8	-14.9
<b>Equity instruments</b>	<b>184.5</b>	155.8	165.5	11.5
<i>of which quoted</i>	<b>35.0</b>	16.1	26.0	34.6
<i>of which unquoted</i>	<b>149.5</b>	139.7	139.5	7.2
<b>Total</b>	<b>16,335.5</b>	17,396.8	18,266.6	-10.6

## 7B FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE – CREDIT RATINGS

			<b>30.06.2017</b> CHF m	30.06.2016 CHF m	31.12.2016 CHF m
<b>Debt instruments by credit rating classes (excluding money market instruments)</b>	<b>Fitch, S&amp;P</b>	<b>Moody's</b>			
1-2	AAA – AA-	Aaa – Aa3	<b>8,646.5</b>	9,299.8	9,491.3
3	A+ – A-	A1 – A3	<b>4,296.6</b>	4,717.3	4,458.7
4	BBB+ – BBB-	Baa1 – Baa3	<b>176.4</b>	410.6	266.7
5	BB+ – BB-	Ba1 – Ba3	<b>19.2</b>	44.4	52.1
Unrated			<b>43.5</b>	45.8	47.2
<b>Total</b>			<b>13,182.2</b>	14,518.0	14,316.0

## 8 FAIR VALUE

### Level 1

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

### Level 2

For financial instruments for which quoted market prices are not directly available or are not derived from active markets, 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. This is the case for the majority of OTC derivatives, most unquoted financial instruments, and other items that are not traded in active markets. The main pricing models and valuation techniques applied to these financial instruments include forward pricing and swap models using present-value calculations, and option models such as the Black-Scholes 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.

### Level 3

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.

*Financial investments available-for-sale:* The Group holds certain equity instruments, which are required for the operation of the Group and are reported as financial instruments available-for-sale, with changes in the fair value recognised in other comprehensive income. The determination of the fair value is based on the published net asset value of the investees. The net asset values are adjusted by management for any necessary impacts from events which may

have an influence on the valuation (adjusted net asset method). In 2017, dividends related to these investments in the amount of CHF 2.7 million have been recognised in the income statement.

*Financial instruments designated at fair value:* The Group issues to its private clients certain specific structured notes, which are intended to be fully invested in private equity investments. Since the notes may not be fully invested in private equity as from the beginning, the portion currently not yet invested is placed in money market instruments, short-term debt funds, or held in cash. Although the clients contractually bear all the related risks and rewards from the underlying investments, these financial instruments are not derecognised from the Group's balance sheet due to the strict derecognition criteria required by IFRS. Therefore, the private equity investments as well as the money market instruments are recorded as financial assets designated at fair value. Any changes in the fair value or any other income from the private equity investments, as well as any income related to the money market instruments, are recorded in the income statement. However, as the clients are entitled to all rewards related to the investments, these amounts net out in the respective line item in the income statement. Hence, any change in the valuation inputs has no impact on the Group's income statement or shareholders' equity.

To measure the fair values of the private equity investments, the Group generally relies on the valuations as provided by the respective private equity funds managing the investments. These funds in turn use their own valuation techniques, such as market approaches or income approaches, including their own input factors into the applied models. Therefore, the private equity investments are reported in level 3 of the fair value hierarchy, as the fair values are determined based on models with unobservable market inputs. The related issued notes are reported as financial liabilities designated at fair value and classified as level 3 instruments, due to the related private equity investments being part of the valuation of the notes.



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

	30.06.2017			
	Quoted market price Level 1 CHF m	Valuation technique market- observable inputs Level 2 CHF m	Valuation technique non-market- observable inputs Level 3 CHF m	Total CHF m
<b>Assets and liabilities measured at fair value</b>				
Trading assets – debt instruments	2,068.7	73.1	-	2,141.7
Trading assets – equity instruments	5,157.8	1,438.4	-	6,596.3
<b>Total trading assets</b>	<b>7,226.5</b>	<b>1,511.5</b>	<b>-</b>	<b>8,738.0</b>
Foreign exchange derivatives	11.9	1,063.4	-	1,075.4
Interest rate derivatives	1.6	129.6	-	131.2
Precious metal derivatives	0.5	156.7	-	157.2
Equity/indices derivatives	16.7	649.3	-	666.0
Credit derivatives	-	2.6	-	2.6
Other derivatives	2.7	-	-	2.7
<b>Total derivative financial instruments</b>	<b>33.3</b>	<b>2,001.6</b>	<b>-</b>	<b>2,035.0</b>
<b>Financial assets designated at fair value</b>	<b>31.9</b>	<b>109.8</b>	<b>113.3</b>	<b>255.0</b>
Financial investments available-for-sale – money market instruments	1,083.4	1,885.4	-	2,968.9
Financial investments available-for-sale – debt instruments	12,137.7	1,044.5	-	13,182.2
Financial investments available-for-sale – equity instruments	35.0	8.8	140.7	184.5
<b>Total financial investments available-for-sale</b>	<b>13,256.1</b>	<b>2,938.7</b>	<b>140.7</b>	<b>16,335.5</b>
<b>Total assets</b>	<b>20,547.9</b>	<b>6,561.7</b>	<b>254.0</b>	<b>27,363.6</b>
Short positions – debt instruments	43.1	4.1	-	47.2
Short positions – equity instruments	109.5	38.5	-	148.0
<b>Total trading liabilities</b>	<b>152.7</b>	<b>42.6</b>	<b>-</b>	<b>195.3</b>
Foreign exchange derivatives	11.0	1,015.0	-	1,026.0
Interest rate derivatives	1.8	149.4	-	151.3
Precious metal derivatives	0.1	60.4	-	60.5
Equity/indices derivatives	19.8	962.5	-	982.3
Credit derivatives	-	3.3	-	3.3
<b>Total derivative financial instruments</b>	<b>32.7</b>	<b>2,190.7</b>	<b>-</b>	<b>2,223.4</b>
<b>Financial liabilities designated at fair value</b>	<b>-</b>	<b>10,953.1</b>	<b>248.6</b>	<b>11,201.7</b>
<b>Total liabilities</b>	<b>185.4</b>	<b>13,186.4</b>	<b>248.6</b>	<b>13,620.4</b>

				31.12.2016
	Quoted market price Level 1 CHF m	Valuation technique market- observable inputs Level 2 CHF m	Valuation technique non-market- observable inputs Level 3 CHF m	Total CHF m
Assets and liabilities measured at fair value				
Trading assets – debt instruments	1,368.3	46.7	-	1,415.0
Trading assets – equity instruments	5,465.6	381.3	-	5,846.9
Total trading assets	6,833.9	428.0	-	7,261.8
Foreign exchange derivatives	8.6	1,256.3	-	1,264.9
Interest rate derivatives	1.4	132.7	-	134.1
Precious metal derivatives	1.3	209.9	-	211.2
Equity/indices derivatives	48.5	1,029.4	-	1,077.9
Credit derivatives	-	2.4	-	2.4
Other derivatives	0.5	-	-	0.5
Total derivative financial instruments	60.2	2,630.7	-	2,690.9
Financial assets designated at fair value	128.3	29.2	94.8	252.4
Financial investments available-for-sale – money market instruments	596.4	3,188.7	-	3,785.0
Financial investments available-for-sale – debt instruments	13,402.1	914.0	-	14,316.0
Financial investments available-for-sale – equity instruments	26.0	18.8	120.7	165.5
Total financial investments available-for-sale	14,024.5	4,121.4	120.7	18,266.6
Total assets	21,046.9	7,209.3	215.5	28,471.7
Short positions – debt instruments	44.6	3.4	-	48.0
Short positions – equity instruments	96.0	15.0	-	111.0
Total trading liabilities	140.5	18.4	-	159.0
Foreign exchange derivatives	6.4	1,081.6	-	1,088.0
Interest rate derivatives	1.7	182.1	-	183.8
Precious metal derivatives	0.0	99.0	-	99.1
Equity/indices derivatives	43.0	851.7	-	894.7
Credit derivatives	-	17.1	-	17.1
Other derivatives	2.7	-	-	2.7
Total derivative financial instruments	53.8	2,231.5	-	2,285.3
Financial liabilities designated at fair value	-	8,180.8	263.6	8,444.4
Total liabilities	194.4	10,430.7	263.6	10,888.7

## FINANCIAL INSTRUMENTS BY CATEGORY

### Financial assets

	<b>30.06.2017</b>		31.12.2016	
	Carrying value CHF m	Fair value CHF m	Carrying value CHF m	Fair value CHF m
<b>Cash, loans and receivables</b>				
Cash	12,085.3	12,085.3	13,599.5	13,599.5
Due from banks	6,855.1	6,860.3	11,389.8	11,395.5
Loans	40,733.4	41,201.1	38,419.0	38,873.2
Accrued income	281.1	281.1	282.8	282.8
<b>Total</b>	<b>59,954.8</b>	<b>60,427.7</b>	63,691.1	64,151.0
<b>Held for trading</b>				
Trading assets	8,738.0	8,738.0	7,261.8	7,261.8
Derivative financial instruments	2,014.2	2,014.2	2,680.1	2,680.1
<b>Total</b>	<b>10,752.2</b>	<b>10,752.2</b>	9,941.9	9,941.9
<b>Derivatives designated as hedging instruments</b>				
Derivative financial instruments	20.8	20.8	10.8	10.8
<b>Total</b>	<b>20.8</b>	<b>20.8</b>	10.8	10.8
<b>Designated at fair value</b>				
Financial assets designated at fair value	255.0	255.0	252.4	252.4
<b>Total</b>	<b>255.0</b>	<b>255.0</b>	252.4	252.4
<b>Available-for-sale</b>				
Financial investments available-for-sale	16,335.5	16,335.5	18,266.6	18,266.6
<b>Total</b>	<b>16,335.5</b>	<b>16,335.5</b>	18,266.6	18,266.6
<b>Total financial assets</b>	<b>87,318.3</b>	<b>87,791.3</b>	92,162.8	92,622.7

