

# CONSOLIDATED FINANCIAL STATEMENTS JULIUS BAER GROUP 2017 (AUDITED)

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## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED INCOME STATEMENT

	Note	2017 CHF m	2016 CHF m	Change %
Interest and dividend income		<b>1,195.3</b>	1,043.9	14.5
Interest expense		<b>207.5</b>	166.8	24.4
Net interest and dividend income	1	<b>987.8</b>	877.1	12.6
Commission and fee income		<b>2,172.1</b>	1,771.1	22.6
Commission expense		<b>241.5</b>	206.2	17.1
Net commission and fee income	2	<b>1,930.6</b>	1,564.9	23.4
Net trading income	3	<b>303.6</b>	332.5	-8.7
Other ordinary results	4	<b>30.3</b>	77.9	-61.1
<b>Operating income</b>		<b>3,252.2</b>	2,852.4	14.0
Personnel expenses	5	<b>1,555.7</b>	1,335.9	16.5
General expenses	6	<b>649.7</b>	623.2	4.2
Depreciation of property and equipment	12	<b>42.3</b>	37.6	12.3
Amortisation of customer relationships	12	<b>72.7</b>	68.5	6.2
Amortisation and impairment of other intangible assets	12	<b>45.4</b>	34.6	31.2
<b>Operating expenses</b>		<b>2,365.8</b>	2,099.8	12.7
<b>Profit before taxes</b>		<b>886.5</b>	752.6	17.8
Income taxes	7	<b>170.6</b>	130.4	30.8
<b>Net profit</b>		<b>715.9</b>	622.1	15.1
Attributable to:				
Shareholders of Julius Baer Group Ltd.		<b>704.8</b>	619.4	13.8
Non-controlling interests		<b>11.1</b>	2.7	306.8
		<b>715.9</b>	622.1	15.1
<b>Share information</b>				
Basic earnings per share (EPS)	8	<b>3.25</b>	2.85	14.1
Diluted earnings per share (EPS)	8	<b>3.25</b>	2.84	14.3
Dividend proposal 2017 and dividend 2016		<b>1.40</b>	1.20	16.7

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>2017</b>	2016
	<i>CHF m</i>	<i>CHF m</i>
<b>Net profit recognised in the income statement</b>	<b>715.9</b>	622.1
<hr/>		
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>3.3</b>	19.8
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	<b>6.4</b>	7.8
Translation differences	<b>30.1</b>	22.8
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>2.7</b>	18.9
<b>Other comprehensive income</b>	<b>42.5</b>	69.2
<hr/>		
<b>Total comprehensive income</b>	<b>758.4</b>	691.3
<hr/>		
Attributable to:		
Shareholders of Julius Baer Group Ltd.	<b>746.5</b>	685.7
Non-controlling interests	<b>11.9</b>	5.6
	<b>758.4</b>	691.3

## CONSOLIDATED BALANCE SHEET

	<i>Note</i>	<b>31.12.2017</b> <i>CHF m</i>	31.12.2016 <i>CHF m</i>
<b>Assets</b>			
Cash		<b>10,862.9</b>	13,599.5
Due from banks	9	<b>8,308.9</b>	11,389.8
Loans	9	<b>46,623.7</b>	38,419.0
Trading assets	10	<b>12,751.8</b>	7,660.7
Derivative financial instruments	24	<b>1,962.7</b>	2,690.9
Financial assets designated at fair value	25	<b>277.3</b>	252.4
Financial investments available-for-sale	11	<b>12,246.5</b>	18,266.6
Investments in associates	26	<b>28.2</b>	29.4
Property and equipment	12	<b>356.6</b>	373.8
Goodwill and other intangible assets	12	<b>2,872.4</b>	2,834.3
Accrued income and prepaid expenses		<b>354.3</b>	327.2
Deferred tax assets	17	<b>28.8</b>	28.8
Other assets		<b>1,243.5</b>	335.0
<b>Total assets</b>		<b>97,917.6</b>	96,207.2

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**CONSOLIDATED FINANCIAL STATEMENTS**

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	<i>Note</i>	<b>31.12.2017</b> <i>CHF m</i>	31.12.2016 <i>CHF m</i>
<b>Liabilities and equity</b>			
Due to banks		<b>7,209.5</b>	10,076.8
Due to customers		<b>67,636.8</b>	67,495.2
Trading liabilities	10	<b>135.8</b>	159.0
Derivative financial instruments	24	<b>2,059.2</b>	2,285.3
Financial liabilities designated at fair value	15	<b>11,836.7</b>	8,444.4
Debt issued	16	<b>1,777.0</b>	1,213.5
Accrued expenses and deferred income		<b>728.2</b>	620.3
Current tax liabilities		<b>215.9</b>	123.0
Deferred tax liabilities	17	<b>59.9</b>	77.8
Provisions	18	<b>44.9</b>	23.0
Other liabilities		<b>359.6</b>	335.1
<b>Total liabilities</b>		<b>92,063.6</b>	90,853.4
<hr/>			
Share capital	19	<b>4.5</b>	4.5
Retained earnings		<b>6,306.0</b>	5,840.4
Other components of equity		<b>-209.9</b>	-251.6
Treasury shares		<b>-276.1</b>	-263.1
Equity attributable to shareholders of Julius Baer Group Ltd.		<b>5,824.5</b>	5,330.2
Non-controlling interests		<b>29.5</b>	23.6
<b>Total equity</b>		<b>5,854.0</b>	5,353.9
<b>Total liabilities and equity</b>		<b>97,917.6</b>	96,207.2

## 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	-	619.4
Items that may be reclassified to the income statement	-	-
Items that will not be reclassified to the income statement	-	-
Total other comprehensive income	-	-
Total comprehensive income	-	619.4
Changes in non-controlling interests	-	-23.4 <sup>2</sup>
Dividends	-	-246.2
Dividend income on own shares	-	6.2
Share-based payments expensed for the year	-	70.8
Share-based payments vested	-	-49.4
Changes in derivatives on own shares	-	-0.2
Acquisitions of own shares	-	-
Disposals of own shares	-	-4.5
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	-	704.8
Items that may be reclassified to the income statement	-	-
Items that will not be reclassified to the income statement	-	-
Total other comprehensive income	-	-
Total comprehensive income	-	704.8
Dividends	-	-268.6
Dividend income on own shares	-	7.0
Share-based payments expensed for the year	-	82.4
Share-based payments vested	-	-81.2
Changes in derivatives on own shares	-	7.7
Acquisitions of own shares	-	-
Disposals of own shares	-	13.4
<b>At 31 December 2017</b>	<b>4.5</b>	<b>6,306.0</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>
23.1	-221.4	-119.6	-218.9	4,935.6	6.4	4,942.0
-	-	-	-	619.4	2.7	622.1
27.5	-	19.8	-	47.3	2.9	50.3
-	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
<b>50.6</b>	<b>-202.4</b>	<b>-99.8</b>	<b>-263.1</b>	<b>5,330.2</b>	<b>23.6</b>	<b>5,353.9</b>
-	-	-	-	704.8	11.1	715.9
9.7	-	29.4	-	39.1	0.7	39.8
-	2.6	-	-	2.6	0.1	2.7
9.7	2.6	29.4	-	41.7	0.8	42.5
9.7	2.6	29.4	-	746.5	11.9	758.4
-	-	-	-	-268.6	-6.0	-274.6
-	-	-	-	7.0	-	7.0
-	-	-	-	82.4	-	82.4
-	-	-	81.2	-	-	-
-	-	-	33.0	40.7	-	40.7
-	-	-	-302.5	-302.5	-	-302.5
-	-	-	175.3	188.7	-	188.7
60.3	-199.8	-70.4	-276.1	5,824.5	29.5	5,854.0

## CONSOLIDATED STATEMENT OF CASH FLOWS

	2017 <i>CHF m</i>	2016 <i>CHF m</i>
Net profit	<b>715.9</b>	622.1
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	<b>42.3</b>	37.6
- Amortisation and impairment of other intangible assets	<b>118.2</b>	103.1
- Allowance for credit losses	<b>-4.6</b>	15.1
- Income from investment in associates	<b>-1.9</b>	-48.7
- Deferred tax expense/(benefit)	<b>-18.0</b>	8.4
- Net loss/(gain) from investing activities	<b>59.2</b>	80.2
- Other non-cash income and expenses	<b>82.4</b>	70.8
Net increase/decrease in operating assets and liabilities:		
- Net due from/to banks	<b>-2,539.9</b>	5,131.4
- Trading portfolios and derivative financial instruments	<b>-4,612.1</b>	682.7
- Net loans/due to customers	<b>-8,057.7</b>	-245.4
- Issuance and repayment of financial liabilities designated at fair value	<b>3,367.3</b>	4,126.0
- Accrued income, prepaid expenses and other assets	<b>-935.2</b>	335.4
- Accrued expenses, deferred income, other liabilities and provisions	<b>199.9</b>	-653.7
Adjustment for income tax expenses	<b>188.5</b>	122.0
Income taxes paid	<b>-98.7</b>	-78.3
<b>Cash flow from operating activities</b>	<b>-11,494.6</b>	10,308.9
Dividend of associates	<b>1.9</b>	10.2
Purchase of property and equipment and intangible assets	<b>-171.2</b>	-172.9
Disposal of property and equipment and intangible assets	<b>0.0</b>	0.3
Net (investment in)/divestment of financial investments available-for-sale	<b>4,237.4</b>	-251.9
Acquisition of subsidiaries and businesses, net of cash and cash equivalents acquired	<b>-3.8</b>	556.1
Deferred payment of acquisition of subsidiaries and associates	<b>-17.0</b>	-11.2
<b>Cash flow from investing activities</b>	<b>4,047.3</b>	130.7
Net money market instruments issued/(repaid)	<b>43.3</b>	78.7
Net movements in treasury shares and own equity derivative activity	<b>-66.1</b>	-92.2
Dividend payments	<b>-268.6</b>	-246.2
Issuance of bonds	<b>486.2<sup>1</sup></b>	230.4
Repayment of lower tier 2 bond	<b>-</b>	-250.0
Changes in non-controlling interests	<b>-</b>	-9.6
Dividend payment to non-controlling interests	<b>-6.0</b>	-2.1
<b>Cash flow from financing activities</b>	<b>188.8</b>	-291.0
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>-7,258.5</b>	10,148.6

<sup>1</sup> Related to the net proceeds of the issuance of the perpetual non-cumulative high-trigger additional tier 1 bond and the domestic senior unsecured bond issued by Julius Baer Group Ltd. in 2017. The difference to the current book values (see Note 16) relates to the amortisation of premiums and discounts (including capitalised transaction costs) and foreign exchange losses.



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	<b>2017</b>	2016
	<i>CHF m</i>	<i>CHF m</i>
Cash and cash equivalents at the beginning of the year	<b>28,270.9</b>	18,128.7
Cash flow from operating activities	<b>-11,494.6</b>	10,308.9
Cash flow from investing activities	<b>4,047.3</b>	130.7
Cash flow from financing activities	<b>188.8</b>	-291.0
Effects of exchange rate changes on cash and cash equivalents	<b>174.8</b>	-6.4
<b>Cash and cash equivalents at the end of the year</b>	<b>21,187.2</b>	28,270.9

	<b>31.12.2017</b>	31.12.2016
	<i>CHF m</i>	<i>CHF m</i>
<b>Cash and cash equivalents are structured as follows:</b>		
Cash	<b>10,862.9</b>	13,599.5
Money market instruments	<b>2,191.1</b>	3,785.0
Due from banks (original maturity of less than three months)	<b>8,133.2</b>	10,886.4
<b>Total</b>	<b>21,187.2</b>	28,270.9

	<b>31.12.2017</b>	31.12.2016
	<i>CHF m</i>	<i>CHF m</i>
<b>Additional information</b>		
Interest received	<b>997.8</b>	895.4
Interest paid	<b>-187.6</b>	-156.0
Dividends on equities received (including associates)	<b>204.8</b>	209.4

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## 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 2017 comprise those of Julius Baer Group Ltd. and all its subsidiaries (the Group). The Board of Directors approved these financial statements on 30 January 2018. In addition, they are submitted for approval to the Annual General Meeting on 11 April 2018.

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 in part discussed in the corresponding notes: determining fair values of financial instruments, uncertainties in measuring provisions and contingent liabilities, allowance for credit losses, pension assets and liabilities (measurement of defined benefit obligation), income taxes (judgment regarding the interpretation of the applicable tax laws and the respective tax practice, such as transfer pricing or deductible versus non-deductible items, and anticipation of tax audit issues), 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 the income statement 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	
	31.12.2017	31.12.2016	2017	2016
USD/CHF	<b>0.9745</b>	1.0164	<b>0.9795</b>	0.9875
EUR/CHF	<b>1.1702</b>	1.0720	<b>1.1160</b>	1.0890
GBP/CHF	<b>1.3182</b>	1.2559	<b>1.2750</b>	1.3280

#### 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 and irrevocably earned.

#### 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 consideration 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 faithfully 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 through profit or loss**

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 acquisition 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 acquirer'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. The Group is subject to income taxes in numerous countries. 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 income statement in personnel expenses. 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 2017, there were no new standards or amendments to existing standards that had a 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 debt instruments, the new standard requires an entity to recognise expected credit losses at initial recognition of the debt instrument and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of debt 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 debt instrument has not increased significantly since its initial recognition, the debt instrument will attract a loss allowance equal to 12-month expected credit losses ('stage 1' ECL). If its credit risk has increased significantly, it will attract an allowance equal to lifetime expected credit losses ('stage 2' ECL) or the debt instrument is credit-impaired ('stage 3' ECL).

*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.

During the second half of 2017, the Group finalised its assessment of the impact of IFRS 9 on the Group's financial statements. The following applies as of 1 January 2018:

*Recognition and measurement:* Based on the analyses of the two classification criteria 'contractual cash flow characteristics' and 'business model', the Group determined that the debt 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 debt 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.

A small number of equity instruments currently measured at fair value through OCI will be classified as at fair value through profit or loss going forward. The related fair value gains and losses currently recognised in OCI will be reclassified to retained earnings as of 1 January 2018.

In summary, there are no 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 four models (for the Lombard loans business, mortgages business, due from banks business and treasury business, respectively) are generally based on the specific 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 securities in the treasury portfolio. The models have been thoroughly tested based on the existing data. As of 31 December 2017, the following allowances for credit losses would have been recognised in the financial statements due to the new expected credit loss model under IFRS 9:

- Lombard loans: CHF 6.7 million;
- Mortgages: CHF 5.0 million; and
- Due from banks: CHF 0.2 million.