## Financial liabilities

	Carrying value CHF m	30.06.2017 Fair value CHF m	Carrying value CHF m	31.12.2016 Fair value CHF m
<b>Financial liabilities at amortised costs</b>				
Due to banks	6,089.5	6,089.5	10,076.8	10,076.9
Due to customers	65,763.3	65,765.3	67,495.2	67,496.9
Debt issued	1,253.6	1,292.9	1,213.5	1,254.0
Accrued expenses	163.5	163.5	187.7	187.7
<b>Total</b>	<b>73,269.9</b>	<b>73,311.2</b>	<b>78,973.2</b>	<b>79,015.5</b>
<b>Held for trading</b>				
Trading liabilities	195.3	195.3	159.0	159.0
Derivative financial instruments	2,169.5	2,169.5	2,213.5	2,213.5
<b>Total</b>	<b>2,364.7</b>	<b>2,364.7</b>	<b>2,372.4</b>	<b>2,372.4</b>
<b>Derivatives designated as hedging instruments</b>				
Derivative financial instruments	54.0	54.0	71.9	71.9
<b>Total</b>	<b>54.0</b>	<b>54.0</b>	<b>71.9</b>	<b>71.9</b>
<b>Designated at fair value</b>				
Financial liabilities designated at fair value	11,201.7	11,201.7	8,444.4	8,444.4
Other liabilities	39.0 <sup>1</sup>	39.0	41.2 <sup>2</sup>	41.2
<b>Total</b>	<b>11,240.7</b>	<b>11,240.7</b>	<b>8,485.6</b>	<b>8,485.6</b>
<b>Total financial liabilities</b>	<b>86,929.3</b>	<b>86,970.6</b>	<b>89,903.1</b>	<b>89,945.5</b>

<sup>1</sup> Relates to the deferred purchase price of Fransad Gestion SA, NSC Asesores, S.C., GPS Investimentos Financeiros e Participações S.A. and Wergen & Partner Vermögensverwaltungs AG.

<sup>2</sup> Relates to the deferred purchase price of Fransad Gestion SA, NSC Asesores, S.C., and GPS Investimentos Financeiros e Participações S.A.

## 9 DEBT ISSUED

	30.06.2017 CHF m	31.12.2016 CHF m
Money market instruments	108.9	78.8
Bonds	1,144.7	1,134.7
<b>Total</b>	<b>1,253.6</b>	<b>1,213.5</b>

### Bonds

Issuer/Year of issue	Stated interest rate %		Currency	Notional amount m	30.06.2017 Total CHF m	31.12.2016 Total CHF m
<b>Julius Baer Group Ltd.</b>						
2012 <sup>1</sup>	5.375	Perpetual tier 1 subordinated bond	CHF	250.0	249.8	248.7
<b>Julius Baer Group Ltd.</b>						
2014 <sup>2</sup>	4.25	Perpetual tier 1 subordinated bond	CHF	350.0	347.3	346.7
<b>Julius Baer Group Ltd.</b>						
2015 <sup>3</sup>	5.90	Perpetual tier 1 subordinated bond	SGD	450.0	321.7	318.6
<b>Julius Baer Group Ltd.</b>						
2016 <sup>4</sup>	5.75	Perpetual tier 1 subordinated bond	SGD	325.0	225.9	220.6
<b>Total</b>					<b>1,144.7</b>	<b>1,134.7</b>

<sup>1</sup> No own bonds are offset with bonds outstanding (2016: CHF 1.0 million).  
The effective interest rate amounts to 5.59%.

<sup>2</sup> No own bonds are offset with bonds outstanding (2016: CHF 0.1 million).  
The effective interest rate amounts to 4.41%.

<sup>3</sup> No own bonds are offset with bonds outstanding (2016: none).  
The effective interest rate amounts to 6.128%.

<sup>4</sup> No own bonds are offset with bonds outstanding (2016: none).  
The effective interest rate amounts to 5.951%.

## 10 PROVISIONS

### Introduction

The Group operates in a legal and regulatory environment that exposes it to significant litigation, compliance, reputational and other risks arising from disputes and regulatory proceedings.

Non-compliance with regulatory requirements may result in regulatory authorities taking enforcement action or initiating criminal proceedings against the Group and its employees. Possible sanctions could include the revocation of licences to operate certain businesses, the suspension or expulsion from a particular jurisdiction or market of any of the Group's business organisations or their key personnel and the imposition of fines and censures on companies and employees. Regulators in certain markets may determine that industry practices, e.g. regarding the provision of services to clients, are or have become inconsistent with their interpretations of existing local laws and regulations. Also, from time to time, the Group is confronted with inquiries from authorities with respect to certain topics. The Group principally is cooperating with such authorities within the confines of applicable laws to clarify the situation while protecting its own interests.

The risks described below may not be the only risks to which the Group is exposed. The additional risks not presently known or risks and proceedings currently deemed immaterial may also impair the Group's future business, results of operations, financial condition and prospects. The realisation of one or more of these risks may individually or together with other circumstances materially adversely affect the Group's business, results of operations, financial condition and prospects.

### Legal proceedings/contingent liabilities

The Group is involved in various legal, regulatory and administrative proceedings concerning matters arising within 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 liability on the part of the Group and if the amount of such obligation or loss can already be reasonably estimated.

In rare cases in which the amount cannot be estimated reliably due to the early stage of the proceedings, the complexity of the proceedings and/or other factors, no provision is recognised but the case is disclosed as a contingent liability as of 30 June 2017. The contingent liabilities might have a material effect on the Group or for other reasons might be of interest for investors and other stakeholders.

In 2010 and 2011, litigation was commenced against Bank Julius Baer & Co. Ltd. (the 'Bank') and numerous other financial institutions by the liquidators of the Fairfield funds (the 'Fairfield Liquidators'), having acted as feeder funds for the Madoff fraudulent investment schemes. In the direct claims against the Bank, the Fairfield Liquidators are seeking to recover a total amount of approximately USD 64 million in the courts of New York (including USD 17 million that relates to redemption payments made to clients of ING Bank (Suisse) SA, which merged with the Bank in 2010, and approximately USD 25 million that relates to redemption payments made to clients of Merrill Lynch Bank (Suisse) SA, which merged with the Bank in 2013, such claims being subject to acquisition-related representation and warranties provisions). The proceedings in the courts of the British Virgin Islands, where an amount of approximately USD 8.5 million have been claimed from the Bank, were finally dismissed in favour of the Bank with a ruling of the Privy Council, the highest court of appeals for the British Virgin Islands. In addition to the direct claims against the Bank, the Fairfield Liquidators have made combined claims in the amount of approximately USD 1.8 billion against more than 80 defendants. Only a fraction of this amount is sought against the Bank and its beneficial owners. The combined claims aggregate the

damages asserted against all defendants, such that a reliable allocation of the claimed amounts between the Bank and the other defendants cannot be made at this time. Finally, in further proceedings, the trustee of Madoff's broker-dealer company (the 'Trustee') seeks to recover over USD 83 million in the courts of New York (including USD 46 million that relates to redemption payments made to clients of Merrill Lynch Bank (Suisse) SA, which merged with the Bank in 2013, such claims being subject to acquisition-related representation and warranties provisions), largely in relation to the same redemption payments which are the subject matter of the claims asserted by the Fairfield Liquidators. As most of the aforementioned litigation remains in the preliminary procedural stages, a meaningful assessment of the potential outcome is not yet possible. The Bank is challenging these actions on procedural and substantive grounds and has taken further measures to defend and protect its interests. In addition, as the BVI Courts oversee the Fairfield Funds' liquidation proceedings, the Bank introduced an application challenging the Fairfield Liquidators' authority to pursue the US Litigation. The BVI trial court dismissed the application. The Bank and other defendants have appealed the dismissal. No decision has been issued yet in this regard. Further, in the Fairfield Liquidators' litigation in the United States, hundreds of defendants, including the Bank, filed a consolidated response, thereby seeking dismissal of the claims. It is expected that the proceedings last into 2018. In view of the pending application in the BVI and as the Fairfield cases pending in the courts of New York remain in preliminary stages, a meaningful assessment of the potential outcome is not yet possible. Finally, it is also worth mentioning that in the proceedings initiated by the Trustee, the Bankruptcy Court in New York issued a ruling in November 2016, reconfirming the extraterritoriality principles set by the District Court for the Southern District of New York and thereby dismissing the case against the Bank and other defendants. The Trustee has appealed this ruling.

In a landmark decision on so-called retrocessions, the Swiss Federal Supreme Court ruled in 2012 that the receipt of fund trailer fees by a bank in connection with a Discretionary Portfolio Management mandate may create a potential conflict of interest in the execution of the mandate. The Court

considered that by receiving trailer fees in the context of such mandate, a bank may be inclined not to act in the best interest of the client. Therefore, based on applicable Swiss mandate law a bank shall not only account for fund trailer fees obtained from third parties in connection with a client's mandate, but also be obliged to forward respective amounts to a client, provided the client has not validly waived to reclaim such fees. Bank Julius Baer & Co. Ltd. has assessed the Court decision, the mandate structures to which the Court decision might be applicable and the documentation as well as the impact of respective waivers and the communicated bandwidths having been introduced some years ago, and implemented appropriate measures to address the matter.