The total allowance for expected credit losses on Lombard loans, mortgages and amounts due from banks to be recognised under IFRS 9 ('stage 1' and 'stage 2' ECL) is comparable to the currently recognised collective allowance for credit losses on these positions (see Note 9C). The difference of CHF 4.4 million between the currently recognised collective allowance for credit losses (CHF 16.3 million) and the new expected credit losses under IFRS 9 (CHF 11.9 million) will be recognised in equity (retained earnings) at transition date.

The Group did not change its approach for the calculation of specific allowances for credit losses. Therefore, the currently recognised specific allowance for credit losses in the amount of CHF 24.2 million for Lombard loans and mortgages equals the new allowance for credit-impaired financial assets under IFRS 9 ('stage 3' ECL).

Under the current accounting standard, the Group does not recognise any allowance for its treasury portfolio in 2017. Therefore, the new allowance for credit losses in the amount of CHF 1.7 million to be recorded under IFRS 9 ('stage 1' and 'stage 2') will be recognised in equity (retained earnings) at transition date.

*Financial liabilities:* The Group will continue to apply its current measurement approach, including the use of the fair value option. No material changes arise.

*Hedge accounting:* The Group has analysed its existing micro hedges that are designated in effective hedging relationships and has determined that the micro hedge relationships would also qualify for hedge accounting under IFRS 9. The Group continues to apply IAS 39 (except for the new disclosures under IFRS 9) until the IASB issues a final hedge accounting standard including micro and macro hedging.

*Transition:* The Group will not restate prior periods in its 2018 financial statements.

### **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 did not early apply IFRS 15. The impact of the new standard on the Group's financial statements is not material and is mainly related to disclosures.

#### **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 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 is currently assessed.

#### **IFRIC 23 – Uncertainty over Income Tax Treatment**

The new interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatment. An entity concludes whether it is probable that the taxation authority will accept an uncertain tax treatment or not and shall reflect the effect of uncertainty in its financial statements.

The new interpretation will be effective 1 January 2019 with earlier application permitted. However, the Group does not intend to early apply IFRIC 23. The impact of the new interpretation has not yet been assessed.

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## 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 Julius Baer Group's (the Group) defined objectives. Risk taking is an inherent component of the Group's 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 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.

To assist its work in monitoring credit risks, the Credit Committee periodically receives a credit risk report which provides details of the various relevant risks (e.g. concentration risk by issuer and country, rating distributions and major positions) as well as information on the evolution of credit volumes.

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 Business Conduct and Risk Committee of the Executive Board of Bank Julius Baer & Co. Ltd. is responsible for defining standards of conduct and processes relating to client relationships, products and services. This Committee also sets guidelines governing the general conduct of business and monitors their implementation. Finally, the Committee also ensures that the management controls which monitor such conduct are effective and that they are appropriate to the business activities carried out.

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.

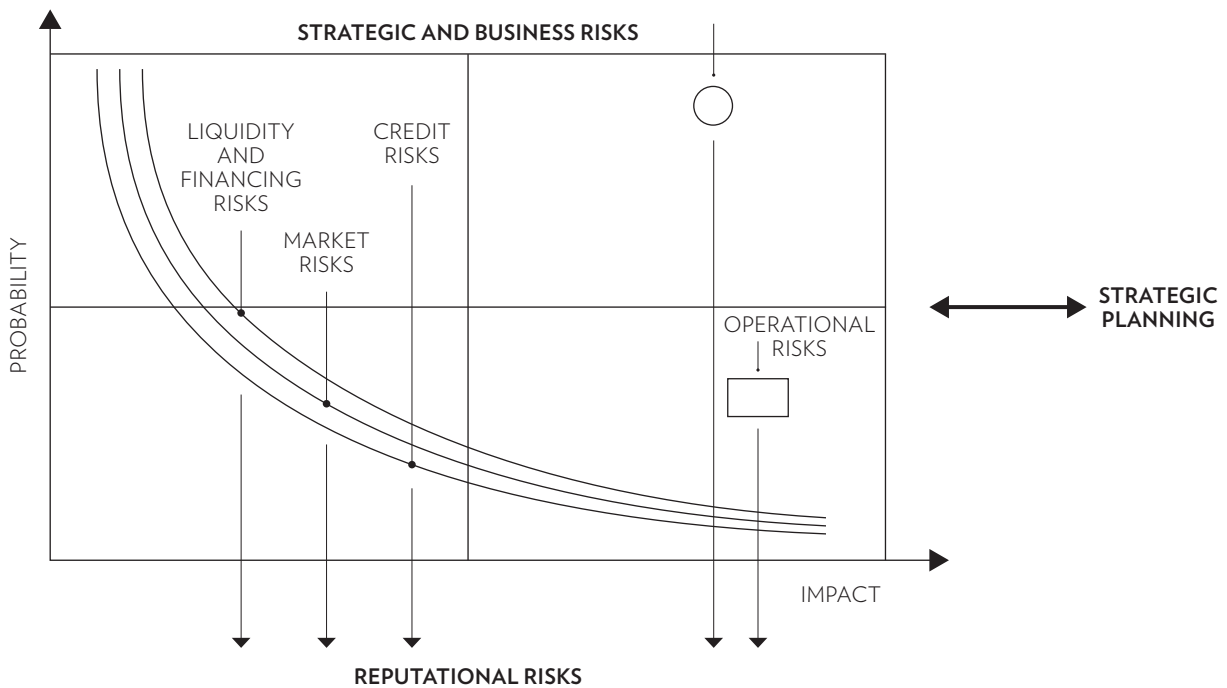
Thanks to its Code of Business Conduct ('Our professional standards') as well as a series of topic-specific code-of-conduct guidelines, Julius Baer has sustainably established its risk culture throughout the organisation. A broad-based compendium of directives and their associated global standards ensures that corporate governance responsibilities are met. The global standards are complemented by commensurate local standards, which articulate the global principles in more concrete terms and are implemented by the individual Julius Baer entities. Finally, Julius Baer's management processes ensure that the Group's code-of-conduct principles are comprehensively observed in day-to-day business operations. The duties of the units engaged in risk taking and those responsible for monitoring those risks are clearly defined, particularly with regard to independence. An important principle here is to maintain an effective first line of defence which ensures that the risks taken are appropriately managed by those engaging in them. Risk is an established item on the agendas of all divisional management committees. Second-line-of-defence activities are carried out by independent units whose task is to ensure that the framework used for managing risks meets Group requirements and complies with the provisions of the law. Their work includes carrying out independent monitoring of the quality of first-line-of-defence risk management. Internal audit provides the third line of defence by ensuring that the Group's business and risk management activities are carried out in accordance with internal directives and applicable external regulations.

Risk reporting is carried out in a hierarchically appropriate fashion along the chain of management processes and responsibilities described above. In particular, formal rules and procedures govern the risk reports submitted to the various Executive Board and Board of Directors' committees as well as to the Board of Directors itself. The risk landscape referred to above is reviewed and revised each year. As part of this process, the Executive Board uses a top-down analysis of the principal strategic and business risks facing the Group and a broad-based bottom-up analysis of its operational risks in order to define the Group's risk appetite and risk tolerance. This is then submitted to the Board of Directors for ratification. The current risk situation

and the measures taken to address the risks identified are described in an ongoing series of quarterly reports. These reports provide details of newly identified risks and new assessments of existing risks, which are discussed at Executive Board and Board of Directors meetings. This process

formally requires that the risks inherent in the Group's business model are addressed on an ongoing basis, thus ensuring that the measures decided upon to mitigate risk are implemented and that the processes required to that end are effective.

**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 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. This credit risk is assessed by reference to a set of rules based on security-specific parameters such as market capitalisation, liquidity, issue size, rating, maturity, nature of the underlying asset etc. Advanceable rates can be determined or adjusted for a specific security or for individual clients. 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 rate 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.

The Bank also grants mortgages to existing private banking clients in Switzerland and in a limited number of international locations where it maintains a local banking presence. The properties pledged are assessed and valued individually as part of the risk management process. These valuations are carried out either on the basis of a factor model or by qualified internal and external appraisers. Maximum mortgage amounts are determined based on the characteristics of each property and client. An additional financial sustainability assessment is also carried out before a mortgage is granted. In many cases, supplementary collateral in the form of securities is also required in addition to the pledged property itself. Every mortgage is assigned a rating, which is subject to periodic reviews whose frequency is determined by the rating level. Compared to its competitors, Bank Julius Baer &

Co. Ltd. tends to assign comparatively low mortgage values and adopt a relatively conservative approach to mortgage risk.

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. As a result, the vast majority of the replacement values of the exposure arising from trading transactions are covered by collateral. The Group places excess liquidity with central banks. It also makes short-term money-market placements with banks and invests in high-quality, repo-eligible bonds and secured debt instruments issued by governments, public institutions, banks and corporations. The credit risks associated with all these counterparties and issuers are subject to a wide range of rules and limits. These ensure that the Group's consolidated credit exposure, both on a single-counterparty and a counterparty-group basis:

- is not subject to concentration by exposure type
- is not disproportionate to the size, shareholders' equity and scale of business of the counterparty
- is clearly within the Group's risk capacity and the applicable regulatory limits

The Group settles a substantial proportion of its trading and derivatives business indirectly through central counterparties (CCPs). The credit risks associated with CCPs are negligible, because the Group works through a variety of specialised service providers and therefore generally does not directly participate in the clearing systems concerned.

Given the focused nature of its activities, the Group is not exposed to any material correlation risk or wrong way risk (i.e. the risk which arises when exposure to a counterparty is negatively correlated to its credit quality). Furthermore, the Group holds cash collateral for the majority of the counterparty risk arising from its open derivatives positions. The Group's securities lending business policies explicitly prohibit transactions involving correlation risk.



The Group has a general policy of avoiding group rating triggers in its collateral agreements for derivatives transactions. As a result, were its rating to decline below a given level, the Bank would not be required to provide additional collateral.

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.

Group management deliberately refrains from setting specific volume targets for the strategic development of its lending business. Instead, its objective is to achieve a growth in Lombard lending commensurate with the evolution of its wealth management business. To that end, the Board of Directors defines corridor values for credit penetration (i.e. the ratio of lending to assets under management). In addition, individual maximum lending amounts are defined for each rating category and there is also an internal guideline for the maximum loan-to-deposit ratio, which is reviewed and validated periodically.

The Group has an explicit policy of avoiding non-targeted credit exposure which largely precludes it from lending against non-traditional forms of collateral. In individual cases, exposure of this kind may be authorised by the Chairman's & Risk Committee, which may also delegate lower lending limits for such transactions to named officers. Authorisation of any positions which exceed the defined limit for individual exposure by rating category can be granted only by the Chairman's & Risk Committee.

Credit risks are monitored on an IT system which has been implemented throughout the Group. The system draws the relevant position data from the book-keeping systems of Group companies which grant loans. The system is able to enrich this data with credit-specific information and to consolidate it with data on client and counterparty positions from the various Group booking centres. All client and counterparty risks are monitored daily, as are current limit usage and the quality of the collateral pledged. In addition, for clients with derivatives positions whose exposure requires intraday monitoring, real-time systems are also available.

The system is able to run comprehensive stress tests. These are calibrated to reflect the prevailing market and political situation. In addition to quantifying direct counterparty risks, these stress tests also examine the effect the scenarios would have on the quality and value of the collateral pledged for Lombard loans and mortgages. The results are reviewed by the credit-monitoring units and reported to the relevant decision-making committees.

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. Differences between the total amounts and the corresponding balance sheet positions are explained in the 'Reconciliation of credit risk totals' section of this report.

For additional information regarding the calculation of the Group's minimum regulatory capital requirements for credit and counterparty risk under Basel III Pillar 3, refer to the separate Basel III Pillar 3 Report published in the Regulatory Disclosures section of the [www.juliusbaer.com](http://www.juliusbaer.com) website (this will be available at the end of April 2018).

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

						31.12.2017
	Switzerland CHF m	Europe CHF m	Americas CHF m	Asia/Pacific CHF m	Other countries CHF m	Total CHF m
Due from banks	4,544	2,139	377	1,147	43	<b>8,250</b>
Loans	9,202	16,365	11,080	9,022	955	<b>46,624</b>
Financial assets designated at fair value	265	-	-	12	-	<b>277</b>
Financial investments available-for-sale	182	4,240	4,403	2,398	904	<b>12,127</b>
Investments in associates	-	-	28	-	-	<b>28</b>
Derivative financial instruments	923	1,091	616	246	48	<b>2,924</b>
Contingent liabilities	107	468	330	95	28	<b>1,028</b>
Irrevocable commitments	190	78	55	14	1	<b>338</b>
Securities lending and repo transactions	1,004	2,268	62	-	2	<b>3,336</b>
<b>Total</b>	<b>16,417</b>	<b>26,649</b>	<b>16,951</b>	<b>12,934</b>	<b>1,981</b>	<b>74,932</b>

						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>

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

	31.12.2017				
	Governments and agencies CHF m	Financial institutions CHF m	Private clients CHF m	Other CHF m	Total CHF m
Due from banks	10	8,203	-	37	<b>8,250</b>
Loans	512	15,013	18,720	12,379	<b>46,624</b>
Financial assets designated at fair value	-	277	-	-	<b>277</b>
Financial investments available-for-sale	4,090	6,975	-	1,062	<b>12,127</b>
Investments in associates	-	28	-	-	<b>28</b>
Derivative financial instruments	50	1,888	561	425	<b>2,924</b>
Contingent liabilities	13	375	446	194	<b>1,028</b>
Irrevocable commitments	2	249	66	21	<b>338</b>
Securities lending and repo transactions	-	3,350	4	2	<b>3,356</b>
<b>Total</b>	<b>4,677</b>	<b>36,338</b>	<b>19,797</b>	<b>14,120</b>	<b>74,932</b>

	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>

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.

The Group's internal guidelines accept more types of securities as loan collateral than are authorised by Swiss capital adequacy regulations under the standard approach. While this means that all loans are classified as overcollateralised according to the Group's internal concepts, it also means that, according to the standard approach, some loans are classified as either partially or entirely unsecured for regulatory purposes.