Bank Julius Baer & Co. Ltd. is confronted with a claim by the liquidator of a foreign corporation arguing that the Bank did not prevent two of its clients from embezzling assets of the foreign corporation. In this context, the liquidator as of 2013 presented draft complaints with different claim amounts for a potential Swiss proceeding and filed a payment order ('Betreibungsbegehren') against the Bank in the amount of CHF 422 million (plus accrued interest from 2009). On 8 February 2017, the Bank has been served with a claim from said corporation in liquidation in the amount of EUR 306 million. The court proceeding against the Bank has been initiated in the plaintiff's country of domicile in the European Union. The Bank is contesting the claim whilst taking appropriate measures to defend its interests.

On 31 March 2014, the Swiss Competition Commission ('COMCO') opened an investigation regarding possible collusion in foreign exchange trading against several banks amongst which also Bank Julius Baer & Co. Ltd. According to its media release of 28 September 2015, the COMCO in addition opened an investigation regarding potential collusive behaviour in precious metal trading. Subject to these investigations are Swiss and foreign financial institutes which are active in foreign exchange and precious metal trading, including Julius Baer. The aim of the investigations, which are part of respective international inquiries, is to clarify possible unlawful collusion amongst market participants and possible violation of market behaviour regulations. Julius Baer, with its primary

focus on foreign exchange and precious metals trading for private clients, continues to support the investigation of the COMCO and related inquiries of other authorities in Switzerland and abroad.

In September 2014, the Bundesanstalt für vereinigungsbedingte Sonderaufgaben ('BvS') initiated legal proceedings in Zurich against Bank Julius Baer & Co. Ltd., claiming approximately CHF 97 million plus accrued interests since 1994. BvS claims to be the German authority responsible for managing the assets of the former German Democratic Republic ('GDR'). BvS claims that the former Bank Cantrade Ltd., which the Bank acquired through its acquisition of Bank Ehinger & Armand von Ernst AG from UBS AG in 2005, allowed unauthorised withdrawals between 1990 and 1992 from the account of a foreign GDR trade company. The Zurich District Court has dismissed the claim on 9 December 2016. BvS has appealed such verdict. In addition, the claim has been notified by the Bank vis-à-vis the seller under the 2005 transaction agreement with regard to representations and warranties granted in respect of the acquired entities.

In the context of an investigation against a former client regarding alleged participation in an environmental certificate trading related tax fraud in France, a formal procedure into suspected lack of due diligence in financial transactions has been initiated against Bank Julius Baer & Co. Ltd. in June 2014 and been dismissed for formal reasons by a (not yet final) Court Order in March 2017. Proceedings, in addition, may be resumed by the prosecutor at any time. In October 2014, as a precautionary measure, the Bank made the required security deposit in the amount of EUR 3.75 million with the competent French court representing the maximal fine possible. The Bank is cooperating with the French authorities within the confines of applicable laws to clarify the situation and to protect its interests.

In April 2015, Bank Julius Baer & Co. Ltd. was served with 62 claims in Geneva totalling approximately CHF 20 million plus accrued interest. The claimants, being part of a larger group of former clients of an external asset manager claiming damages in a total amount of approximately CHF 40 million, argue lack of due diligence on the part of the Bank in the

context of the late external asset manager allegedly having used his personal account and company account with the Bank for flow-through client transactions and pooling of client funds. On 16 October 2015, such claims have been formalised by 51 out of the 62 claimants, claiming a total amount of CHF 11.7 million plus accrued interest. In October 2016, the Bank was served with another claim by additional 15 claimants, claiming a total amount of CHF 4.5 million plus accrued interest. The Bank is contesting the claim and has taken appropriate measures to defend its interests.

Bank Julius Baer & Co. Ltd. is confronted with a claim by a former client arguing that the Bank initiated transactions without appropriate authorisations and that the Bank has not adhered to its duties of care, trust, information and warnings. In April 2015, the former client presented a complaint for an amount of USD 70 million (plus accrued interest) and BRL 24 million, which in January 2017, he supported with a payment order ('Betreibungsbegehren') filed against the Bank in the amount of CHF 91.3 million (plus accrued interest). The Bank is contesting the claim whilst taking appropriate measures to defend its interests.

In November 2014, Bank Julius Baer & Co. Ltd. was served in Geneva with a claim by an investment fund, acting on its behalf and on behalf of three other funds, that were former clients of Bank of China (Suisse) S.A. having been acquired by Bank Julius Baer & Co. Ltd., in the total amount of USD 29 million (plus accrued interests). Additionally, in October 2015, the claimant filed an amendment of claim in court, by which additionally USD 39 million was claimed. In March 2017, the claimant reduced the totally claimed amount to USD 44,565,434. The claimant argues that Bank of China (Suisse) S.A. acted not only as a custodian bank, but also as secured creditor and manager of the funds, and tolerated excess in leverage. It claims that the funds suffered a severe loss consequently to the liquidation of almost the entire portfolio of their assets in May 2010, arguing that this liquidation was performed by Bank of China (Suisse) SA without the consent of the funds' directors and was ill-timed, disorderly and occurred in exceptionally unusual market conditions. The Bank is contesting the claim whilst taking



appropriate measures to defend its interests. In addition, such claims are subject to acquisition-related representations and warranties.

Bank Julius Baer & Co. Ltd. has received inquiries from authorities investigating corruption and bribery allegations surrounding Fédération Internationale de Football Association (FIFA) in Switzerland and the USA. These requests focus on persons named in the so-called 'FIFA Indictment' of 20 May 2015 (Indictment filed in United States v. Webb [E.D.N.Y. 15 CR 0252 (RJD)(RML)]) and in the respective

superseding indictment of 25 November 2015.

The authorities in Switzerland and abroad have, in addition to the corruption and bribery allegations, opened investigations and are inquiring whether financial institutions failed to observe due diligence standards as applied in financial services and in particular in the context of anti-money laundering laws in relation to suspicious and potentially illegal transactions. The Bank is supporting the inquiries and cooperating with the authorities in the investigations on this matter.

## CAPITAL RATIOS

	30.06.2017 <i>Basel III phase-in<sup>1</sup> CHF m</i>	30.06.2016 <i>Basel III phase-in<sup>1</sup> CHF m</i>	31.12.2016 <i>Basel III phase-in<sup>1</sup> CHF m</i>
<b>Risk-weighted positions</b>			
Credit risk	14,072.5	14,597.5	14,902.8
Non-counterparty-related risk	442.2	481.0	506.7
Market risk	1,253.1	876.9	957.7
Operational risk	4,796.4	4,451.6	4,634.6
<b>Total</b>	<b>20,564.2</b>	20,407.0	21,001.8
<b>Eligible capital</b>			
CET1 capital <sup>2</sup>	3,060.3	3,251.0	3,444.2
Tier 1 capital <sup>2</sup>	3,720.0	3,251.0	3,597.0
<i>of which hybrid tier 1 capital instruments<sup>3</sup></i>	<i>1,144.7</i>	<i>927.9</i>	<i>1,134.7</i>
Tier 2 capital	80.4	272.9	70.2
<i>of which lower tier 2 capital instruments</i>	<i>-</i>	<i>150.1<sup>4</sup></i>	<i>-</i>
Total capital	3,800.4	3,523.9	3,667.2
CET1 capital ratio	14.9%	15.9%	16.4%
Tier 1 capital ratio	18.1%	15.9%	17.1%
Total capital ratio	18.5%	17.3%	17.5%

<sup>1</sup> The Basel III effects, but also the effects of IAS 19 revised relating to pension liabilities, will be phased in between 2014 and 2018 for the calculation of the eligible capital. All listed capital instruments of Julius Baer are fully compliant with the Basel III guidelines as at 30 June 2017.

<sup>2</sup> During the phase-in period the amount of intangibles which has to be deducted directly from CET1 increases proportionally over time and the remaining amount of intangibles which is allowed to be deducted from additional tier 1 capital decreases respectively. As soon as the remaining amount of intangibles is lower than the additional tier 1 capital the CET1 capital will be lower than the tier 1 capital.

<sup>3</sup> The hybrid tier 1 instruments are tier 1 bonds issued by Julius Baer Group Ltd. in 2012, 2014, 2015 and 2016.

<sup>4</sup> Julius Baer Group Ltd. exercised its call option for an early repayment in full at par value plus accrued interests on the reset date of 23 December 2016 and redeemed the 4.50% lower tier 2 subordinated bonds issued in 2011 with final maturity in 2021.

Further details regarding tier 1 capital instruments can be found in the Regulatory Disclosures section of [www.juliusbaer.com](http://www.juliusbaer.com). Please also refer to Note 9 Debt issued.

A separate Basel III pillar 3 report has been prepared which shows a full reconciliation between all components of the Group's eligible regulatory

capital and its reported IFRS balance sheet as at 30 June 2017. This report, which is published in the Regulatory Disclosures section of [www.juliusbaer.com](http://www.juliusbaer.com), has been prepared in accordance with the FINMA regulations governing the disclosure obligations regarding capital adequacy and liquidity (information will be available at the end of August 2017).

## ASSETS UNDER MANAGEMENT

	30.06.2017 CHF m	30.06.2016 CHF m	31.12.2016 CHF m
Assets with discretionary mandate	57,294	51,113	54,904
Other assets under management	292,462	256,322	277,083
Assets in collective investment schemes managed by the Group <sup>1</sup>	4,949	3,983	4,174
<b>Total assets under management (including double counting)</b>	<b>354,705</b>	<b>311,418</b>	<b>336,161</b>
<i>of which double counting</i>	<i>7,133</i>	<i>5,603</i>	<i>6,106</i>
	H1 2017 CHF m	H1 2016 CHF m	H2 2016 CHF m
Change through net new money	10,249	5,498	6,367
Change through market and currency impacts	7,966	-2,361	15,756
Change through acquisition	395 <sup>2</sup>	8,639 <sup>3</sup>	2,628 <sup>4</sup>
Change through divestment	-66 <sup>5</sup>	-45 <sup>5</sup>	-8 <sup>5</sup>
<b>Client assets</b>	<b>416,480</b>	<b>376,672<sup>6</sup></b>	<b>391,620</b>

<sup>1</sup> Collective investment schemes are related to GPS Investimentos Financeiros e Participações S.A., São Paulo, and to Kairos Investment Management SpA, Milan.

<sup>2</sup> In February 2017, the Group acquired Wergen & Partner Vermögensverwaltungs AG, Zurich.

<sup>3</sup> In April 2016, the Group increased its participation in Kairos Investment Management SpA, Milan, to 80%.

<sup>4</sup> In July 2016, the Group acquired Commerzbank International S.A. Luxembourg.

<sup>5</sup> Assets under management were affected by the Group's decision to discontinue its offering to clients from a number of selected countries.

<sup>6</sup> Excluding assets which were previously counted as assets under management and assets under custody.

## METHOD OF CALCULATION

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

## ACQUISITIONS

The following transactions were executed:

### Kairos (2016)

In November 2015, the Group agreed to exercise its option and to increase its stake in Kairos Investment Management S.p.A. by acquiring an additional 60.1% interest of the Milan-based company, following its initial purchase of 19.9% in 2013. The transaction was exercised on 1 April 2016. The Group paid the consideration in the amount of CHF 301.5 million in cash for this additional interest which was fully funded by existing excess capital of the Group. As part of the transaction, the Group

realised a net gain in the amount of CHF 38.6 million on the revaluation to fair value of the 19.9% interest previously held as an investment in associates, including foreign exchange translation losses, which was recognised in other ordinary results in 2016.

Kairos is specialised in wealth and asset management, including investment solutions and advice. The Group and Kairos have agreed to pursue the listing of Kairos in a subsequent step through an offering of a minority percentage of Kairos' share capital. Kairos continues to operate under its brand.

The assets and liabilities of Kairos were recorded as follows:

	Fair value CHF m
<b>Purchase price</b>	
in cash	301.5
contribution of the 19.9% interest (at fair value)	99.8
<b>Total</b>	<b>401.4</b>
Due from banks	31.9
Deferred tax assets	5.2
All other assets	23.2
<b>Assets acquired</b>	<b>60.3</b>
Deferred tax liabilities	7.1
All other liabilities	37.3
<b>Liabilities assumed</b>	<b>44.3</b>
<b>Goodwill and other intangible assets and non-controlling interests</b>	
Goodwill	317.3
Customer relationships	89.4
Non-controlling interests	21.3
<b>Total</b>	<b>385.4</b>

### **GPS Investimentos Financeiros e Participações S.A. (2016)**

On 1 March 2016, the Group exercised the forward contract to acquire the remaining 20% interest of its Brazilian subsidiary GPS Investimentos Financeiros e Participações S.A. (GPS). The purchase price of CHF 28.6 million will be payable in four tranches, whereof the first tranche has been paid at acquisition date and was fully funded by existing excess capital of the Group. The outstanding amounts of the future instalments are recognised as a liability.

Changes in ownership interests while retaining control are accounted for as transactions with equity holders in their capacity as equity holders, i.e., the difference of CHF 21.5 million between the amount of the former non-controlling interest and the fair value of the consideration paid is recognised directly in equity (retained earnings). In addition, no changes in the carrying amount of assets, including goodwill, or liabilities are recognised.

### **Julius Bär Wealth Management AG (former TFM Asset Management AG) (2016)**

On 1 April 2016, the Group exercised its call option to acquire the outstanding 40% interest in its Japanese-market-focused subsidiary Julius Bär Wealth Management AG (JBWM), formerly called TFM Asset Management AG. The Group paid CHF 2.5 million in cash for this additional interest which was fully funded by existing excess capital of the Group. JBWM, a Swiss-registered independent asset management company, specialises in discretionary asset management services for HNW Japanese and Swiss private clients and holds investment advisory and investment management licences granted by the Japanese FSA.

Changes in ownership interests while retaining control are accounted for as transactions with equity holders in their capacity as equity holders, i.e. the difference of CHF 2.1 million between the amount of the former non-controlling interest and the fair value of the consideration paid is recognised directly in equity (retained earnings). In addition, no changes in the carrying amount of assets, including goodwill, or liabilities are recognised.

### Commerzbank International S.A. Luxembourg/ Bank Julius Baer Luxembourg S.A., Luxembourg (2016)

On 4 July 2016, the Group acquired Commerzbank International S.A. Luxembourg, a fully licensed private bank. This transaction significantly strengthens the Group's presence in Luxembourg

and in addition provides the Group with further strategic flexibility for its European business, also due to the included booking platform. The purchase price of CHF 84.9 million was paid in cash and fully funded by existing excess capital of the Group. The acquired entity has been renamed into Bank Julius Baer Luxembourg S.A., Luxembourg.

The assets and liabilities of Commerzbank International S.A. Luxembourg/Bank Julius Baer Luxembourg S.A. were recorded as follows:

	Fair value CHF m
<b>Purchase price</b>	
in cash	84.9
<b>Total</b>	84.9
Cash	272.9
Due from banks	637.8
Loans <sup>1</sup>	344.6
Software	1.9
All other assets	78.7
<b>Assets acquired</b>	1,335.8
Due to banks	27.2
Due to customers	1,249.1
Provisions	1.2
Deferred tax liabilities	2.0
All other liabilities	15.9
<b>Liabilities assumed</b>	1,295.5
<b>Goodwill and other intangible assets</b>	
Goodwill	19.0
Customer relationships	15.2
Software	10.3
<b>Total</b>	44.6

<sup>1</sup> At the acquisition date, the gross contractual amount of loans acquired was CHF 344.6 million.

### Wergen & Partner Vermögensverwaltungs AG, Zurich (2017)

In February 2017, the Group acquired the Zurich-based Wergen & Partner Vermögensverwaltungs AG, which will strengthen the Group's independent wealth management business.

The purchase price, including the deferred portion due in February 2019 and February 2021 of CHF 13.5 million has been and will be paid in cash and is fully funded by existing excess capital of the Group.

The assets and liabilities of Wergen & Partner Vermögensverwaltungs AG were recorded provisionally as follows:

	Fair value CHF m
<b>Purchase price</b>	
in cash	5.5
deferred purchase price (liabilities)	8.0
<b>Total</b>	13.5
All other assets	2.1
<b>Assets acquired</b>	2.1
All other liabilities	0.7
<b>Liabilities assumed</b>	0.7
<b>Goodwill and other intangible assets</b>	
Goodwill	4.7
Customer relationships	7.4
<b>Total</b>	12.1

## CORPORATE CONTACTS

### **Group Communications**

Larissa Alghisi Rubner  
Chief Communications Officer  
Telephone +41 (0) 58 888 5777

### **Investor Relations**

Alexander C. van Leeuwen  
Telephone +41 (0) 58 888 5256

### **International Banking Relations**

Kaspar H. Schmid  
Telephone +41 (0) 58 888 5497



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JULIUS BAER GROUP LTD.  
Bahnhofstrasse 36  
P.O. Box  
8010 Zurich  
Switzerland  
Telephone +41 (0) 58 888 1111  
Fax +41 (0) 58 888 5517  
**[www.juliusbaer.com](http://www.juliusbaer.com)**

The Julius Baer Group  
is present in more than  
50 locations worldwide,  
including Zurich (Head Office),  
Dubai, Frankfurt, Geneva,  
Hong Kong, London, Luxembourg,  
Milan, Monaco, Montevideo,  
Moscow, Mumbai,  
Singapore and Tokyo.

**ANNEX D**  
**DISCLOSURE OBLIGATIONS REGARDING CAPITAL ADEQUACY AND LIQUIDITY**



# Julius Bär

## DISCLOSURE OBLIGATIONS REGARDING CAPITAL ADEQUACY AND LIQUIDITY DECEMBER 2016

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JULIUS BAER GROUP LTD.

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ACCORDING TO FINMA-CIRCULAR 2016/1  
'DISCLOSURE BANKS'



# DISCLOSURE OBLIGATIONS REGARDING CAPITAL ADEQUACY AND LIQUIDITY DECEMBER 2016 JULIUS BAER GROUP LTD.

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## CAPITAL RATIO INTRODUCTION

The Julius Baer Group Ltd. (the Group) is subject to the full disclosure requirements for capital adequacy according to the conditions defined in Circular 2016/1 respectively 2008/22 'Disclosure Banks' of the Swiss Financial Market Supervisory Authority (FINMA).

The required qualitative information is disclosed in the Annual Report 2016 (AR 2016) of Julius Baer Group Ltd. under 'Comment on risk and capital management' (AR 2016, page 96ff.). This specifically includes the description of the strategy, processes and organisation employed for managing credit risks or counterparty risks, risks in the trading book and banking book as well as operational risks.

In the section 'Credit risk' (AR 2016, page 98ff.), the risk practice and the practice in relation to collateral are explained. External ratings from Moody's, Standard & Poor's and Fitch are employed for determining the risk weighting of amounts due from banks and of the interest rate instruments reported under financial investments. The standardised approach and subsidiary approaches for calculating capital requirements for credit risks are described in the section 'Approaches used for calculating required capital' on page 9 of this document.

In the section 'Market risk (trading book)' (AR 2016, page 108ff.), the methods and processes employed for measuring and limiting market risks are explained.

For the trading book, the Group calculates the capital requirements based on its internal value at risk (VaR) model approach.

The assumptions applied for determining interest rate risk are described in the section 'Financing, liquidity and interest rate risks in the banking book' (AR 2016, page 112ff.). This section also contains an explanation of the methods used in practice to hedge or reduce the risks related to changes in interest rates. Quantitative figures on the effect on interest earnings of a major change in interest rates in the banking book are also provided in the aforementioned section.