### Credit risk secured/not secured including mortgages

			31.12.2017
	Secured by recognised financial collaterals <sup>1</sup> CHF m	Not secured by recognised financial collaterals CHF m	Total CHF m
Due from banks	5,477	2,773	<b>8,250</b>
Loans	41,707	4,917	<b>46,624</b>
Financial assets designated at fair value	277	-	<b>277</b>
Financial investments available-for-sale	-	12,127	<b>12,127</b>
Investments in associates	-	28	<b>28</b>
Derivative financial instruments	1,744	1,180	<b>2,924</b>
Contingent liabilities	928	100	<b>1,028</b>
Irrevocable commitments	185	153	<b>338</b>
Securities lending and repo transactions	2,589	747	<b>3,336</b>
<b>Total</b>	<b>52,907</b>	<b>22,025</b>	<b>74,932</b>

			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>

<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

	31.12.2017							
	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	4,551	3,048	-	629	-	22	-	<b>8,250</b>
Loans	33,076	30	7,480	10	685	5,343	-	<b>46,624</b>
Financial assets designated at fair value	265	-	-	-	-	-	12	<b>277</b>
Financial investments available-for-sale	3,624	4,759	-	3,494	-	63	187	<b>12,127</b>
Investments in associates	-	-	-	-	-	-	28	<b>28</b>
Derivative financial instruments	1,744	666	-	249	25	240	-	<b>2,924</b>
Contingent liabilities	928	7	-	16	17	60	-	<b>1,028</b>
Irrevocable commitments	185	41	-	-	7	105	-	<b>338</b>
Securities lending and repo transactions	2,589	665	-	-	-	82	-	<b>3,336</b>
<b>Total</b>	<b>46,962</b>	<b>9,216</b>	<b>7,480</b>	<b>4,398</b>	<b>734</b>	<b>5,915</b>	<b>227</b>	<b>74,932</b>

	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>

### 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 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	8,249.6	8,308.9	-59.3	reverse repurchase transactions of CHF 59.3 million deducted
Loans	46,623.7	46,623.7	-	
Financial assets designated at fair value	277.3	277.3	-	
Financial investments available-for-sale	12,126.6	12,246.5	-119.9	unrealised gains deducted under BIS approach (CHF 119.9 million)
Investments in associates	28.2	28.2	-	
Derivative financial instruments	2,924.1	1,962.7	961.4	
<i>of which security supplement (add-ons)</i>			2,580.0	<i>according to add-on and netting rules under BIS approach</i>
<i>of which netting of replacement values</i>			-1,618.6	<i>impact of netting rules under BIS approach</i>
<b>Total 31.12.2017</b>	<b>70,229.5</b>	<b>69,447.3</b>	<b>782.2</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	1,028.0	1,254.7 <sup>1</sup>	-226.7	converted in credit equivalent
Irrevocable commitments	337.8	688.4 <sup>1</sup>	-350.6	converted in credit equivalent
Securities lending and repo transactions	3,335.7	3,077.4	258.3	including risk premium
<b>Total 31.12.2017</b>	<b>4,701.5</b>			

<sup>1</sup> These amounts reflect the maximum payments the Group is committed to making.

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COMMENT ON RISK AND CAPITAL MANAGEMENT

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.



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 debit and credit cash balances across different accounts are netted against each other. Derivatives positions are netted, provided a number of conditions are met which justify such netting on economic grounds (e.g. that they have the same underlying asset, the same maturity, the same nominal amount etc.). However, the credit exposure arising from this analysis also includes add-ons which are required for derivatives positions and which are generally higher than those required by the regulators. For that reason the credit exposure calculations below deviate from those calculated for regulatory purposes.

Counterparty derivatives exposures are netted across different products, accounts, branches and collateral positions provided the relevant ISDA and CSA close-out netting master agreements have been signed.

### Exposure to credit risk by credit quality

	31.12.2017 Collateralised CHF m	31.12.2016 Collateralised CHF m	31.12.2017 Unsecured CHF m	31.12.2016 Unsecured CHF m
Neither past due nor impaired	52,605.1	43,277.4	27,085.0	36,580.4
Past due but not impaired	-	9.4	-	-
Impaired	46.3	69.2	-	-
<b>Total</b>	<b>52,651.5</b>	<b>43,356.0</b>	<b>27,085.0</b>	<b>36,580.4</b>

### Neither past due nor impaired

R1 to R3	45,645.9	37,230.2	26,531.7	35,358.6
R4 to R6 (including temporarily unrated)	6,959.3	6,047.2	553.3	1,221.8
<b>Total</b>	<b>52,605.1</b>	<b>43,277.4</b>	<b>27,085.0</b>	<b>36,580.4</b>
<i>Collateral held or credit enhancement available</i>	<b>211,633.4</b>	173,841.5	-	-

### Past due but not impaired

R7	-	9.4	-	-
<b>Total</b>	<b>-</b>	<b>9.4</b>	<b>-</b>	<b>-</b>
<i>Collateral held or credit enhancement available</i>	-	9.3	-	-

### Impaired

R8	35.2	25.0	-	-
R9 to R10	11.1	44.2	-	-
<b>Total</b>	<b>46.3</b>	<b>69.2</b>	<b>-</b>	<b>-</b>
<i>Collateral held or credit enhancement available</i>	<b>65.9</b>	30.1	-	-

### Allowance for credit losses<sup>1</sup>

Specific allowance for credit losses	24.2	54.2	-	-
Collective allowance for credit losses	14.7 <sup>2</sup>	24.9	1.7	1.3
<b>Total</b>	<b>38.9</b>	<b>79.1</b>	<b>1.7</b>	<b>1.3</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.

<sup>2</sup> Risk management estimates the collective allowance for credit losses to be lower in 2017 mostly due to additional and more accurate input factors used for the determination.

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, only collective allowances for credit losses are established. Balances in rating class R7 are past due, but the exposure is

still covered by collateral, and specific 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 extent of the credit-loss allowances required in such cases is determined by a credit expert on an individual basis and authorised by the relevant credit authority.

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**

	<b>31.12.2017</b> Gross maximum exposure CHF m	31.12.2016 Gross maximum exposure CHF m
Cash (excluding cash on hand)	<b>10,838.1</b>	13,572.5
Due from banks	<b>8,308.9</b>	11,389.8
Loans	<b>46,623.7</b>	38,419.0
Trading assets	<b>2,270.7</b>	1,415.0
Derivative financial instruments	<b>1,962.7</b>	2,690.9
Financial assets designated at fair value	<b>277.3</b>	252.4
Financial investments available-for-sale	<b>12,059.7</b>	18,101.1
Accrued income	<b>311.7</b>	282.8
<b>Total</b>	<b>82,652.8</b>	86,123.5
<b>Off-balance sheet</b>		
Irrevocable commitments <sup>1</sup>	<b>688.4</b>	813.3
<b>Total maximum exposure to credit risk</b>	<b>83,341.1</b>	86,936.8

<sup>1</sup> These amounts reflect the maximum payments the Group is committed to making.

**MARKET RISK (TRADING BOOK)**

Market risks arise from both our trading activities in the trading book and non-trading business activities in the banking 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. The non-trading market risks arise therefore predominantly in the form of interest rate and foreign exchange risks.

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.

**Organisation of the market risk function, controlling and reporting**

The market risk function for the Group is assumed by an independent unit reporting to the Head Risk Management who reports to the Chief Risk Officer of the Group. Market risk functions of Group entities have a functional reporting line to the central market risk unit at Head Office to assure global risk aggregation and application of Group standards in all Group entities.

All risk reports in the area of market risk are produced daily on a consolidated basis and reported to the responsible Executive Board members. On a monthly basis, an integrated market risk report is provided to the Executive Board. The Chairman's & Risk Committee of the Board of Directors is informed quarterly about market risk exposures.

Market risk limits are set on a Group level and allocated to the single trading units depending on the nature and magnitude of the market risks in these organisations. Our primary measure of market risk is the value at risk 'VaR' complemented by scenario analysis and sensitivity values.

Trading-book market risk is primarily measured by the position-keeping and risk management systems used by the trading department. In addition, these positions are also independently measured by the market risk management unit reporting to the CRO. This unit uses a central IT system which is continuously developed and expanded. The system supports the calculation of the market-risk and scenario-analysis metrics used. These results are analysed on a daily basis and limit controls are carried out. Any breach of these limits is investigated in a timely fashion. That system also forms the basis for the external regulatory reporting.

The exposure arising from certain particular risks is also monitored during the trading day and checked against applicable limits.

Foreign exchange risks arising from positions in the banking book are also subject to market risk limits.

#### **Trading and hedging strategies**

The Group entities engage in trading transactions, both as principal and agent, in foreign exchange, precious metals, money market, fixed income, equities, commodities, traditional and non-traditional fund products, and in credit markets. Trading activities are pursued with the intention of benefiting, in the short term, from actual or expected differences between the opening and

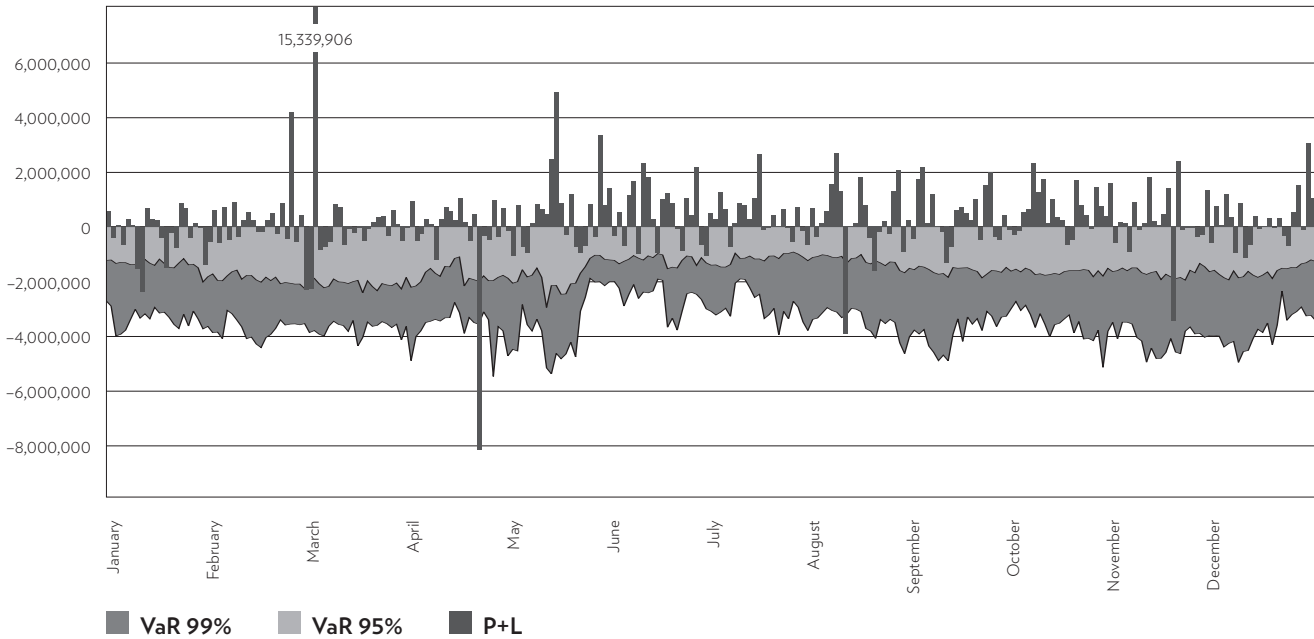
closing price of proprietary positions, with the intention of benefiting from arbitrage profits, or with the intention of hedging risks from positions meeting aforementioned criteria.

The overall trading strategies are outlined in a dedicated policy and detailed in mandates for single trading books, including hedging strategies. The effectiveness of hedging strategies is continuously assured by setting and monitoring trading limits. Regular detailed book reviews by the risk management function supplement the assurance of effective hedging activities.

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

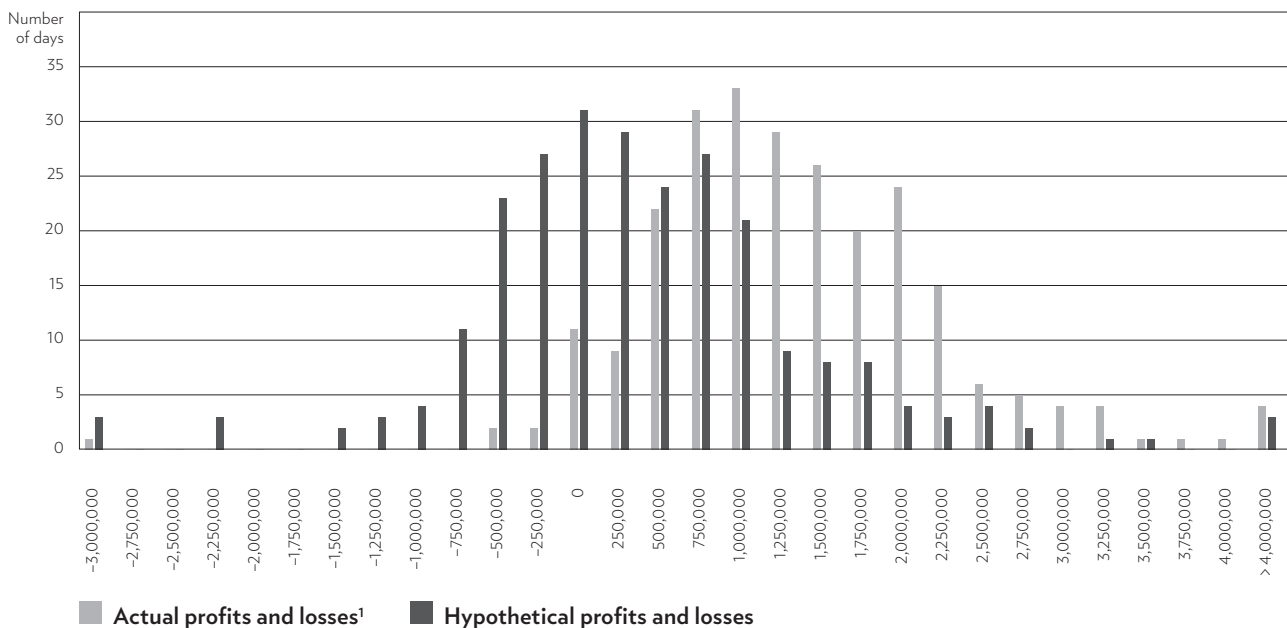
The following methods are used to measure and limit market risk: value at risk (VaR) limits, sensitivity or concentration limits (delta, vega, basis-point and nominal limits as well as scenario analysis), and country limits for trading positions. VaR, the key risk figure, measures the magnitude of the 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 1.03 million on 31 December 2017 (one-day holding period, 95% confidence interval). The maximum VaR recorded in 2017 amounted to CHF 2.95 million; the minimum was CHF 0.93 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 2017 (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 2017 (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 income statement results.