The standardised approach is used for calculating the capital adequacy for operational risks. Management and control of the operational risks are described in the section 'Operational risk' (AR 2016, page 116ff.).

The section 'Management of capital including regulatory capital' (AR 2016, page 119ff.) describes the capital management principles, the legal parameters and the consolidation scope used for calculating the required capital. The capital ratios and capital components disclosed therein are supplemented with details of capital positions in the chapter 'Composition of capital', page 5ff. of this document, based on a table structure issued by FINMA.



## CAPITAL COMPONENTS

### BALANCE SHEET RECONCILIATION

In 2016, the scope of consolidation used for the calculation of capital adequacy is identical to that applied for accounting purposes. Therefore the balance sheet according to the regulatory scope

of consolidation is identical to the IFRS balance sheet. In the table below the line items of the balance sheet are expanded and referenced where relevant to display all components that are disclosed in the table as shown in the section 'Composition of capital', page 5ff.

### Balance sheet reconciliation

Consolidated balance sheet <sup>1</sup>	31.12.2016 According to the financial statement CHF m	References <sup>2</sup>
<b>Assets</b>		
Cash	13,599.5	
Due from banks	11,372.2	
Cash collateral on securities borrowed	17.6	
Due from customers	29,124.1	
Mortgages	9,294.9	
Trading assets	7,660.7	
Derivative financial instruments	2,690.9	
Financial assets designated at fair value	252.4	
Financial investments available-for-sale	18,266.6	
Investments in associates	29.4	9
Property and equipment	373.8	
Goodwill and other intangible assets	2,834.3	
<i>of which goodwill</i>	2,071.3	5
<i>of which other intangible assets</i>	762.9	6
Accrued income and prepaid expenses	327.2	
Deferred tax assets	28.8	
<i>of which deferred tax assets on operating loss carryforwards</i>	21.6	7
<i>of which deferred tax assets on temporary differences</i>	7.2	10
Other assets	335.0	
<b>Total assets</b>	<b>96,207.2</b>	

<sup>1</sup> The balance sheet positions are presented in accordance with the sample table as shown in the FINMA-Circular 2008/22, annex 2, l. a).

<sup>2</sup> For the reconciliation of individual balance sheet amounts the listed reference numbers in this table set a link to corresponding reference numbers in the table 'Composition of capital'.

Consolidated balance sheet<sup>1</sup>

31.12.2016

According to  
the financial  
statement  
CHF m

References<sup>2</sup>

**Liabilities and equity**

Due to banks	8,527.3	
Cash collateral on securities lent	1,549.5	
Due to customers	67,495.2	
Trading liabilities	159.0	
Derivative financial instruments	2,285.3	
Financial liabilities designated at fair value	8,444.4	
Debt issued	1,213.5	
<i>of which tier 1 bond issued 2012 (Basel III-compliant capital instrument)</i>	248.7	8
<i>of which tier 1 bond issued 2014 (Basel III-compliant capital instrument)</i>	346.7	8
<i>of which tier 1 bond issued 2015 (Basel III-compliant capital instrument)</i>	318.6	8
<i>of which tier 1 bond issued 2016 (Basel III-compliant capital instrument)</i>	220.6	8
Accrued expenses and deferred income	620.3	
Current tax liabilities	123.0	
Deferred tax liabilities	77.8	
<i>of which deferred tax liabilities on goodwill</i>	0.0	
<i>of which deferred tax liabilities on other intangible assets</i>	49.5	6
Provisions	23.0	
Other liabilities	335.1	
<b>Total liabilities</b>	<b>90,853.4</b>	
Share capital	4.5	1
Retained earnings	5,840.4	2
Other components of equity	-251.6	3
Treasury shares	-263.1	
Equity attributable to shareholders of Julius Baer Group Ltd.	5,330.2	
Non-controlling interests	23.6	4
<b>Total equity</b>	<b>5,353.9</b>	
<b>Total liabilities and equity</b>	<b>96,207.2</b>	

<sup>1</sup> The balance sheet positions are presented in accordance with the sample table as shown in the FINMA-Circular 2008/22, annex 2, I. a).

<sup>2</sup> For the reconciliation of individual balance sheet amounts the listed reference numbers in this table set a link to corresponding reference numbers in the table 'Composition of capital'.

Further details regarding tier 1 instruments can be found at [www.juliusbaer.com/cap-instr](http://www.juliusbaer.com/cap-instr).

## COMPOSITION OF CAPITAL

The table below provides the composition of capital as defined by the Basel Committee on Banking Supervision and FINMA. Reference is made to items reconciling to the balance sheet as disclosed in the section 'Balance sheet reconciliation'. Where relevant,

the effect of the transition period under Basel III is disclosed as well. A positive amount in the column 'Effect of the transition period' reflects the excess amount compared to the full application of the Basel III requirements at the closing date 31 December 2016.

### Composition of capital

		31.12.2016	31.12.2016	
		Phase-in amounts CHF m	Effects of the transition period CHF m	References <sup>R</sup>
<b>No.<sup>1</sup></b>				
1	Directly issued qualifying common share capital	4.5		1
2	Retained earnings	5,840.4		2
3	Accumulated other comprehensive income	-251.6		3
5	Non-controlling interests	9.4	9.4	4
6	<b>Common equity tier 1 capital before adjustments<sup>2</sup></b>	<b>5,602.8</b>	<b>9.4</b>	
8	Goodwill	-1,242.8	828.5	5
9	Other intangibles (net of related tax liabilities)	-428.0	285.4	6
10	Deferred tax assets on operating loss carryforwards	-13.0	8.6	7
14	Gains and losses due to changes in own credit risk	-0.6		
16	Net long position of treasury shares	-175.0		
	Proposed dividend for the financial year	-268.6		
26a	Unrealised gains on financial investments available-for-sale	-111.6		
26a	Defined benefit obligation relating to IAS19 <sup>3</sup>	81.0	81.0	
28	<b>Total adjustments to common equity tier 1 capital</b>	<b>-2,158.6</b>	<b>1,203.5</b>	
29	<b>Common equity tier 1 capital</b>	<b>3,444.2</b>	<b>1,212.9</b>	

<sup>1</sup> Row numbers according to the sample table enclosed in the FINMA-Circular 2016/1, annex 2, table 2

<sup>2</sup> Before deduction of treasury shares of CHF 263.1 million and addition of CHF 14.2 million non-controlling interests (corresponds to Basel III phase-out percentage rate of 60%)

<sup>3</sup> 40% of remeasurement of defined benefit obligation of CHF 202.4 million according to annual report 2016, page 83

<sup>R</sup> Comments to the references:

Reference 4: 40% of the balance sheet amount

Reference 6: Total of CHF 575.4 million (CHF 428.0 million, row 9, and CHF 147.4 million, row 37, reference 6) from capital components results in a difference of minus CHF 187.5 million to the corresponding balance sheet total. This is equal to the non-deducted amount from capital of capitalised software according to the phase-in ruling of 40% (CHF 137.9 million) and the direct deduction of deferred tax liabilities (CHF 49.5 million).

Reference 7: 60% of the balance sheet amount

## CAPITAL RATIO

No. <sup>1</sup>		31.12.2016	31.12.2016	References <sup>R</sup>
		Phase-in amounts CHF m	Effects of the transition period CHF m	
30	Directly issued qualifying additional tier 1 instruments	1,135.7		8
32	<i>of which classified as liabilities under applicable accounting standards</i>	1,135.7		
33	Directly issued capital instruments subject to phase-out from additional tier 1 capital	0.0	0.0	
36	<b>Additional tier 1 capital before adjustments<sup>2</sup></b>	<b>1,135.7</b>	<b>0.0</b>	
37	Investments in own additional tier 1 instruments	-1.1		8
	Regulatory adjustments of the tier 1 in respect of transitional agreements	-981.9	-981.9	
	<i>of which goodwill</i>	-828.5	-828.5	5
	<i>of which other intangible assets (net of related deferred tax liabilities)</i>	-147.4	-147.4	6
	<i>of which share of investments in associates deducted from tier 1 capital</i>	-5.9	-5.9	9
43	<b>Total adjustments to additional tier 1 capital<sup>2</sup></b>	<b>-982.9</b>	<b>-981.9</b>	
44	<b>Additional tier 1 capital</b>	<b>152.8</b>	<b>-981.9</b>	
45	<b>Tier 1 capital</b>	<b>3,597.0</b>	<b>231.0</b>	
47	Directly issued capital instruments subject to phase-out from tier 2 capital	0.0	0.0	
51	<b>Tier 2 capital before adjustments</b>	<b>0.0</b>	<b>0.0</b>	
52	Investments in own tier 2 instruments	0.0	0.0	
56	Additional adjustments (collective allowance plus 45% of unrealised gains on financial investments available-for-sale)	76.1		
	Regulatory adjustments of the tier 2 in respect of transitional agreements	-5.9	-5.9	
	<i>of which share of investments in associates deducted from tier 2 capital</i>	-5.9	-5.9	9
57	<b>Total adjustments to tier 2 capital</b>	<b>70.2</b>	<b>-5.9</b>	
58	<b>Tier 2 capital</b>	<b>70.2</b>	<b>-5.9</b>	
59	<b>Eligible capital</b>	<b>3,667.2</b>	<b>225.1</b>	
	Total amount with risk weight pursuant to the transitional arrangements (phase-in)		8.6	
	<i>of which software capitalised (intangibles)</i>		137.9	
	<i>of which investments in associates</i>		-29.4	
	<i>of which deferred tax assets</i>		8.6	
	<i>of which change of credit risk measurement of derivatives</i>		-108.5	
60	<b>Total risk-weighted assets</b>	<b>21,001.8</b>	<b>8.6</b>	

<sup>1</sup> Row numbers according to the sample table enclosed in the FINMA-Circular 2016/1, annex 2, table 2

<sup>2</sup> In the annual report 2016, page 121, an additional tier 1 capital of CHF 1,134.7 million is disclosed, because the shares of additional tier 1 capital instruments of CHF 1.1 million held in own books are directly deducted.

<sup>R</sup> Comments to the references:

Reference 9: 40% transitional deducted, results in CHF 11.7 million

## CAPITAL RATIO

		31.12.2016	31.12.2016	References <sup>R</sup>
		Phase-in amounts CHF m	Effects of the transition period CHF m	
<b>No.<sup>1</sup></b>				
	<b>Capital ratios</b>			
61	Common equity tier 1 ratio (row number 29, as a percentage of risk-weighted assets)	16.4%	5.8%	
62	Tier 1 ratio (row number 45, as a percentage of risk-weighted assets)	17.1%	1.1%	
63	Eligible capital ratio (row number 59, as a percentage of risk-weighted assets)	17.5%	1.1%	
64	Common equity tier 1 capital requirement according to BIS minimal standards: minimum requirement plus capital conservation and countercyclical buffer requirement (as a percentage of risk-weighted assets)	6.0%		
65	of which capital conservation buffer	1.3%		
66	of which countercyclical buffer	0.2%		
68	Common equity tier 1 capital available to cover minimum and buffer requirements according to BIS minimal standards after deduction of additional tier 1 and tier 2 capital requirements which are filled by common equity tier 1 capital (as a percentage of risk-weighted assets)	14.0%		
68a	Regulatory requirement to common equity tier 1 capital according to annex 8 of the CAO plus the countercyclical buffer (as a percentage of risk-weighted assets)	8.0%		
68b	Common equity tier 1 capital available after deduction of additional tier 1 and tier 2 capital requirements which are filled by common equity tier 1 capital (as a percentage of risk-weighted assets)	13.3%		
68c	Regulatory requirement to tier 1 capital according to annex 8 of the CAO plus the countercyclical buffer (as a percentage of risk-weighted assets)	9.8%		
68d	Tier 1 capital available after deduction of tier 2 capital requirement which is filled by tier 1 capital (as a percentage of risk-weighted assets)	15.1%		
68e	Regulatory requirement to total capital according to annex 8 of the CAO plus the countercyclical buffer (as a percentage of risk-weighted assets)	12.2%		
68f	Available regulatory capital (as a percentage of risk-weighted assets)	17.5%		
	<b>Amounts below the thresholds for deduction (before risk-weighting)</b>			
72	Non-significant investments in the financial sector	187.9		
73	Significant investments in the financial sector	17.6		
75	Other deferred tax assets	7.2		10
	<b>Applicable cap on the inclusion of provisions in tier 2</b>			
76	Provisions eligible for inclusion in tier 2 capital in respect of exposures subject to standardised approach	25.9		
77	Cap on inclusion of provisions under standardized approach	186.3		

<sup>1</sup> Row numbers according to the sample table enclosed in the FINMA-Circular 2016/1, annex 2, table 2<sup>R</sup> Comments to the references:

none

**CAPITAL RATIO****MINIMUM CAPITAL REQUIREMENT**

Required capital (see table below) for credit risks arising from amounts due from banks, loans, financial investments and derivative financial instruments accounted for more than 71% of the total required

capital at end of December 2016. Capital required for non-counterparty risk (2%) and market risk (5%) was of minor significance. The capital required to cover operational risk accounted for 22% of total required capital.

**Capital required**

	<b>31.12.2016</b> Basel III phase-in CHF m	31.12.2015 Basel III phase-in CHF m
Credit risk	<b>1,192.2</b>	1,102.0
<i>of which for equity securities in the banking book</i>	<b>9.8</b>	4.4
Non-counterparty-related risk	<b>40.5</b>	40.8
Market risk	<b>76.6</b>	62.1
Operational risk	<b>370.8</b>	338.7
<b>Total</b>	<b>1,680.1</b>	1,543.6

## CREDIT RISK

### APPROACHES USED FOR CALCULATING REQUIRED CAPITAL

For calculating the required capital for credit risk, the Group uses the standardised approach SA-BIS according to the Swiss Capital Adequacy Ordinance (CAO). In the CAO and the circulars referred to therein, the calculation procedures are described in detail.

In addition, the following subsidiary approaches are used:

- Collateral is handled under the comprehensive approach, which means that the credit position is netted against the collateral provided. This takes into account add-ons or haircuts on the receivable and the collateral to reflect possible changes in value based on market developments. The resulting net unsecured position remains in the original position category and is risk weighted according to the criteria applicable to this category.
- Lombard loans are also handled under the comprehensive approach described above.
- The regulatory standard haircuts are used for collateral eligible under the comprehensive approach.
- Credit equivalents for derivatives are calculated using the mark-to-market method. The credit equivalent corresponds to the sum of the current

replacement value and the add-on which is calculated on the basis of the notional amount of the contract.

- Securities lending, repo and repo-style transactions are handled in accordance with the comprehensive approach, under which capital is required to cover the difference between the margin provided less a haircut and the securities position plus a risk premium.
- The standard approach is used to quantify the risk of a loss due to credit value adjustments (CVAs) of derivatives based on counterparty credit risks.

### CREDIT RISK BREAKDOWN

The credit risk breakdown by region, by sector, secured/not secured and by regulatory risk weightings, as presented numerically in the tables of the following sections, is provided before deduction of the eligible collateral and in accordance with Swiss disclosure requirements (FINMA circular 2008/22), which are based on the international guidelines contained in the Basel Committee on Banking Supervision's Basel III Accord. Balance sheet and off-balance sheet positions exposed to credit risks are disclosed, with the exception of the following balance sheet positions, which include non-financial instruments: accrued income and prepaid expenses, deferred tax assets and other assets.

**CAPITAL RATIO**

In the following table the counterparty domicile serves as the fundamental basis for the geographical breakdown. For the secured portion of the credit, however, the geographical allocation is shown on the

basis either of the domicile of the assets pledged, e.g. the domicile of the issuer of securities which are pledged as collateral, or the domicile of the guarantor.

**Credit risk by region**

						31.12.2016
	Switzerland CHF m	Europe CHF m	Americas CHF m	Asia- Pacific CHF m	Other countries CHF m	Total CHF m
Due from banks	6,149	3,486	333	1,400	4	11,372
Loans	9,621	12,426	8,300	7,634	438	38,419
Financial assets designated at fair value	-	158	94	-	-	252
Financial investments available-for-sale	185	7,090	6,998	3,827	46	18,146
Investments in associates	-	-	29	-	-	29
Derivative financial instruments	2,122	810	467	241	4	3,644
Contingent liabilities	105	238	141	64	16	564
Irrevocable commitments	212	116	52	20	-	400
Securities lending and repo transactions	856	2,912	445	46	3	4,262
<b>Total</b>	19,250	27,236	16,859	13,232	511	77,088

						31.12.2015
	Switzerland CHF m	Europe CHF m	Americas CHF m	Asia- Pacific CHF m	Other countries CHF m	Total CHF m
Due from banks	1,927	1,676	482	2,152	1	6,238
Loans	9,217	10,714	8,398	7,652	400	36,381
Financial assets designated at fair value	-	149	48	-	-	197
Financial investments available-for-sale	68	7,328	6,437	2,607	45	16,485
Investments in associates	-	61	29	-	-	90
Derivative financial instruments	1,383	586	382	245	7	2,603
Contingent liabilities	102	163	169	65	13	512
Irrevocable commitments	188	131	64	21	1	405
Securities lending and repo transactions	829	2,996	486	113	6	4,430
<b>Total</b>	13,714	23,804	16,495	12,855	473	67,341



**CAPITAL RATIO**

In the following table the counterparty industry code serves as the fundamental basis for the sector breakdown. For the secured portion of the credit, however, sector allocation is shown on the basis either of the industry code of the assets pledged, e.g. the industry code of the issuer of securities which are pledged as collateral, or the industry code of the guarantor. The column headed 'Other' is used for disclosure of

securities issued by companies outside the financial sector: these consist partly of proprietary positions of the Group which are reported on the balance sheet as financial investments available-for-sale and partly of the portion of the credit collateralised by securities issued by companies outside the financial sector.

**Credit risk by sector**

	31.12.2016				
	Governments and agencies CHF m	Financial institutions CHF m	Private clients CHF m	Other CHF m	Total CHF m
Due from banks	-	11,372	-	-	<b>11,372</b>
Loans	630	5,254	25,393	7,142	<b>38,419</b>
Financial assets designated at fair value	-	252	-	-	<b>252</b>
Financial investments available-for-sale	6,530	7,262	-	4,354	<b>18,146</b>
Investments in associates	-	29	-	-	<b>29</b>
Derivative financial instruments	61	1,233	2,058	292	<b>3,644</b>
Contingent liabilities	8	53	381	122	<b>564</b>
Irrevocable commitments	44	110	208	38	<b>400</b>
Securities lending and repo transactions	700	3,075	51	436	<b>4,262</b>
<b>Total</b>	<b>7,973</b>	<b>28,640</b>	<b>28,091</b>	<b>12,384</b>	<b>77,088</b>

	31.12.2015				
	Governments and agencies CHF m	Financial institutions CHF m	Private clients CHF m	Other CHF m	Total CHF m
Due from banks	-	6,238	-	-	6,238
Loans	486	4,536	24,369	6,990	36,381
Financial assets designated at fair value	-	197	-	-	197
Financial investments available-for-sale	5,975	6,102	-	4,408	16,485
Investments in associates	-	90	-	-	90
Derivative financial instruments	15	1,530	857	201	2,603
Contingent liabilities	8	56	364	84	512
Irrevocable commitments	35	118	185	67	405
Securities lending and repo transactions	675	2,914	46	795	4,430
<b>Total</b>	<b>7,194</b>	<b>21,781</b>	<b>25,821</b>	<b>12,545</b>	<b>67,341</b>

**CAPITAL RATIO**

The collateral pledged to cover Lombard loans, OTC derivatives positions as well as securities lending and repo transactions consists primarily of readily marketable securities. In the following table all the collateral accepted within the scope of the capital

adequacy regulations is disclosed. The haircuts applied to the collateral positions are in accordance with current Swiss regulatory requirements, which are based on the Basel III BIS standard haircuts.