**Distribution of daily revenues from trading activities of Julius Baer Group for 2017 (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. The daily stress tests are periodically complemented by additional tests based on historical scenarios. Additional stress tests, reflecting specific market and political situations, are also carried out.

At the beginning of 2017, the preceding twelve-month period contained no back-testing excessions. During 2017, the number of back-testing excessions rose to two. The first, in April, was caused by increased market volatility attributable to the French presidential elections. The second, in August, was the result of a one-day rally in share prices of between 1% and 1.7%. As a result, the number of statistically permissible back-testing excessions during the period was not exceeded.

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 1.45 million on 31 December 2017 (for a one-day holding period and a 95% confidence interval). The maximum stress-based VaR recorded in 2017 amounted to CHF 3.69 million; the minimum was CHF 1.16 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 (four over a period of 250 trading days) results in an increase in the multiplier applied to the capital requirement for market risk. There were two back-testing excessions to report by the end of 2017. For additional information regarding the calculation of the Group's minimum regulatory capital requirements under Basel III Pillar 3, refer to the separate Basel III Pillar 3 Report published in the Regulatory Disclosures section of the [www.juliusbaer.com](http://www.juliusbaer.com) website (this will be available at the end of April 2018).

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	2017 Minimum CHF m
Equities	-0.3	-1.2	-2.4	-0.3
Interest rates	-0.6	-0.7	-0.9	-0.6
Foreign exchange/precious metals	-0.2	-0.6	-2.7	-0.0
Effects of correlation	0.0			
<b>Total</b>	<b>-1.0</b>	<b>-1.6</b>	<b>-2.9</b>	<b>-0.9</b>

	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>

**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.

The interest rate and liquidity stress risk of the banking book is measured by a global risk management and reporting platform. Every day, the positions are independently measured in an IT system maintained by the Treasury Risk Control unit and reported back to the Group companies with substantial risks on their books. The local treasury and risk control units are responsible for local implementation and adherence to limits. The Group Treasurer has continuous access to the Group's consolidated positions and can manage them on a Group-wide basis. The relevant data is drawn from the book-keeping systems for the Group companies' banking books. The system supports the calculation of the usual interest-rate-risk and liquidity-stress metrics. These results are analysed on a daily basis and limit controls are carried out. Any breach of these limits is investigated in a timely fashion.

Here, too, broad-based Group-wide stress tests are carried out based on the current market and political situation. Examples include scenarios resulting in an abrupt increase in interest rates. In addition to such immediate consequences as the change in the market value of the treasury bond portfolio, these scenarios also take account of longer-term effects such as changes in net interest earnings and higher refinancing costs.

#### **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 2017, the Group's LCR fluctuated between 105% and 180%, which puts it significantly above the minimum

statutory requirement of 80%. For additional quantitative information relating to the LCR, refer to the separate Basel III Pillar 3 Report published in the Regulatory Disclosures section of the [www.juliusbaer.com](http://www.juliusbaer.com) website (this will be available at the end of April 2018).

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. In addition, the Group issues various bonds.

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 2017. 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>2017</b>	<b>3.9</b>	<b>-3.1</b>	<b>38.6</b>	<b>66.7</b>	<b>-33.6</b>	<b>72.4</b>
2016	3.4	-4.9	34.3	61.7	-44.5	49.9
<b>USD</b>						
<b>2017</b>	<b>12.1</b>	<b>-2.5</b>	<b>-0.8</b>	<b>-38.4</b>	<b>15.0</b>	<b>-14.5</b>
2016	12.0	-3.6	-4.7	-136.3	-1.4	-134.0
<b>EUR</b>						
<b>2017</b>	<b>8.9</b>	<b>-4.7</b>	<b>-1.3</b>	<b>62.3</b>	<b>-10.2</b>	<b>54.9</b>
2016	7.9	-2.2	-12.5	55.5	-1.8	46.9
<b>Other</b>						
<b>2017</b>	<b>2.0</b>	<b>-2.4</b>	<b>0.1</b>	<b>31.7</b>	<b>-0.1</b>	<b>31.3</b>
2016	2.8	-1.7	-6.7	29.5	0.3	24.2

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, and further assuming that the Group took no mitigating action, the modelled effect on interest earnings would have been CHF -129.8 million at the end of 2017 (2016: CHF -180.0 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 2017 amounted to a net CHF -30.8 million (2016: CHF -61.1 million). The fair value gain on the hedged mortgages attributable to the hedged interest rate risk amounted to CHF 32.6 million (2016: CHF 58.0 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	10,862.9	-	-	-	-	<b>10,862.9</b>
Due from banks	-	8,154.3	154.5	-	-	<b>8,308.9</b>
Loans	-	37,854.7	3,394.0	3,350.9	2,024.1	<b>46,623.7</b>
Trading assets	12,751.8	-	-	-	-	<b>12,751.8</b>
Derivative financial instruments	1,962.7	-	-	-	-	<b>1,962.7</b>
Financial assets designated at fair value	277.3	-	-	-	-	<b>277.3</b>
Financial investments available-for-sale	-	1,710.8	1,530.0	8,297.3	708.3	<b>12,246.5</b>
Accrued income	-	311.7	-	-	-	<b>311.7</b>
<b>Total 31.12.2017</b>	<b>25,854.7</b>	<b>48,031.6</b>	<b>5,078.6</b>	<b>11,648.2</b>	<b>2,732.4</b>	<b>93,345.5</b>
Total 31.12.2016	24,203.4	44,869.8	6,309.0	14,181.9	2,997.6	92,561.6
<b>Financial liabilities</b>						
Due to banks	-	7,209.5	0.0	-	-	<b>7,209.5</b>
Due to customers	-	67,109.2	527.6	-	-	<b>67,636.8</b>
Trading liabilities	135.8	-	-	-	-	<b>135.8</b>
Derivative financial instruments	2,059.2	-	-	-	-	<b>2,059.2</b>
Financial liabilities designated at fair value	2,130.1	5,302.5	2,433.4	1,510.8	459.9	<b>11,836.7</b>
Debt issued	122.1	246.2	-	917.5	491.2	<b>1,777.0</b>
Accrued expenses	-	192.7	-	-	-	<b>192.7</b>
Other liabilities <sup>1</sup>	-	-	14.4	18.4	-	<b>32.8</b>
<b>Total 31.12.2017</b>	<b>4,447.2</b>	<b>80,060.1</b>	<b>2,975.5</b>	<b>2,446.7</b>	<b>951.1</b>	<b>90,880.6</b>
Total 31.12.2016	3,315.6	81,655.1	2,243.5	1,183.4	1,505.6	89,903.1

<sup>1</sup> Relates to the deferred purchase price of Fransad Gestion SA, GPS Investimentos Financeiros e Participações S.A. and Wergen & Partner Vermögensverwaltungs AG, 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	6,921.7	287.3	-	0.8	-	<b>7,209.8</b>
Due to customers	58,918.7	8,368.7	359.6	-	-	<b>67,646.9</b>
Trading liabilities	135.8	-	-	-	-	<b>135.8</b>
Derivative financial instruments	2,011.3	-	0.6	25.9	21.4	<b>2,059.2</b>
Financial liabilities designated at fair value	2,130.1	5,343.4	2,506.3	1,535.0	459.9	<b>11,974.7</b>
Debt issued	122.1	266.5	55.6	1,099.2	520.5	<b>2,063.9</b>
Accrued expenses	-	192.7	-	-	-	<b>192.7</b>
Other liabilities <sup>1</sup>	-	-	14.4	18.4	-	<b>32.8</b>
<b>Total 31.12.2017</b>	<b>70,239.8</b>	<b>14,458.5</b>	<b>2,936.5</b>	<b>2,679.3</b>	<b>1,001.8</b>	<b>91,315.8</b>
Due to banks	9,771.6	304.8	-	0.6	-	10,076.9
Due to customers	61,412.7	5,661.1	278.3	147.1	-	67,499.1
Trading liabilities	159.0	-	-	-	-	159.0
Derivative financial instruments	2,213.5	-	0.6	24.9	46.3	2,285.3
Financial liabilities designated at fair value	871.1	3,986.7	2,125.9	1,174.3	370.9	8,528.9
Debt issued	0.2	92.0	40.1	119.8	1,134.7	1,386.8
Accrued expenses	-	187.7	-	-	-	187.7
Other liabilities <sup>2</sup>	-	-	21.3	19.9	-	41.2
Total 31.12.2016	74,428.0	10,232.2	2,466.1	1,486.6	1,551.9	90,164.9
<b>Financial liabilities not recognised on balance sheet</b>						
Irrevocable commitments <sup>3</sup>	627.0	2.3	37.0	19.1	3.0	<b>688.3</b>
<b>Total 31.12.2017</b>	<b>627.0</b>	<b>2.3</b>	<b>37.0</b>	<b>19.1</b>	<b>3.0</b>	<b>688.3</b>
Total 31.12.2016	788.8	14.2	2.7	7.5	-	813.3

<sup>1</sup> Relates to the deferred purchase price of Fransad Gestion SA, GPS Investimentos Financeiros e Participações S.A. and Wergen & Partner Vermögensverwaltungs AG, see Notes 26B and 27.

<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., 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 are 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 and 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. 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.

Given the diversity of operational activities carried out by the Group, it is not possible for them all to be covered by one single overarching system. Instead, information on individual topics is collected based on its specific content and the needs of those

to whom it needs to be addressed. This information is then aggregated by topic and collated for submission to the relevant committees and management teams. Data from centrally managed systems which have been rolled out across the Group, such as the directives database, the audit database, the operational risk register and the operational loss database can be consolidated directly. Data from decentralised systems, such as the plans for local key inventory checks, is collated centrally and appropriately aggregated.

A self assessment of operational risks is carried out which implicitly simulates an adverse what-if stress scenario. For each individual category of risk, the scenario assesses what could potentially occur. This assessment is continuously updated to take account of the activities carried out in the framework described above.

The Group calculates its minimum regulatory capital requirement for operational risks according to the standard approach under article 90 of the Capital Adequacy Ordinance.

### **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, the Group 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 the Group 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 potentially 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 2017, 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.

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 anti-cyclical CET1 capital buffer for mortgages on residential properties in Switzerland and an additional anti-cyclical CET1 capital buffer for commitments outside Switzerland. Taken together, these add a further 0.2% to its minimum capital requirement of 12% of risk-weighted assets. The capital held by the Group at 31 December 2017 and at 31 December 2016 was sufficient to meet the relevant BIS and FINMA requirements.

## Capital ratios

	31.12.2017 <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	<b>13,627.9</b>	14,902.8
Non-counterparty-related risk	<b>445.9</b>	506.7
Market risk	<b>561.1</b>	957.7
Operational risk	<b>4,941.1</b>	4,634.6
<b>Total</b>	<b>19,576.0</b>	21,001.8
<b>Eligible capital</b>		
CET1 capital <sup>2</sup>	<b>3,260.8</b>	3,444.2
Tier 1 capital <sup>2</sup>	<b>4,235.1</b>	3,597.0
<i>of which hybrid tier 1 capital instruments<sup>3</sup></i>	<b>1,455.3</b>	1,134.7
Tier 2 capital	<b>63.4</b>	70.2
Total capital	<b>4,298.5</b>	3,667.2
CET1 capital ratio	<b>16.7%</b>	16.4%
Tier 1 capital ratio	<b>21.6%</b>	17.1%
Total capital ratio	<b>22.0%</b>	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.

<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.

<sup>3</sup> The hybrid tier 1 instruments are tier 1 bonds issued by Julius Baer Group Ltd. in 2012, 2014, 2015, 2016 and 2017.



Further details regarding tier 1 capital instruments can be found in the Regulatory Disclosures section of [www.juliusbaer.com](http://www.juliusbaer.com). 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 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 of the composition of eligible regulatory capital (this will be available at the end of April 2018).

### Capital components

	<b>31.12.2017</b>	31.12.2016
	<i>Basel III phase-in CHF m</i>	<i>Basel III phase-in CHF m</i>
Gross common equity tier 1 capital <sup>1</sup>	<b>5,830.4</b>	5,339.7
<i>of which non-controlling interests</i>	<b>5.9</b>	9.4
Effects of IAS19 revised relating to pension liabilities	<b>40.0</b>	81.0
Goodwill and other intangible assets	<b>-2,269.7</b>	-1,670.8
Other deductions	<b>-339.9</b>	-305.7
<b>Common equity tier 1 capital</b>	<b>3,260.8</b>	3,444.2
Tier 1 capital instruments	<b>1,455.3</b>	1,134.7
<i>of which tier 1 bonds (Basel III-compliant capital instruments)</i>	<b>1,455.3</b>	1,134.7
Goodwill and intangible assets, offset against tier 1 capital instruments	<b>-481.0</b>	-981.9
<b>Additional tier 1 capital</b>	<b>974.3</b>	152.8
Tier 1 capital	<b>4,235.1</b>	3,597.0
Tier 2 capital	<b>63.4</b>	70.2
<i>of which other tier 2 capital</i>	<b>63.4</b>	70.2
<b>Total capital</b>	<b>4,298.5</b>	3,667.2

<sup>1</sup> Phase-in of 20% of non-controlling interests of total CHF 29.5 million (31.12.2016: phase-in of 40% of total CHF 23.6 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 70% (2016: 71%) of the total required capital. Capital required

for non-counterparty risk (2017: 2%; 2016: 2%) and market risk (2017: 3%; 2016: 5%) is of minor significance. The capital required to cover operational risk accounts for more than 25% of total required capital (2016: 22%).

### Minimum capital requirement

	<b>31.12.2017</b> <i>Basel III phase-in CHF m</i>	31.12.2016 <i>Basel III phase-in CHF m</i>
Credit risk	<b>1,090.2</b>	1,192.2
<i>of which for equity securities in the banking book</i>	<b>15.2</b>	9.8
Non-counterparty-related risk	<b>35.7</b>	40.5
Market risk	<b>44.9</b>	76.6
Operational risk	<b>395.3</b>	370.8
<b>Total</b>	<b>1,566.1</b>	1,680.1

### 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 separate Basel III Pillar 3 Report published in the Regulatory Disclosures section of the [www.juliusbaer.com](http://www.juliusbaer.com) website (this will be available at the end of April 2018).

## INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

### 1 NET INTEREST AND DIVIDEND INCOME

	<b>2017</b> <i>CHF m</i>	2016 <i>CHF m</i>	Change %
Interest income on amounts due from banks	<b>44.1</b>	41.1	7.4
Interest income on loans	<b>669.3</b>	522.2	28.2
Interest income on financial investments available-for-sale	<b>247.1</b>	252.3	-2.0
<b>Total interest income using the effective interest method</b>	<b>960.6</b>	815.6	17.8
Dividend income on financial investments available-for-sale	<b>7.6</b>	7.3	4.1
Interest income on trading portfolios	<b>31.8</b>	29.1	9.3
Dividend income on trading portfolios	<b>195.3</b>	191.9	1.8
<b>Total interest and dividend income</b>	<b>1,195.3</b>	1,043.9	14.5
Interest expense on amounts due to banks	<b>18.7</b>	13.9	34.4
Interest expense on amounts due to customers	<b>100.6</b>	51.2	96.5
Interest expense on debt issued	<b>67.6</b>	64.8	4.3
Interest expense on financial assets <sup>1</sup>	<b>20.5</b>	36.8	-44.2
<b>Total interest expense using the effective interest method</b>	<b>207.5</b>	166.8	24.4
<b>Total</b>	<b>987.8</b>	877.1	12.6

<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

	<b>2017</b> <i>CHF m</i>	2016 <i>CHF m</i>	Change %
Advisory and asset management fees	<b>1,422.7</b>	1,137.6	25.1
Brokerage commissions and income from securities underwriting	<b>662.9</b>	538.8	23.0
Commission income from credit-related activities	<b>6.1</b>	7.7	-20.6
Commission and fee income on other services	<b>80.4</b>	87.1	-7.6
<b>Total commission and fee income</b>	<b>2,172.1</b>	1,771.1	22.6
Commission expense	<b>241.5</b>	206.2	17.1
<b>Total</b>	<b>1,930.6</b>	1,564.9	23.4

### 3 NET TRADING INCOME

	<b>2017</b> <i>CHF m</i>	2016 <i>CHF m</i>	Change %
Debt instruments	<b>75.0</b>	50.1	49.7
Equity instruments	<b>-158.9</b>	-166.6	4.6
Foreign exchange	<b>387.6</b>	449.0	-13.7
<b>Total</b>	<b>303.6</b>	332.5	-8.7

### 4 OTHER ORDINARY RESULTS

	<b>2017</b> <i>CHF m</i>	2016 <i>CHF m</i>	Change %
Net gains/(losses) from disposal of financial investments available-for-sale	<b>7.4</b>	4.0	85.2
Impairment on financial investments available-for-sale	<b>-0.2</b>	-1.6	-
Income from investments in associates	<b>1.9</b>	40.4	-95.3
Real estate income	<b>6.1</b>	5.5	11.6
Other ordinary income	<b>15.2</b>	30.4	-50.1
Other ordinary expenses	<b>0.1</b>	0.8	-89.6
<b>Total</b>	<b>30.3</b>	77.9	-61.1

### 5 PERSONNEL EXPENSES

	<b>2017</b> <i>CHF m</i>	2016 <i>CHF m</i>	Change %
Salaries and bonuses	<b>1,223.9</b>	1,106.6	10.6
Contributions to staff pension plans (defined benefits)	<b>74.0</b>	13.2 <sup>1</sup>	458.8
Contributions to staff pension plans (defined contributions)	<b>32.5</b>	27.4	18.7
Other social security contributions	<b>104.2</b>	89.6	16.3
Share-based payments	<b>82.4</b>	70.8	16.5
Other personnel expenses	<b>38.6</b>	28.2	36.8
<b>Total</b>	<b>1,555.7</b>	1,335.9	16.5

<sup>1</sup> Including the effect of a plan amendment in the amount of CHF 62.8 million, see Note 22.

## 6 GENERAL EXPENSES

	<b>2017</b> <i>CHF m</i>	2016 <i>CHF m</i>	Change %
Occupancy expense	<b>96.3</b>	90.1	6.9
IT and other equipment expense	<b>75.7</b>	72.8	4.1
Information, communication and advertising expense	<b>182.8</b>	173.0	5.6
Service expense, fees and taxes	<b>253.1</b>	239.8	5.5
Valuation allowances, provisions and losses	<b>29.8</b>	40.4	-26.3
Other general expenses	<b>12.0</b>	7.1	69.3
<b>Total</b>	<b>649.7</b>	623.2	4.2

## 7 INCOME TAXES

	<b>2017</b> <i>CHF m</i>	2016 <i>CHF m</i>	Change %
Income tax on profit before taxes (expected tax expense)	<b>195.0</b>	165.6	17.8
Effect of tax rate differences in foreign jurisdictions	<b>-3.7</b>	-6.2	-
Effect of domestic tax rate differences	<b>29.1</b>	24.2	-
Income subject to a reduced tax rate	<b>-70.1</b>	-81.5	-
Effect of utilisation of prior-year losses	<b>-9.4</b>	-0.8	-
Effect from unrecognised tax losses	<b>10.8</b>	16.3	-
Adjustments related to prior years	<b>-10.1</b>	-0.2	-
Non-deductible expenses	<b>28.8</b>	12.9	-
Other	<b>0.2</b>	0.2	-
<b>Actual income tax expense</b>	<b>170.6</b>	130.4	-

The tax rate of 22% (2016: tax rate of Switzerland of 22%) was applied as the basis for the above expected tax expenses. This tax rate reflects the Group weighted average rate.

Unrecognised accumulated loss carryforwards in the amount of CHF 289.2 million (2016: CHF 281.1 million) exist in the Group that do not expire.

The Group is currently involved in discussions with tax authorities, amongst others regarding the final assessment of the tax deductibility of certain elements in the US settlement case. Such tax assessments may be ongoing for several years and the final position may only be known at a later point in time.

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	<b>2017</b> <i>CHF m</i>	2016 <i>CHF m</i>	Change %
Domestic income taxes	<b>110.8</b>	108.1	2.5
Foreign income taxes	<b>59.8</b>	22.4	167.3
<b>Total</b>	<b>170.6</b>	130.4	30.8
<hr/>			
Current income taxes	<b>188.5</b>	122.0	54.5
Deferred income taxes	<b>-18.0</b>	8.4	-
<b>Total</b>	<b>170.6</b>	130.4	30.8

**Tax effects relating to components of other comprehensive income**

	Before-tax amount <i>CHF m</i>	Tax (expense)/ benefit <i>CHF m</i>	<b>2017</b> Net-of-tax amount <i>CHF m</i>
<b>Items that may be reclassified to the income statement</b>			
Net unrealised gains/(losses) on financial investments available-for-sale	4.4	-1.1	3.3
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	6.6	-0.3	6.4
Translation differences	30.1	-	30.1
<b>Items that will not be reclassified to the income statement</b>			
Remeasurement of defined benefit obligation	3.1	-0.3	2.7
<b>Other comprehensive income</b>	<b>44.1</b>	<b>-1.7</b>	<b>42.5</b>

	Before-tax amount <i>CHF m</i>	Tax (expense)/ benefit <i>CHF m</i>	2016 Net-of-tax amount <i>CHF m</i>
Items that may be reclassified to the income statement			
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
Items that will not be reclassified to the income statement			
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>

## 8 EARNINGS PER SHARE AND SHARES OUTSTANDING

	2017	2016
<b>Basic earnings per share</b>		
Net profit (CHF m)	<b>704.8</b>	619.4
Weighted average number of shares outstanding	<b>216,894,003</b>	217,404,899
Basic earnings per share (CHF)	<b>3.25</b>	2.85
<b>Diluted earnings per share</b>		
Net profit (CHF m)	<b>704.8</b>	619.4
Less (profit)/loss on equity derivative contracts (CHF m)	<b>0.2</b>	-1.5
Net profit for diluted earnings per share (CHF m)	<b>705.0</b>	617.9
Weighted average number of shares outstanding	<b>216,894,003</b>	217,404,899
Dilution effect	<b>8,040</b>	-48,478
Weighted average number of shares outstanding for diluted earnings per share	<b>216,902,043</b>	217,356,421
Diluted earnings per share (CHF)	<b>3.25</b>	2.84
<b>31.12.2017</b> 31.12.2016		
<b>Shares outstanding</b>		
Total shares issued at the beginning of the year	<b>223,809,448</b>	223,809,448
Less treasury shares	<b>5,875,310</b>	6,346,886
<b>Total</b>	<b>217,934,138</b>	217,462,562

## INFORMATION ON THE CONSOLIDATED BALANCE SHEET

### 9A DUE FROM BANKS

	<b>31.12.2017</b> <i>CHF m</i>	31.12.2016 <i>CHF m</i>	Change <i>CHF m</i>
Due from banks	<b>8,310.5</b>	11,391.0	-3,080.5
Allowance for credit losses	<b>-1.6</b>	-1.3	-0.4
<b>Total</b>	<b>8,308.9</b>	11,389.8	-3,080.9

Due from banks by type of collateral:

Securities collateral	<b>401.5</b>	387.8	13.7
Without collateral	<b>7,907.4</b>	11,001.9	-3,094.6
<b>Total</b>	<b>8,308.9</b>	11,389.8	-3,080.9

### 9B LOANS

	<b>31.12.2017</b> <i>CHF m</i>	31.12.2016 <i>CHF m</i>	Change <i>CHF m</i>
Lombard loans	<b>36,763.0</b>	29,173.2	7,589.8
Mortgages	<b>9,892.8</b>	9,317.6	575.2
Subtotal	<b>46,655.8</b>	38,490.8	8,165.0
Allowance for credit losses	<b>-32.1</b>	-71.8	39.7
<b>Total</b>	<b>46,623.7</b>	38,419.0	8,204.7

Loans by type of collateral:

Securities collateral	<b>29,081.6</b>	22,964.8	6,116.8
Mortgage collateral	<b>9,971.8</b>	9,329.8	642.0
Other collateral (mainly cash and fiduciary deposits)	<b>7,488.0</b>	6,053.6	1,434.4
Without collateral	<b>82.3</b>	70.8	11.4
<b>Total</b>	<b>46,623.7</b>	38,419.0	8,204.7



## 9C ALLOWANCE FOR CREDIT LOSSES

	Specific CHF m	<b>2017</b> Collective CHF m	Specific CHF m	2016 Collective CHF m
Balance at the beginning of the year	<b>47.2</b>	<b>25.9</b>	58.5	26.3
Write-offs	<b>-34.4</b>	-	-27.3	-
Increase in allowance for credit losses	<b>6.2</b>	<b>4.0</b>	15.6	3.9
Decrease in allowance for credit losses	<b>-1.0</b>	<b>-13.8<sup>1</sup></b>	-0.1	-4.4
Translation differences and other adjustments	<b>-0.5</b>	<b>0.2</b>	0.4	-0.0
<b>Balance at the end of the year</b>	<b>17.4</b>	<b>16.3</b>	47.2	25.9

<sup>1</sup> Risk management estimates the collective allowance for credit losses to be lower in 2017 mostly due to additional and more accurate input factors used for the determination.

## 9D IMPAIRED LOANS

	<b>31.12.2017</b> CHF m	31.12.2016 CHF m	Change CHF m
Gross loans	<b>43.9</b>	83.3	-39.4
Specific allowance for credit losses	<b>-17.4</b>	-47.2	29.7
<b>Net loans</b>	<b>26.5</b>	36.2	-9.7

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**INFORMATION ON THE CONSOLIDATED BALANCE SHEET**

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10 TRADING ASSETS AND LIABILITIES

	<b>31.12.2017</b> <i>CHF m</i>	31.12.2016 <i>CHF m</i>	Change <i>CHF m</i>
<b>Trading assets</b>			
Debt instruments	<b>2,270.7</b>	1,415.0	855.7
<i>of which quoted</i>	<b>1,929.0</b>	1,337.4	591.6
<i>of which unquoted</i>	<b>341.7</b>	77.5	264.1
Equity instruments	<b>8,985.2</b>	5,846.9	3,138.3
<i>of which quoted</i>	<b>6,991.6</b>	5,466.0	1,525.6
<i>of which unquoted</i>	<b>1,993.6</b>	380.8	1,612.7
Precious metals (physical)	<b>1,495.9</b>	398.8	1,097.1
<b>Total</b>	<b>12,751.8</b>	7,660.7	5,091.1
<b>Trading liabilities</b>			
Short positions – debt	<b>9.4</b>	48.0	-38.6
<i>of which quoted</i>	<b>9.4</b>	44.7	-35.4
<i>of which unquoted</i>	-	3.2	-3.2
Short positions – equity	<b>126.5</b>	111.0	15.5
<i>of which quoted</i>	<b>82.4</b>	96.0	-13.5
<i>of which unquoted</i>	<b>44.0</b>	15.0	29.0
<b>Total</b>	<b>135.8</b>	159.0	-23.1

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11A FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	31.12.2017 <i>CHF m</i>	31.12.2016 <i>CHF m</i>	Change <i>CHF m</i>
<b>Money market instruments</b>	<b>2,191.1</b>	3,785.0	-1,593.9
Government and agency bonds	<b>2,307.4</b>	3,477.0	-1,169.6
Financial institution bonds	<b>4,118.3</b>	6,295.5	-2,177.1
Corporate bonds	<b>3,436.7</b>	4,500.0	-1,063.4
Other bonds	<b>6.2</b>	43.5	-37.4
<b>Debt instruments</b>	<b>9,868.6</b>	14,316.0	-4,447.5
<i>of which quoted</i>	<b>9,313.2</b>	13,259.3	-3,946.0
<i>of which unquoted</i>	<b>555.3</b>	1,056.8	-501.4
<b>Equity instruments</b>	<b>186.8</b>	165.5	21.4
<i>of which quoted</i>	<b>33.4</b>	26.0	7.4
<i>of which unquoted</i>	<b>153.4</b>	139.5	14.0
<b>Total</b>	<b>12,246.5</b>	18,266.6	-6,020.0