**Credit risk secured/not secured**

			31.12.2016
	Secured by recognised financial collaterals <sup>1</sup> CHF m	Not secured by recognised financial collaterals CHF m	Total CHF m
Due from banks	6,395	4,977	11,372
Loans	35,458	2,961	38,419
Financial assets designated at fair value	-	252	252
Financial investments available-for-sale	-	18,146	18,146
Investments in associates	-	29	29
Derivative financial instruments	1,647	1,997	3,644
Contingent liabilities	511	53	564
Irrevocable commitments	195	205	400
Securities lending and repo transactions	3,466	796	4,262
<b>Total</b>	<b>47,672</b>	<b>29,416</b>	<b>77,088</b>

			31.12.2015
	Secured by recognised financial collaterals <sup>1</sup> CHF m	Not secured by recognised financial collaterals CHF m	Total CHF m
Due from banks	2,426	3,812	6,238
Loans	33,764	2,617	36,381
Financial assets designated at fair value	-	197	197
Financial investments available-for-sale	-	16,485	16,485
Investments in associates	-	90	90
Derivative financial instruments	1,237	1,366	2,603
Contingent liabilities	473	39	512
Irrevocable commitments	195	210	405
Securities lending and repo transactions	3,658	772	4,430
<b>Total</b>	<b>41,753</b>	<b>25,588</b>	<b>67,341</b>

<sup>1</sup> Taking into account recognised collaterals with applied discount factors according to Swiss Capital Adequacy Ordinance

## CAPITAL RATIO

The following table gives an overview of the credit risk classified by regulatory risk weightings. The regulatory risk weightings are in accordance with current Swiss regulatory requirements, which are based on the Basel III BIS approach. The allocation of the receivables to the risk weights depends on the

type and current rating of the counterparty or the individual rating of the specific financial investment held. The collateralised portion of receivables (other than mortgages) is allocated to the 0% risk-weight column, since no regulatory capital is required in respect of these lending positions.

## Credit risk by regulatory risk weightings

	31.12.2016							
	0% CHF m	20% CHF m	35% CHF m	50% CHF m	75% CHF m	100% CHF m	150% or greater CHF m	Total CHF m
Due from banks	6,391	3,882	-	1,049	-	45	5	11,372
Loans	25,768	12	7,636	266	681	4,052	4	38,419
Financial assets designated at fair value	252	-	-	-	-	-	-	252
Financial investments available-for-sale	5,089	6,553	-	6,298	-	149	57	18,146
Investments in associates	-	-	-	-	-	-	29	29
Derivative financial instruments	1,646	1,475	-	342	2	179	-	3,644
Contingent liabilities	513	-	-	8	-	43	-	564
Irrevocable commitments	195	31	-	89	-	85	-	400
Securities lending and repo transactions	3,466	592	-	-	-	204	-	4,262
<b>Total</b>	<b>43,320</b>	<b>12,545</b>	<b>7,636</b>	<b>8,052</b>	<b>683</b>	<b>4,757</b>	<b>95</b>	<b>77,088</b>

	31.12.2015							
	0% CHF m	20% CHF m	35% CHF m	50% CHF m	75% CHF m	100% CHF m	150% or greater CHF m	Total CHF m
Due from banks	2,440	3,132	-	643	-	19	4	6,238
Loans	24,943	42	6,677	320	631	3,764	4	36,381
Financial assets designated at fair value	197	-	-	-	-	-	-	197
Financial investments available-for-sale	4,954	5,552	-	5,647	-	315	17	16,485
Investments in associates	-	-	-	-	-	-	90	90
Derivative financial instruments	1,237	269	-	868	-	229	-	2,603
Contingent liabilities	472	-	-	8	-	32	-	512
Irrevocable commitments	195	30	-	81	-	99	-	405
Securities lending and repo transactions	3,658	593	-	-	-	179	-	4,430
<b>Total</b>	<b>38,096</b>	<b>9,618</b>	<b>6,677</b>	<b>7,567</b>	<b>631</b>	<b>4,637</b>	<b>115</b>	<b>67,341</b>

**CAPITAL RATIO****USE OF EXTERNAL RATINGS**

The Group uses the ratings of the agencies Moody's, Standard & Poor's and Fitch in accordance with the regulations of FINMA. The following table shows the

receivables per counterparty category and split into risk-weightings. The allocation is based on external ratings before the deduction of eligible collaterals.

**Based on external ratings determined risk-weighted positions<sup>1</sup>**

		<b>31.12.2016</b>				
<b>Counterparty</b>	<b>Rating</b>	<b>0% CHF m</b>	<b>20% CHF m</b>	<b>50% CHF m</b>	<b>100% CHF m</b>	<b>150% CHF m</b>
Central governments and central banks	with rating	4,222.7	693.7	16.8	0.4	-
	without rating	150.7	-	-	4.0	-
BIS, IMF and multilateral development banks	with rating	881.1	93.9	-	-	-
	without rating	-	-	-	-	-
Public-sector entities	with rating		384.7	265.8	15.7	-
	without rating		0.6	32.3	-	-
Banks and securities traders	with rating		15,575.4	5,236.7	35.8	0.0
	without rating		659.5	508.7	65.2	83.5
Corporates	with rating		2,115.9	2,212.0	67.5	2.0
	without rating		-	-	4,048.5	55.3
Total	with rating	5,103.8	18,863.6	7,731.5	119.5	2.0
	without rating	150.7	660.1	540.9	4,117.7	138.8
<b>Grand total</b>		<b>5,254.5</b>	<b>19,523.7</b>	<b>8,272.4</b>	<b>4,237.2</b>	<b>140.8</b>

		<b>31.12.2015</b>				
<b>Counterparty</b>	<b>Rating</b>	<b>0% CHF m</b>	<b>20% CHF m</b>	<b>50% CHF m</b>	<b>100% CHF m</b>	<b>150% CHF m</b>
Central governments and central banks	with rating	4,106.4	178.4	5.8	0.4	-
	without rating	424.9	-	-	0.1	-
BIS, IMF and multilateral development banks	with rating	876.1	106.7	0.2	-	-
	without rating	-	-	-	-	-
Public-sector entities	with rating		413.9	330.5	9.5	-
	without rating		1.6	5.5	-	-
Banks and securities traders	with rating		10,774.8	4,128.4	166.4	249.8
	without rating		783.9	872.6	19.0	86.5
Corporates	with rating		2,205.4	2,149.6	105.8	1.7
	without rating		-	-	3,896.5	35.9
Total	with rating	4,982.5	13,679.2	6,614.5	282.1	251.5
	without rating	424.9	785.5	878.1	3,915.6	122.4
<b>Grand total</b>		<b>5,407.4</b>	<b>14,464.7</b>	<b>7,492.6</b>	<b>4,197.7</b>	<b>373.9</b>

<sup>1</sup> Before taking into consideration risk-mitigating measures

## ADDITIONAL INFORMATION

In the following table the impaired loans are disclosed broken down by geographical region.

### Impaired loans by region

	Gross loans CHF m	31.12.2016 Specific allowance CHF m	Gross loans CHF m	31.12.2015 Specific allowance CHF m
Switzerland	26.9	-8.2	4.1	-0.5
Europe (excl. Switzerland)	22.3	-4.9	29.6	-20.1
Americas	0.9	-0.9	2.4	-2.5
Asia-Pacific	33.2	-33.2	36.0	-35.3
<b>Total</b>	<b>83.3</b>	<b>-47.2</b>	<b>72.2</b>	<b>-58.5</b>

At the end of December 2016, the banking book did not contain any credit derivatives.

## LEVERAGE RATIO INTRODUCTION

In November 2014, FINMA published the new 'Leverage Ratio' circular, which sets out the rules for calculating the leverage ratio in Switzerland. In addition to the existing requirement for banks to hold eligible capital proportionate to their risk weighted assets, the circular defines the leverage ratio as a new, non-risk-based metric. The leverage ratio is defined as the ratio between eligible (tier 1) core capital and total exposure. The total exposure encompasses all balance-sheet and off-balance sheet positions, and the new 'Leverage Ratio' circular defines how these are to be calculated. The Basel Committee on Banking Supervision will define the

requirements which it will place on the leverage ratio from 2018 after the conclusion of an observation period. That period will also be used to clarify a number of currently open questions regarding the calculation of total exposure. The indicative leverage ratio requirement, which is not yet binding at this stage, is three percent. This may however be subject to change once the observation period has concluded. Basel III regulations also require publication of the leverage ratio from 2015 onwards. This requirement is contained in the revised version of the FINMA-Circular 2016/1 'Disclosure Banks'.

## COMPONENTS

The tier 1 leverage ratio was 3.8% at the end of December 2016. The difference of the total exposures of CHF 95,202 million (number 8 in the following table) to the total on-balance sheet expo-

sure of CHF 96,207 million (number 1) was minus CHF 1,005 million. The difference is the total of the single amounts of the numbers 2 to 7 in the following table.

### Summary comparison of accounting assets versus leverage ratio exposure measure

		31.12.2016 CHF m
No.		
1	Total assets as per published financial statements	96,207.2
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation (margins 6–7 FINMA circular 15/3), and adjustments for assets that are deducted from tier 1 capital (margins 16–17 FINMA circular 15/3)	-2,777.2
3	Adjustments for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure (margin 15 FINMA circular RS 15/3)	-
4	Adjustments for derivative financial instruments (margins 21–51 FINMA circular 15/3)	742.5
5	Adjustments for securities financing transactions (margins 52–73 FINMA circular 15/3)	66.6
6	Adjustments for off-balance sheet items (conversion to credit equivalent amounts of off-balance sheet exposures) (margins 74–76 FINMA circular 15/3)	963.2
7	Other adjustments	-
8	<b>Leverage ratio exposure</b>	<b>95,202.3</b>

## LEVERAGE RATIO

## Detailed description of the components of the leverage ratio

		<b>31.12.2016</b> CHF m
<b>No.</b>		
	<b>On-balance sheet exposures</b>	
1	On-balance sheet items excluding derivatives and securities financing transactions (SFTs), but including collateral (margins 14–15 FINMA circular 15/3)	93,511.0
2	(Asset amounts deducted in determining Basel III Tier 1 capital) (margins 7 and 16–17 FINMA circular 15/3)	-2,777.2
3	<b>Total on-balance sheet exposures (excluding derivatives and SFTs)</b>	<b>90,733.8</b>
	<b>Derivative exposures</b>	
4	Positive replacement cost associated with all derivatives transactions including exposures resulting from CCP transactions net of eligible cash variation margin according to margins 22–23 and 34–35 FINMA circular 15/3	2,026.6
5	Add-on amounts for potential futures exposures (PFE) associated with all derivatives transactions (margins 22 and 25 FINMA circular 15/3)	1,616.9
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework (margin 27 FINMA circular 15/3)	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions according to margin 36 FINMA circular 15/3)	-499.7
8	(Exempted central counterparty (CCP) leg of client-cleared trade exposures) (margin 39 FINMA circular 15/3)	-
9	Adjusted effective notional amount of all written credit derivatives (after deduction of negative replacement values) (margin 43 FINMA circular 15/3)	293.5
10	(Adjusted effective notional offsets (margins 44–50 FINMA circular 15/3) and add-on deductions for written credit derivatives according to margin 51 FINMA circular 15/3)	-
11	<b>Total derivative exposures</b>	<b>3,437.3</b>
	<b>Securities financing transaction exposures</b>	
12	Gross SFT assets with no recognition of netting other than novation with QCCPs (margin 57 FINMA circular 15/3), including sales accounting transactions (margin 69 FINMA circular 15/3), removing certain positions according to margin 58 FINMA circular 15/3	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets) (margins 59–62 FINMA circular 15/3)	-1.4
14	Counterparty credit risk (CCR) exposure for SFT assets (margins 63–68 FINMA circular 15/3)	69.4
15	Agent transaction exposures (margins 70–73 FINMA circular 15/3)	-
16	<b>Total securities financing transaction exposures</b>	<b>68.0</b>
	<b>Other off-balance sheet exposures</b>	
17	Off-balance sheet exposure at gross notional amount (before calculation of credit conversion factors)	1,934.6
18	(Adjustments for conversion to credit equivalent amounts) (margins 75–76 FINMA circular 15/3)	-971.4
19	<b>Total off-balance sheet items</b>	<b>963.2</b>
	<b>Eligible capital and total exposures</b>	
20	<b>Core capital (Tier 1 capital, margin 5 FINMA circular 15/3)</b>	<b>3,597.0</b>
21	<b>Total exposure</b>	<b>95,202.3</b>
	<b>Leverage ratio</b>	
22	<b>Basel III leverage ratio (margins 3–4 FINMA circular 15/3)</b>	<b>3.8%</b>

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## LIQUIDITY COVERAGE RATIO INTRODUCTION

Switzerland's Liquidity Ordinance and FINMA's 'Liquidity Risks – Banks' circular make it a regulatory requirement for the Group to calculate and monitor its Liquidity Coverage Ratio (LCR). The LCR provides banks with a metric to assist them in ensuring that they hold a sufficient quantity of highly liquid assets to enable them to withstand a short-term (30-day) company-specific stress situation which

coincides with a period of general market stress. The management of the liquidity risks is described in the AR 2016 of the Group in the section Management of liquidity and financing risks (page 112ff.). Basel III regulations also require publication of the leverage ratio from 2015 onwards. This requirement is contained in the the FINMA-Circular 2016/1 'Disclosure Banks'.

## COMPONENTS

In the following table the LCR figures are disclosed as 3-month average value per quarter. The total of the high-quality liquid assets (number 1 in the following table) increased in the fourth quarter compared to the previous quarter value. Simultaneously the total of net average cash outflows (number 22)

increased more significantly in the fourth quarter. The changes resulted in a lower liquidity coverage ratio, but still significantly above the regulatory required minimum ratio of 70% valid as at 31. December 2016 (100% is required from 2019 onwards).



Information to the liquidity coverage ratio

No.	Q3 2016 3-month average		Q4 2016 3-month average	
	Unweighted value CHF m	Weighted value CHF m	Unweighted value CHF m	Weighted value CHF m
<b>A. High-quality liquid assets (HQLA)</b>				
Cash and balances with central banks		12,080.4		12,328.7
Securities category 1 and category 2		6,344.8		6,759.9
<b>1 Total high-quality liquid assets (HQLA)</b>		<b>18,425.2</b>		<b>19,088.6</b>
<b>B. Cash outflows</b>				
2 Retail deposits	32,839.6	4,503.9	34,570.9	4,800.7
3 of which stable deposits	3,492.5	174.6	3,440.8	172.0
4 of which less stable deposits	29,347.1	4,329.2	31,130.1	4,628.6
5 Unsecured wholesale funding	36,627.9	21,094.4	37,825.5	22,498.5
6 of which operational deposits (all counterparties)	-	-	-	-
7 of which non-operational deposits (all counterparties)	34,216.7	18,683.2	34,625.3	19,298.3
8 of which unsecured debts	2,411.2	2,411.2	3,200.2	3,200.2
9 Secured wholesale funding		2,623.7		2,688.9
10 Additional cash outflows	5,593.0	5,136.2	6,758.9	6,344.1
11 of which outflows related to derivatives and other transactions	4,727.5	4,727.5	5,961.3	5,961.3
12 of which outflows related to loss of funding on debt products	-	-	-	-
13 of which committed credit and liquidity facilities	865.5	408.7	797.6	382.8
14 Other contractual funding obligations	550.0	556.7	584.7	582.7
15 Other contingent funding obligations	6,523.9	132.5	7,497.2	136.4
<b>16 Total cash outflows</b>		<b>34,047.4</b>		<b>37,051.3</b>
<b>C. Cash inflows</b>				
17 Secured lending (e.g. reverse repurchase transactions)	323.0	318.7	410.7	330.8
18 Income from fully performing exposures	29,683.1	17,322.9	30,920.5	17,951.6
19 Other cash inflows	5,824.6	5,824.6	7,470.0	7,470.0
<b>20 Total cash inflows<sup>1</sup></b>	<b>35,830.7</b>	<b>23,466.2</b>	<b>38,801.1</b>	<b>25,752.3</b>
<b>Liquidity coverage ratio</b>				
21 Total high-quality liquid assets (HQLA)		18,425.2		19,088.6
22 Total net cash outflows		10,581.2		11,299.0
<b>23 Liquidity coverage ratio (in %)</b>		<b>174.1%</b>		<b>168.9%</b>

<sup>1</sup> After applying the cap on cash inflows at max. 75% of total cash outflows, calculated on a monthly basis





JULIUS BAER GROUP LTD.  
Bahnhofstrasse 36  
P.O. Box  
8010 Zurich  
Switzerland  
Telephone +41 (0) 58 888 1111  
Fax +41 (0) 58 888 5517  
**[www.juliusbaer.com](http://www.juliusbaer.com)**

The Julius Baer Group  
is present in more than  
50 locations worldwide,  
including Zurich (Head Office),  
Dubai, Frankfurt, Geneva,  
Hong Kong, London, Luxembourg,  
Milan, Monaco, Montevideo,  
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**Registered Office of the Issuer**

**Julius Baer Group Ltd.**

Bahnhofstrasse 36  
CH-8001 Zurich  
Switzerland

**Joint Lead Managers**

**BNP Paribas**

10 Harewood Avenue  
London NW11 6AA  
United Kingdom

**Citigroup Global Markets Limited**

Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

**Credit Suisse Securities (Europe) Limited**

One Cabot Square  
London E14 4QJ  
United Kingdom

**Senior Co-Lead Manager**

**Bank Julius Baer & Co. Ltd.**

Bahnhofstrasse 36  
8001 Zürich  
Switzerland

**Principal Paying Agent**

**Citibank N.A., London Branch**

Citigroup Centre  
Canada Square, Canary Wharf  
London E14 5LB  
United Kingdom

**Registrar**

**Citigroup Global Markets Deutschland AG**

Germany Agency and Trust Department  
Reuterweg 16  
60323 Frankfurt  
Germany

**Swiss Paying Agent**

**Credit Suisse AG**

Paradeplatz 8  
8001 Zurich  
Switzerland

**Legal Advisors**

*to the Issuer*

**Homburger AG**

Prime Tower  
Hardstrasse 201  
CH-8005 Zurich  
Switzerland

*to the Managers*

**Clifford Chance LLP**

10 Upper Bank Street  
London E14 5JJ  
United Kingdom

**Statutory Auditor**

**KPMG AG**

Badenerstrasse 172  
CH-8004 Zurich  
Switzerland