11B FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE – CREDIT RATINGS

			31.12.2017 <i>CHF m</i>	31.12.2016 <i>CHF m</i>	Change <i>CHF m</i>
<b>Debt instruments by credit rating classes</b>	<b>Fitch, S&amp;P</b>	<b>Moody's</b>			
1-2	AAA – AA-	Aaa – Aa3	<b>7,237.2</b>	9,491.3	-2,254.2
3	A+ – A-	A1 – A3	<b>2,474.5</b>	4,458.7	-1,984.2
4	BBB+ – BBB-	Baa1 – Baa3	<b>127.2</b>	266.7	-139.5
5	BB+ – BB-	Ba1 – Ba3	<b>16.8</b>	52.1	-35.3
Unrated			<b>12.9</b>	47.2	-34.3
<b>Total</b>			<b>9,868.6</b>	14,316.0	-4,447.5

## 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 01.01.2016	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
Translation differences	-3.0	0.4	0.9	-1.7	-	1.8	1.8
Additions	-	-	147.0	147.0	3.5	20.7	24.2
Additions from business combinations	4.7	7.4	-	12.1	-	-	-
Disposals/transfers <sup>1</sup>	-	-	7.4	7.4	-	17.0	17.0
Balance on 31.12.2017	2,073.0	1,430.3	830.2	4,333.6	415.0	236.0	651.0
<b>Depreciation, amortisation and impairment</b>							
Balance on 01.01.2016	-	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>2</sup>	103.1	11.5	26.1 <sup>2</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
Translation differences	-	0.4	0.7	1.1	-	0.8	0.8
Charge for the period	-	72.7	45.4 <sup>3</sup>	118.2	11.9	30.4 <sup>3</sup>	42.3
Disposals/transfers <sup>1</sup>	-	-	7.4	7.4	-	16.9	16.9
Balance on 31.12.2017	-	1,077.5	383.7	1,461.2	114.7	179.7	294.4
<b>Carrying value</b>							
Balance on 31.12.2016	2,071.3	418.1	344.8	2,834.3	308.7	65.1	373.8
<b>Balance on 31.12.2017</b>	<b>2,073.0</b>	<b>352.8</b>	<b>446.5</b>	<b>2,872.4</b>	<b>300.4</b>	<b>56.2</b>	<b>356.6</b>

<sup>1</sup> Includes also derecognition of fully depreciated and amortised assets

<sup>2</sup> Includes impairment of CHF 2.5 million related to software and other property and equipment not used anymore

<sup>3</sup> Includes impairment of CHF 0.4 million related to software and other property and equipment not used anymore

	Balance on 01.01.2017 CHF m	Additions CHF m	Disposals CHF m	Translation differences CHF m	Balance on 31.12.2017 CHF m
<b>Goodwill</b>					
Julius Baer Private Banking	1,634.4	4.7	-	2.9	<b>1,642.1</b>
GPS	119.6	-	-	-6.0	<b>113.6</b>
Kairos	317.3	-	-	0.1	<b>317.4</b>
<b>Total</b>	<b>2,071.3</b>	<b>4.7</b>	<b>-</b>	<b>-3.0</b>	<b>2,073.0</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 the two subsidiaries 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 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 regular 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 fees and commissions, trading income and net interest income);
- operating income and expenses; and
- tax rate applicable.

To each of these key parameters, reasonably expected growth assumptions are applied in order to calculate the projected cash flows. 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, although 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 8.0% (2016: 8.2%) for Julius Baer Private Banking. For GPS, the pre-tax discount rate used is 22.7% (2016: 21.6%), for Kairos, the pre-tax discount rate used is 13.8% (2016: 15.8%). The discount rates used in the calculation represent the Group's specific risk-weighted rates for the specific cash-generating unit and are based, depending on the specific unit, on factors such as the risk-free rate, market risk premium, adjusted Beta, size premium and country risk premium.

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.

#### **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 except for the smallest CGU GPS. For this CGU, the value in use could start falling below the carrying amount if the discount rate used in the calculation is increased by 2% or the terminal growth rate is decreased by 2%.

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 and business-specific environment.

### 13 OPERATING LEASE COMMITMENTS

	<b>31.12.2017</b> <i>CHF m</i>	31.12.2016 <i>CHF m</i>
Not later than one year	<b>75.6</b>	67.0
Later than one year and not later than five years	<b>201.4</b>	180.6
Later than five years	<b>102.2</b>	119.4
<b>Subtotal</b>	<b>379.2</b>	366.9
Less sublease rentals received under non-cancellable leases	<b>20.1</b>	23.0
<b>Total</b>	<b>359.1</b>	343.9

Expenses for operating leases in the gross amount of CHF 74.8 million are included in operating expenses for the 2017 financial year (2016: CHF 67.3 million).

### 14 ASSETS PLEDGED OR CEDED TO SECURE OWN COMMITMENTS AND ASSETS SUBJECT TO RETENTION OF TITLE

	Carrying value <i>CHF m</i>	<b>31.12.2017</b> Effective commitment <i>CHF m</i>	Carrying value <i>CHF m</i>	31.12.2016 Effective commitment <i>CHF m</i>
Securities	<b>766.6</b>	<b>766.6</b>	976.2	976.2
Other	<b>14.8</b>	<b>4.8</b>	16.3	7.5
<b>Total</b>	<b>781.4</b>	<b>771.4</b>	992.4	983.6

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

	2018 CHF m	2019 CHF m	2020 CHF m	2021 CHF m	2022 CHF m	2023- 2027 CHF m	un- assigned CHF m	31.12.2017 CHF m	31.12.2016 CHF m
Fixed rate	6,736.8	242.0	92.5	-	-	-	-	<b>7,071.4</b>	5,088.6
Interest rates (ranges in %)	0.1-57.06	2.0-15.12	2.0-8.54	-	-	-	-	-	-
Floating rate	999.1	430.1	355.0	305.2	86.0	459.9	2,130.1	<b>4,765.3</b>	3,355.8
<b>Total</b>	<b>7,736.0</b>	<b>672.1</b>	<b>447.5</b>	<b>305.2</b>	<b>86.0</b>	<b>459.9</b>	<b>2,130.1</b>	<b>11,836.7</b>	8,444.4

The Group issues to its private clients structured notes for investment purposes. 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 57.06%. 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.



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## 16 DEBT ISSUED

	<b>31.12.2017</b> CHF m	31.12.2016 CHF m
Money market instruments	<b>122.1</b>	78.8
Bonds	<b>1,654.9</b>	1,134.7
<b>Total</b>	<b>1,777.0</b>	1,213.5

### Bonds

Issuer/Year of issue	Stated interest rate %	Currency	Notional amount m	<b>31.12.2017</b>	31.12.2016
				Total CHF m	Total CHF m
<b>Julius Baer Group Ltd.</b>					
2012 <sup>1</sup>	5.375	Perpetual tier 1 subordinated bond	CHF	<b>246.2</b>	248.7
<b>Julius Baer Group Ltd.</b>					
2014 <sup>2</sup>	4.25	Perpetual tier 1 subordinated bond	CHF	<b>347.8</b>	346.7
<b>Julius Baer Group Ltd.</b>					
2015 <sup>3</sup>	5.90	Perpetual tier 1 subordinated bond	SGD	<b>334.8</b>	318.6
<b>Julius Baer Group Ltd.</b>					
2016 <sup>4</sup>	5.75	Perpetual tier 1 subordinated bond	SGD	<b>236.4</b>	220.6
<b>Julius Baer Group Ltd.</b>					
2017 <sup>5</sup>	4.75	Perpetual tier 1 subordinated bond	USD	<b>290.1</b>	-
<b>Julius Baer Group Ltd.</b>					
2017 <sup>6</sup>	0.375	Domestic senior unsecured bond	CHF	<b>199.6</b>	-
<b>Total</b>				<b>1,654.9</b>	1,134.7

<sup>1</sup> Own bonds of CHF 3.7 million are offset with bonds outstanding (2016: CHF 1.0 million).  
The effective interest rate amounts to 5.59%.

The bond will be paid back on the first possible redemption date (19 March 2018).

<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%.

<sup>5</sup> No own bonds are offset with bonds outstanding.

The effective interest rate amounts to 4.91%.

<sup>6</sup> No own bonds are offset with bonds outstanding.

The effective interest rate amounts to 0.32361%.

### **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 seven years after their issue date, and at yearly or half-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, 2016 and 2017 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.

#### *2017 issue*

The perpetual tier 1 subordinated bond, which is denominated in USD, was issued by Julius Baer Group Ltd. on 12 September 2017. The bonds can first be redeemed, at the Issuer's discretion, on 12 September 2024 and on every semi-annual interest payment date thereafter. From the issue date to the first reset date (12 September 2024) the bonds will pay interest at a fixed rate of 4.75% 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 USD constant maturity treasury rate) and a margin of 2.844%. Interest on the bonds is payable semi-annually in arrears on 12 March and 12 September in each year.

#### **Senior unsecured issue**

The senior unsecured bond, which is denominated in CHF, was issued by Julius Baer Group Ltd. on 6 December 2017. The bonds have a final maturity on 6 December 2024 and pay interest at a fixed rate of 0.375% per annum paid annually on 6 December in each year.

## 17A DEFERRED TAX ASSETS

	<b>31.12.2017</b> <i>CHF m</i>	31.12.2016 <i>CHF m</i>
Balance at the beginning of the year	<b>28.8</b>	23.8
Income statement – credit	<b>20.2</b>	4.1
Income statement – charge	<b>-9.9</b>	-3.6
Acquisition of subsidiaries	-	5.2
Recognised directly in OCI	<b>-0.1</b>	0.3
Translation differences and other adjustments	<b>-10.2</b>	-1.1
<b>Balance at the end of the year</b>	<b>28.8</b>	28.8

The components of deferred tax assets are as follows:

Operating loss carryforwards	<b>22.2</b>	21.6
Employee compensation and benefits	<b>10.4</b>	4.0
Financial investments available-for-sale	-	1.4
Property and equipment	<b>0.2</b>	0.3
Valuation adjustments on loans	<b>0.2</b>	1.5
Deferred tax assets before set-off <sup>1</sup>	<b>33.2</b>	28.8
Offset of intangible assets	<b>-4.3</b>	-
<b>Total</b>	<b>28.8</b>	28.8

<sup>1</sup> For balance sheet purposes, the Group recognises either a deferred tax asset or a deferred tax liability as per consolidated entity if that entity is allowed to net its deferred tax assets and deferred tax liabilities in line with the local tax rules. Disaggregation of these net balances (in this case deferred tax assets) into the single components may result in negative amounts (in this case deferred tax liabilities) which are disclosed as offsetting amounts.

## 17B DEFERRED TAX LIABILITIES

	<b>31.12.2017</b> <i>CHF m</i>	31.12.2016 <i>CHF m</i>
Balance at the beginning of the year	<b>77.8</b>	41.6
Income statement – charge	<b>0.2</b>	13.1
Income statement – credit	<b>-7.9</b>	-4.1
Acquisition of subsidiaries	-	9.1
Recognised directly in OCI	<b>1.6</b>	16.1
Translation differences and other adjustments	<b>-11.8</b>	2.1
<b>Balance at the end of the year</b>	<b>59.9</b>	77.8

The components of deferred tax liabilities<sup>1</sup> are as follows:

Provisions	<b>2.7</b>	1.7
Property and equipment	<b>14.5</b>	15.0
Financial investments available-for-sale	<b>25.4</b>	24.9
Intangible assets	<b>35.2</b>	49.6
Other	<b>13.0</b>	14.1
Deferred tax liability before set-off <sup>2</sup>	<b>90.8</b>	105.3
Offset of pension liability taxes	<b>-22.7</b>	-27.5
Offset of provision	<b>-2.1</b>	-
Offset of employee compensation and benefits	<b>-2.8</b>	-
Offset of financial investments available-for-sale	<b>-1.5</b>	-
Offset of other	<b>-1.7</b>	-
<b>Total</b>	<b>59.9</b>	77.8

<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.

<sup>2</sup> For balance sheet purposes, the Group recognises either a deferred tax asset or a deferred tax liability as per consolidated entity if that entity is allowed to net its deferred tax assets and deferred tax liabilities in line with the local tax rules. Disaggregation of these net balances (in this case deferred tax liabilities) into the single components may result in negative amounts (in this case deferred tax assets) which are disclosed as offsetting amounts.

## 18 PROVISIONS

	Legal risks CHF m	Other CHF m	<b>2017 Total CHF m</b>	2016 Total CHF m
Balance at the beginning of the year	20.2	2.8	23.0	575.2
Utilised during the year	-5.4	-0.2	-5.6	-564.8
Provisions made during the year	24.1	12.5	36.6	20.1
Provisions reversed during the year	-9.1	-0.3	-9.4	-5.3
Acquisition of subsidiaries	-	-	-	1.2
Translation differences	0.3	-	0.3	-3.4
<b>Balance at the end of the year</b>	<b>30.1</b>	<b>14.7</b>	<b>44.9</b>	23.0

### Maturity of provisions

Up to one year	21.1	3.6	24.8	11.1
Over one year	9.0	11.1	20.1	11.8

### 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, the disgorgement of profit and censures on companies and employees. In certain markets, authorities, such as regulatory authorities, may determine that industry practices, e.g. regarding the provision of services, are or have become inconsistent with their interpretations of existing local laws and regulations. Also, from time to time, the Group is confronted with information and clarification requests from authorities with respect to certain topics. The Group principally cooperates with the competent 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 31 December 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. Most of the aforementioned proceedings are in preliminary procedural stages. The Bank is challenging these actions on procedural and substantive grounds and has taken further measures to defend and protect its interests. In the proceedings initiated by the Trustee, the Bankruptcy Court in New York dismissed the case against the Bank and other defendants based on extraterritoriality principles in November 2016. 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 this decision by the Swiss Federal Supreme Court, other relevant court decisions in this context and the mandate structures to which the Court decisions 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. With verdict dated 25 September 2017, the court of first instance rejected its jurisdiction. Such verdict has been appealed by the claimant.

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 Court Order in March 2017. The deposit in the amount of EUR 3.75 million made in October 2014 by the Bank with the competent French court as a precautionary measure representing the maximal fine possible accordingly having been reimbursed to the Bank, has been deposited again, as in July 2017, a new procedure with respect to the same matter has been initiated against the Bank. 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 ('Betriebsbegehren') in various currencies filed against the Bank in the total amount of approximately CHF 91.3 million (plus accrued interest). In December 2017, the Bank has received again a payment order in various currencies in the total



amount of approximately CHF 153 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) SA 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 44.6 million. The claimant argues that Bank of China (Suisse) SA 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.

## 19 SHARE CAPITAL

	Registered shares (CHF 0.02 par)	
	Number	CHF m
Balance on 01.01.2016	223,809,448	<b>4.5</b>
<i>of which entitled to dividends</i>	223,809,448	<b>4.5</b>
Balance on 31.12.2016	223,809,448	<b>4.5</b>
<i>of which entitled to dividends</i>	223,809,448	<b>4.5</b>
<b>Balance on 31.12.2017</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 2017 is composed of the Chief Executive Officer, Chief Financial Officer, Chief Communications Officer, Chief Operating Officer, General Counsel and Chief Risk Officer.

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. 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

	31.12.2017	31.12.2016	2017	2016	2017	2016
	Total assets CHF m	CHF m	Operating income CHF m	CHF m	Investments CHF m	CHF m
Switzerland	<b>84,623</b>	80,573	<b>1,897</b>	1,865	<b>128</b>	119
Europe (excl. Switzerland)	<b>29,328</b>	25,080	<b>664</b>	465	<b>7</b>	462
Americas	<b>1,045</b>	1,338	<b>109</b>	106	<b>1</b>	3
Asia and other countries	<b>26,618</b>	20,599	<b>722</b>	560	<b>47</b>	48
Less consolidation items	<b>43,696</b>	31,383	<b>139</b>	143		
<b>Total</b>	<b>97,918</b>	96,207	<b>3,252</b>	2,852	<b>183</b>	633

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.

## 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.

CONSOLIDATED FINANCIAL STATEMENTS JULIUS BAER GROUP 2017 (AUDITED)  
**ADDITIONAL INFORMATION**

	2017 CHF m	2016 CHF m
<b>1. Development of pension obligations and assets</b>		
Present value of defined benefit obligation at the beginning of the year	-2,687.3	-2,597.9
Acquisitions	-1.1	-10.2
Current service cost	-70.3	-68.4
Employees' contributions	-42.9	-39.0
Interest expense on defined benefit obligation	-16.9	-21.5
Past service cost, curtailments, settlements, plan amendments	-1.3	57.9
Benefits paid (including benefits paid directly by employer)	52.3	40.4
Transfer payments in/out	-0.1	-0.5
Experience gains/(losses) on defined benefit obligation	-62.0	-18.3
Actuarial gains/(losses) arising from change in demographic assumptions	-101.3 <sup>1</sup>	4.9
Actuarial gains/(losses) arising from change in financial assumptions	15.8	-47.9
Translation differences	-6.7	13.1
Present value of defined benefit obligation at the end of the year	-2,921.8	-2,687.3
<i>whereof due to active members</i>	-1,896.6	-1,701.3
<i>whereof due to deferred members</i>	-86.7	-83.4
<i>whereof due to pensioners</i>	-938.4	-902.6
Fair value of plan assets at the beginning of the year	2,550.4	2,346.6
Acquisitions	0.9	6.6
Interest income on plan assets	16.1	20.2
Employees' contributions	42.9	39.0
Employer's contributions	94.7	106.1
Curtailments, settlements, plan amendments	-0.6	-0.6
Benefits paid by fund	-52.1	-40.4
Transfer payments in/out	0.1	0.5
Administration cost (excluding asset management cost)	-1.0	-0.9
Return on plan assets (excluding interest income)	152.2	85.8
Translation differences	5.0	-12.5
Fair value of plan assets at the end of the year	2,808.6	2,550.4

<sup>1</sup> In 2017, the Group refined its approach for estimating the life expectancy of the plan participants, using the BVG 2015 mortality table with future improvements determined by calibrating the Continuous Mortality Investigation ("CMI") 2016 model to Swiss population data with a long-term rate of 1.75%. This change in demographic assumptions resulted in an increase of the defined benefit obligation of CHF 93.1 million which was recognised in other comprehensive income.

	31.12.2017 CHF m	31.12.2016 CHF m
<b>2. Balance sheet</b>		
Fair value of plan assets	2,808.6	2,550.4
Present value of defined benefit obligation	-2,918.1	-2,683.9
Present value of unfunded benefit obligation	-3.7	-3.4
Net defined benefit asset/(liability)	-113.2	-136.9

CONSOLIDATED FINANCIAL STATEMENTS JULIUS BAER GROUP 2017 (AUDITED)  
**ADDITIONAL INFORMATION**

	2017 CHF m	2016 CHF m
<b>3. Income statement</b>		
Current service cost	-70.3	-68.4
Interest expense on defined benefit obligation	-16.9	-21.5
Past service cost, curtailments, settlements, plan amendments	-1.9	57.3 <sup>1</sup>
Interest income on plan assets	16.1	20.2
Administration cost (excluding asset management cost)	-1.0	-0.9
Defined benefit cost recognised in the income statement	-74.0	-13.2
<i>whereof service cost</i>	-73.2	-12.0
<i>whereof net interest on the net defined benefit/(liability) asset</i>	-0.8	-1.3

<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	-136.9	-251.3
Acquisitions	-0.2	-3.6
Translation differences	-1.6	0.6
Defined benefit cost recognised in the income statement	-74.0	-13.2
Benefits paid by employer	0.2	0.0
Employer's contributions	94.7	106.1
Remeasurements of the net defined benefit liability/(asset)	4.7	24.5
<b>Amount recognised in the balance sheet</b>	<b>-113.2</b>	<b>-136.9</b>

**Remeasurements of the net defined benefit liability/(asset)**

Actuarial gains/(losses) of defined benefit obligation	-147.5	-61.3
Return on plan assets (excluding interest income)	152.2	85.8
<b>Total recognised in other comprehensive income</b>	<b>4.7</b>	<b>24.5</b>

**5. Composition of plan assets**

Cash	132.8	125.1
Debt instruments	751.6	776.6
Equity instruments	909.1	757.0
Real estate	456.2	408.0
Alternative investments	291.5	262.9
Other	267.4	220.6
<b>Total</b>	<b>2,808.6</b>	<b>2,550.4</b>

	<b>2017</b> <i>in %</i>	2016 <i>in %</i>
<b>6. Aggregation of plan assets – quoted market prices in active markets</b>		
Cash	<b>4.7</b>	4.9
Debt instruments	<b>23.6</b>	29.2
Equity instruments	<b>32.4</b>	29.7
Real estate	<b>7.8</b>	7.2
Other	<b>9.0</b>	13.5
<b>Total</b>	<b>77.5</b>	84.5

	<b>2017</b> <i>CHF m</i>	2016 <i>CHF m</i>
<b>7. Sensitivities</b>		
Decrease of discount rate -0.25%		
Effect on defined benefit obligation	<b>-84.4</b>	-73.4
Effect on service cost	<b>-2.8</b>	-2.4
Increase of discount rate +0.25%		
Effect on defined benefit obligation	<b>79.7</b>	69.4
Effect on service cost	<b>2.6</b>	2.2
Decrease of salary increase -0.25%		
Effect on defined benefit obligation	<b>9.8</b>	9.0
Effect on service cost	<b>1.0</b>	0.9
Increase of salary increase +0.25%		
Effect on defined benefit obligation	<b>-10.1</b>	-9.2
Effect on service cost	<b>-1.0</b>	-0.9
Life expectancy		
Increase in longevity by one additional year	<b>57.7</b>	53.3

**Actuarial calculation of pension assets and obligations**

The latest actuarial calculation was carried out as at 31 December 2017. The actuarial assumptions are based on local economic conditions and are as follows for Switzerland, which accounts for about 96% (2016: 96%) of all benefit obligations and plan assets:

	<b>2017</b>	2016
Discount rate	<b>0.60%</b>	0.55%
Average future salary increases	<b>0.50%</b>	0.50%
Future pension increases	<b>0.00%</b>	0.00%
Duration (years)	<b>15</b>	14

**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 2018 financial year related to defined benefit plans are estimated at CHF 91.0 million.

**Outstanding liabilities to pension plans**

The Group had outstanding liabilities to various pension plans in the amount of CHF 8.0 million (2016: CHF 8.2 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 32.5 million for the 2017 financial year (2016: CHF 27.4 million).

## 23 SECURITIES TRANSACTIONS

### Securities lending and borrowing transactions / repurchase and reverse repurchase transactions

	<b>31.12.2017</b> CHF m	31.12.2016 CHF m
<b>Receivables</b>		
Receivables from cash provided in securities borrowing transactions	<b>56.6</b>	16.2
<i>of which recognised in due from banks</i>	<b>56.6</b>	16.2
Receivables from cash provided in reverse repurchase transactions	<b>2.6</b>	1.4
<i>of which recognised in due from banks</i>	<b>2.6</b>	1.4
<b>Obligations</b>		
Obligations to return cash received in securities lending transactions	<b>988.1</b>	1,301.2
<i>of which recognised in due to banks</i>	<b>988.1</b>	1,301.2
Obligations to return cash received in repurchase transactions	<b>206.3</b>	248.3
<i>of which recognised in due to banks</i>	<b>206.3</b>	248.3
<b>Securities collateral</b>		
Own securities lent as well as securities provided as collateral for borrowed securities under securities borrowing and repurchase transactions	<b>2,470.1</b>	2,342.3
<i>of which securities the right to pledge or sell has been granted without restriction</i>	<b>2,470.1</b>	2,342.3
<i>of which recognised in trading assets</i>	<b>1,547.7</b>	1,543.2
<i>of which recognised in financial investments available-for-sale</i>	<b>922.4</b>	799.1
Securities borrowed as well as securities received as collateral for loaned securities under securities lending and reverse repurchase transactions	<b>2,872.3</b>	2,138.7
<i>of which repledged or resold securities</i>	<b>2,834.7</b>	2,032.3

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	77,030.3	568.2	599.9
Futures	121.6	0.5	0.6
Cross-currency swaps	620.6	9.0	2.8
Options (OTC)	34,809.0	323.7	190.0
<b>Total foreign exchange derivatives 31.12.2017</b>	<b>112,581.5</b>	<b>901.3</b>	<b>793.3</b>
Total foreign exchange derivatives 31.12.2016	108,499.1	1,264.9	1,088.0
<b>Interest rate derivatives</b>			
Swaps	12,870.4	94.8	84.4
Futures	696.8	1.1	1.5
Options (OTC)	196.4	10.9	13.0
<b>Total interest rate derivatives 31.12.2017</b>	<b>13,763.6</b>	<b>106.8</b>	<b>98.9</b>
Total interest rate derivatives 31.12.2016	9,851.1	123.2	112.0
<b>Precious metals derivatives</b>			
Forward contracts	2,875.9	45.1	31.9
Futures	812.4	1.2	0.2
Options (OTC)	2,836.9	129.0	19.7
Options (traded)	165.5	0.0	4.0
<b>Total precious metals derivatives 31.12.2017</b>	<b>6,690.7</b>	<b>175.4</b>	<b>55.9</b>
Total precious metals derivatives 31.12.2016	4,656.5	211.2	99.1
<b>Equity/indices derivatives</b>			
Futures	1,103.9	11.1	11.6
Options (OTC)	11,114.4	257.7	289.4
Options (traded)	12,146.4	489.9	750.3
<b>Total equity/indices derivatives 31.12.2017</b>	<b>24,364.7</b>	<b>758.7</b>	<b>1,051.4</b>
Total equity/indices derivatives 31.12.2016	21,641.6	1,077.9	894.7
<b>Other derivatives</b>			
Futures	168.7	0.8	5.3
<b>Total other derivatives 31.12.2017</b>	<b>168.7</b>	<b>0.8</b>	<b>5.3</b>
Total other derivatives 31.12.2016	144.1	0.5	2.7

**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	316.1	0.2	6.6
Total return swaps	70.4	2.5	0.0
<b>Total credit derivatives 31.12.2017</b>	<b>386.5</b>	<b>2.6</b>	<b>6.6</b>
Total credit derivatives 31.12.2016	401.0	2.4	17.1
<b>Total derivatives held for trading 31.12.2017</b>	<b>157,955.7</b>	<b>1,945.6</b>	<b>2,011.3</b>
Total derivatives held for trading 31.12.2016	145,193.5	2,680.1	2,213.5

**Derivatives held for hedging**

**Derivatives designated as fair value hedges**

Interest rate swaps	2,590.9	17.1	47.9
<b>Total derivatives held for hedging 31.12.2017</b>	<b>2,590.9</b>	<b>17.1</b>	<b>47.9</b>
Total derivatives held for hedging 31.12.2016	2,171.1	10.8	71.9
<b>Total derivative financial instruments 31.12.2017</b>	<b>160,546.6</b>	<b>1,962.7</b>	<b>2,059.2</b>
Total derivative financial instruments 31.12.2016	147,364.6	2,690.9	2,285.3

## 25A FINANCIAL INSTRUMENTS BY CATEGORY

### Financial assets

	Carrying value CHF m	<b>31.12.2017</b> Fair value CHF m	Carrying value CHF m	31.12.2016 Fair value CHF m
<b>Cash, loans and receivables</b>				
Cash	10,862.9	10,862.9	13,599.5	13,599.5
Due from banks	8,308.9	8,313.9	11,389.8	11,395.5
Loans	46,623.7	47,035.5	38,419.0	38,873.2
Accrued income	311.7	311.7	282.8	282.8
<b>Total</b>	<b>66,107.2</b>	<b>66,524.0</b>	63,691.1	64,151.0
<b>Held for trading</b>				
Trading assets	11,255.9	11,255.9	7,261.8	7,261.8
Derivative financial instruments	1,945.6	1,945.6	2,680.1	2,680.1
<b>Total</b>	<b>13,201.5</b>	<b>13,201.5</b>	9,941.9	9,941.9
<b>Derivatives designated as hedging instruments</b>				
Derivative financial instruments	17.1	17.1	10.8	10.8
<b>Total</b>	<b>17.1</b>	<b>17.1</b>	10.8	10.8
<b>Designated at fair value</b>				
Financial assets designated at fair value	277.3	277.3	252.4	252.4
<b>Total</b>	<b>277.3</b>	<b>277.3</b>	252.4	252.4
<b>Available-for-sale</b>				
Financial investments available-for-sale	12,246.5	12,246.5	18,266.6	18,266.6
<b>Total</b>	<b>12,246.5</b>	<b>12,246.5</b>	18,266.6	18,266.6
<b>Total financial assets</b>	<b>91,849.6</b>	<b>92,266.4</b>	92,162.8	92,622.7

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**Financial liabilities**

	Carrying value CHF m	<b>31.12.2017</b> 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	7,209.5	7,209.6	10,076.8	10,076.9
Due to customers	67,636.8	67,640.3	67,495.2	67,496.9
Debt issued	1,777.0	1,839.2	1,213.5	1,254.0
Accrued expenses	192.7	192.7	187.7	187.7
<b>Total</b>	<b>76,816.0</b>	<b>76,881.8</b>	78,973.2	79,015.5
<b>Held for trading</b>				
Trading liabilities	135.8	135.8	159.0	159.0
Derivative financial instruments	2,011.3	2,011.3	2,213.5	2,213.5
<b>Total</b>	<b>2,147.1</b>	<b>2,147.1</b>	2,372.4	2,372.4
<b>Derivatives designated as hedging instruments</b>				
Derivative financial instruments	47.9	47.9	71.9	71.9
<b>Total</b>	<b>47.9</b>	<b>47.9</b>	71.9	71.9
<b>Designated at fair value</b>				
Financial liabilities designated at fair value	11,836.7	11,836.7	8,444.4	8,444.4
Other liabilities	32.8 <sup>1</sup>	32.8	41.2 <sup>2</sup>	41.2
<b>Total</b>	<b>11,869.5</b>	<b>11,869.5</b>	8,485.6	8,485.6
<b>Total financial liabilities</b>	<b>90,880.6</b>	<b>90,946.3</b>	89,903.1	89,945.5

<sup>1</sup> Relates to the deferred purchase price of Fransad Gestion SA, GPS Investimentos Financeiros e Participações S.A. and Wergen & Partner Vermögensverwaltungs AG, see Notes 26B and 27.

<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., 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, 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 generally approximates the fair value.

**Long-term financial instruments**

Depending on the maturity, these include the following balance sheet items: due from banks, loans, 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, 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 2017, dividends related to these investments in the amount of CHF 6.7 million (2016: 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:

				<b>31.12.2017</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 measured at fair value</b>				
Trading assets – debt instruments	1,918.2	352.5	-	2,270.7
Trading assets – equity instruments	6,991.4	1,993.8	-	8,985.2
<b>Total trading assets</b>	<b>8,909.6</b>	<b>2,346.3</b>	<b>-</b>	<b>11,255.9</b>
Foreign exchange derivatives	5.0	896.3	-	901.3
Interest rate derivatives	1.1	122.8	-	123.9
Precious metal derivatives	1.2	174.1	-	175.4
Equity/indices derivatives	11.1	747.6	-	758.7
Credit derivatives	-	2.6	-	2.6
Other derivatives	0.8	-	-	0.8
<b>Total derivative financial instruments</b>	<b>19.2</b>	<b>1,943.5</b>	<b>-</b>	<b>1,962.7</b>
<b>Financial assets designated at fair value</b>	<b>14.0</b>	<b>108.9</b>	<b>154.4</b>	<b>277.3</b>
Financial investments available-for-sale – money market instruments	249.8	1,941.3	-	2,191.1
Financial investments available-for-sale – debt instruments	8,908.9	959.7	-	9,868.6
Financial investments available-for-sale – equity instruments	33.4	7.8	145.6	186.8
<b>Total financial investments available-for-sale</b>	<b>9,192.1</b>	<b>2,908.8</b>	<b>145.6</b>	<b>12,246.5</b>
<b>Total assets</b>	<b>18,134.8</b>	<b>7,307.6</b>	<b>300.0</b>	<b>25,742.4</b>
Short positions – debt instruments	9.4	-	-	9.4
Short positions – equity instruments	82.4	44.0	-	126.5
<b>Total trading liabilities</b>	<b>91.8</b>	<b>44.0</b>	<b>-</b>	<b>135.8</b>
Foreign exchange derivatives	5.0	788.3	-	793.3
Interest rate derivatives	1.5	145.3	-	146.8
Precious metal derivatives	0.2	55.6	-	55.9
Equity/indices derivatives	11.6	1,039.7	-	1,051.4
Credit derivatives	-	6.6	-	6.6
Other derivatives	5.3	-	-	5.3
<b>Total derivative financial instruments</b>	<b>23.7</b>	<b>2,035.5</b>	<b>-</b>	<b>2,059.2</b>
<b>Financial liabilities designated at fair value</b>	<b>-</b>	<b>11,557.6</b>	<b>279.1</b>	<b>11,836.7</b>
<b>Total liabilities</b>	<b>115.5</b>	<b>13,637.1</b>	<b>279.1</b>	<b>14,031.7</b>

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	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	31.12.2016 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
<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
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
<b>Total liabilities</b>	<b>194.4</b>	<b>10,430.7</b>	<b>263.6</b>	<b>10,888.7</b>



The fair value of financial instruments disclosed at fair value is determined as follows:

				<b>31.12.2017</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	10,862.9	-	-	10,862.9
Due from banks	-	8,313.9	-	8,313.9
Loans	-	47,035.5	-	47,035.5
Accrued income	-	311.7	-	311.7
<b>Total assets</b>	<b>10,862.9</b>	<b>55,661.1</b>	<b>-</b>	<b>66,524.0</b>
Due to banks	-	7,209.6	-	7,209.6
Due to customers	-	67,640.3	-	67,640.3
Debt issued	1,839.2	-	-	1,839.2
Accrued expenses	-	192.7	-	192.7
Other liabilities	-	-	32.8	32.8
<b>Total liabilities</b>	<b>1,839.2</b>	<b>75,042.6</b>	<b>32.8</b>	<b>76,914.6</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
<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>

25C FINANCIAL INSTRUMENTS – TRANSFERS BETWEEN LEVEL 1 AND LEVEL 2

	<b>31.12.2017</b>	31.12.2016
	<i>CHF m</i>	<i>CHF m</i>
<b>Transfers from level 1 to level 2</b>		
Trading assets	417.7	1.3
Trading liabilities	10.0	-
<b>Transfers from level 2 to level 1</b>		
Trading assets	57.8	244.0
Financial investments available-for-sale	22.6	2,141.4
Trading liabilities	2.6	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 59.3 million (2016: CHF 17.6 million) and the cash collateral received in securities lending and repurchase transactions in the amount of CHF 1,194.5 million (2016: CHF 1,549.5 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 1,458.1 million (positive replacement values) and CHF 1,285.6 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 1,618.6 million (2016: CHF 664.3 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 2017

**Listed company which is consolidated**

	Place of listing	Head Office	Currency	Share capital m	Capitalisation as at 31.12.2017 m
Julius Baer Group Ltd.	SIX Swiss Exchange	Zurich	CHF	4.5	13,339

Swiss securities number: 10 248 496, Ticker symbol: BAER

**Unlisted operational companies which are consolidated**

	Head Office	Currency	Share capital m	Equity interest %
Bank Julius Baer & Co. Ltd. <i>Branches in Basle, Berne, Crans-Montana, Geneva, Guernsey, Hong Kong, Kreuzlingen, 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>	Zurich	CHF	575.000	100
<i>Bank Julius Baer Nominees (Singapore) Pte. Ltd.</i>	<i>Singapore</i>	<i>SGD</i>	<i>0.000</i>	<i>100</i>
<i>Arpese SA</i>	<i>Lugano</i>	<i>CHF</i>	<i>0.400</i>	<i>100</i>
Bank Julius Bär Europe AG <i>Branches in Duesseldorf, Hamburg, Kiel, Mannheim, Munich, Stuttgart, Würzburg including</i>	Frankfurt	EUR	15.000	100
<i>Julius Bär Capital GmbH</i>	<i>Frankfurt</i>	<i>EUR</i>	<i>0.026</i>	<i>100</i>
Bank Julius Baer Luxembourg S.A.	Luxembourg	EUR	120.165	100
Bank Julius Baer (Monaco) S.A.M.	Monaco	EUR	85.000	100
Julius Baer Bank & Trust (Bahamas) Ltd.	Nassau	CHF	20.000	100
Fransad Gestion SA	Geneva	CHF	1.000	100
Julius Baer Investment Ltd. <i>including</i>	Zurich	CHF	0.100	100
<i>Julius Baer Consultores S.A.</i>	<i>Caracas</i>	<i>BSF</i>	<i>2.150</i>	<i>100</i>
<i>Julius Baer Trust Company (Singapore) Ltd.</i>	<i>Singapore</i>	<i>SGD</i>	<i>2.812</i>	<i>100</i>

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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
<i>GPS Investimentos Financeiros e Participações S.A.</i> <i>including</i>	São Paulo	BRL	0.280	100
<i>GPS Planejamento Financeiro Ltda.</i> <i>Branches in Rio de Janeiro, Belo Horizonte</i>	São Paulo	BRL	0.207	100
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 (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
<i>Julius Baer Trust Company (New Zealand) Limited</i>	Auckland	CHF	0.105	100
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 <i>Branches in Dublin, Leeds, Manchester</i>	London	GBP	122.200	100

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	Head Office	Currency	Share capital <i>m</i>	Equity interest <i>%</i>
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 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>	Zurich	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. (in liquidation)	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>

CONSOLIDATED FINANCIAL STATEMENTS JULIUS BAER GROUP 2017 (AUDITED)  
**ADDITIONAL INFORMATION**

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	Head Office	Currency	Share capital <i>m</i>	Equity interest <i>%</i>
PINVESTAR AG	Zug	CHF	0.100	100
PT Julius Baer Advisors Indonesia (in liquidation)	Jakarta	IDR	6,725.000	100
Wergen & Partner Vermögensverwaltungs AG	Zurich	CHF	0.100	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:**

- Julius Baer Investment Services S.à r.l., Luxembourg, merged with Bank Julius Baer Luxembourg S.A., Luxembourg
- Wergen & Partner Vermögensverwaltungs AG, Zurich, new
  - WMPartners Wealth Management Ltd., Zurich, merged with Bank Julius Baer & Co. Ltd., Zurich

## 26B INVESTMENTS IN ASSOCIATES

	Head Office	Currency	Share capital m	Equity interest %
<b>Associates</b>				
NSC Asesores, S.C., Asesor en Inversiones Independiente	Mexico City	MXN	1.903	40
			<b>31.12.2017</b>	31.12.2016
			CHF m	CHF m
Balance at the beginning of the year			<b>29.4</b>	90.3
Disposals			-	-99.8 <sup>1</sup>
Income			<b>1.9</b>	48.7 <sup>2</sup>
Dividend paid			<b>-1.9</b>	-10.2
Translation differences			<b>-1.2</b>	0.4
<b>Balance at the end of the year</b>			<b>28.2</b>	29.4

<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 5.0 million (2016: CHF 3.6 million).

### NSC Asesores (2015)

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 of CHF 7.1 million each on 6 November 2016 and 2017, respectively, for the outstanding purchase price, which were both performed as agreed. 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

The following transactions were executed:

### **Wergen & Partner Vermögensverwaltungs AG, Zurich (2017)**

In February 2017, the Group acquired the Zurich-based Wergen & Partner Vermögensverwaltungs AG.

The purchase price, including the deferred portions 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	8.0
<b>Total</b>	<b>13.5</b>
All other assets	2.1
<b>Assets acquired</b>	<b>2.1</b>
All other liabilities	0.7
<b>Liabilities assumed</b>	<b>0.7</b>
<b>Goodwill and other intangible assets</b>	
Goodwill	4.7
Customer relationships	7.4
<b>Total</b>	<b>12.1</b>

### **Kairos (2016)**

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. Kairos continues to operate under its brand.

The assets and liabilities of Kairos were recorded as follows (unchanged since 2016):

	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 significantly strengthened the Group's presence in Luxembourg and in addition provided 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 (unchanged since 2016):

	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 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 is payable in four yearly tranches, whereof the first two tranches have been paid and were 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.

## 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 for which 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. Generally 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**

	2017 <i>CHF m</i>	2016 <i>CHF m</i>	Change %
Assets with discretionary mandate	<b>62,781</b>	54,904	14.3
Other assets under management	<b>318,941</b>	277,083	15.1
Assets in collective investment schemes managed by the Group <sup>1</sup>	<b>6,700</b>	4,174	60.5
<b>Total assets under management (including double counting)</b>	<b>388,422</b>	336,161	15.5
<i>of which double counting</i>	<b>9,963</b>	6,106	63.2
Change through net new money	<b>22,157</b>	11,865	
Change through market and currency impacts	<b>35,912</b>	13,395	
Change through acquisition	<b>395<sup>2</sup></b>	11,267 <sup>3</sup>	
Change through divestment	<b>-97<sup>4</sup></b>	-53 <sup>4</sup>	
Change through other effects	<b>-6,106<sup>5</sup></b>	-	
Client assets	<b>457,134</b>	391,620	16.7

<sup>1</sup> Collective investment schemes are related to GPS Investimentos Financeiros e Participações S.A., São Paulo, and to Kairos Investment Management S.p.A., 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 S.p.A., Milan, to 80%.  
 In July 2016, the Group acquired Commerzbank International S.A. Luxembourg.

<sup>4</sup> Assets under management were affected by the Group's decision to discontinue its offering to clients from a number of selected countries.

<sup>5</sup> Includes assets which have been reclassified following the completed roll-out of the new client advisory models in Switzerland and continental Europe.

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.



**Breakdown of assets under management**

	2017 %	2016 %
<b>By types of investment</b>		
Equities	28	27
Bonds (including convertible bonds)	19	19
Investment funds	26	24
Money market instruments	3	3 <sup>1</sup>
Client deposits	18	20 <sup>1</sup>
Structured products	5	5
Other	1	2
<b>Total</b>	<b>100</b>	<b>100</b>

<sup>1</sup> Reversal of a restatement

**By currencies**

CHF	10	11
EUR	23	22
USD	45	45
GBP	4	4
SGD	2	2
HKD	4	3
RUB	1	1
CAD	1	1
Other	10	11
<b>Total</b>	<b>100</b>	<b>100</b>

### 30 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 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.

### 31 EVENTS AFTER THE BALANCE SHEET DATE

On 9 January 2018, the Group announced to increase its stake in Kairos Investment Management SpA from 80% to 100%. The consideration for the additional 20% stake is EUR 96 million, subject to closing adjustments. 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 between the amount of the former non-controlling interest and the fair value of the consideration paid will be

recognised directly in equity (retained earnings). In addition, no changes in the carrying amount of assets, including goodwill, or liabilities will be recognised.

There are no events to report that had an influence on the balance sheet or the income statement for the 2017 financial year.