CONSOLIDATED FINANCIAL STATEMENTS JULIUS BAER GROUP 2015 (AUDITED)

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

	Note	**2015** CHF m	2014 CHF m	Change %
Interest and dividend income		**847.2**	779.9	8.6
Interest expense		**135.7**	132.2	2.7
Net interest and dividend income	1	**711.5**	647.7	9.8
Commission and fee income		**1,732.1**	1,725.8	0.4
Commission expense		**209.7**	207.8	0.9
Net commission and fee income	2	**1,522.4**	1,518.1	0.3
Net trading income	3	**435.8**	327.5	33.1
Other ordinary results	4	**24.7**	53.4	-53.7
Operating income		**2,694.4**	2,546.7	5.8
Personnel expenses	5	**1,236.1**	1,258.6	-1.8
General expenses	6	**1,100.2**	609.3	80.6
Depreciation of property and equipment	12	**34.5**	31.1	11.0
Amortisation of customer relationships	12	**126.2**	126.4	-0.2
Amortisation and impairment of other intangible assets	12	**58.6**	51.2	14.6
Operating expenses		**2,555.6**	2,076.5	23.1
Profit before taxes		**138.8**	470.2	-70.5
Income taxes	7	**16.3**	102.8	-84.2
Net profit		**122.5**	367.4	-66.7
Attributable to:				
Shareholders of Julius Baer Group Ltd.		**121.2**	366.2	-66.9
Non-controlling interests		**1.4**	1.2	9.9
		122.5	367.4	-66.7

	Note	**2015** CHF	2014 CHF	Change %
Share information				
Basic earnings per share (EPS)	8	**0.55**	1.68	-66.9
Diluted earnings per share (EPS)	8	**0.55**	1.68	-66.9
Dividend proposal 2015 and dividend 2014		**1.10**	1.00	10.0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2015 *CHF m*	2014 *CHF m*
Net profit recognised in the income statement	**122.5**	367.4
Other comprehensive income (net of taxes):		
Items that may be reclassified to the income statement		
Net unrealised gains/(losses) on financial investments available-for-sale	**-85.8**	26.2
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	**0.3**	11.2
Translation differences	**-79.6**	-0.5
Realised (gains)/losses on translation differences reclassified to the income statement	**0.2**	15.7
Items that will not be reclassified to the income statement		
Remeasurement of defined benefit obligation	**-98.4**	-77.6
Other comprehensive income for the year recognised directly in equity	**-263.2**	-25.0
Total comprehensive income for the year recognised in the income statement and in equity	**-140.7**	342.5
Attributable to:		
Shareholders of Julius Baer Group Ltd.	**-139.3**	341.6
Non-controlling interests	**-1.4**	0.8
	-140.7	342.5

CONSOLIDATED BALANCE SHEET

	Note	**31.12.2015** CHF m	31.12.2014 CHF m
Assets			
Cash		**9,185.7**	11,201.9
Due from banks	9	**6,901.1**	8,922.6
Loans	9	**36,380.9**	33,669.1
Trading assets	10	**8,984.0**	7,424.2
Derivative financial instruments	24	**2,189.1**	3,001.9
Financial assets designated at fair value	25	**197.0**	121.8
Financial investments available-for-sale	11	**16,572.5**	14,597.3
Investments in associates	26	**90.3**	66.0
Property and equipment	12	**373.2**	382.7
Goodwill and other intangible assets	12	**2,316.4**	2,363.9
Accrued income and prepaid expenses		**366.2**	331.9
Deferred tax assets	17	**23.8**	15.3
Other assets		**535.4**	135.2
Total assets		**84,115.5**	82,233.8

	Note	**31.12.2015** *CHF m*	31.12.2014 *CHF m*
Liabilities and equity			
Due to banks		**4,672.0**	5,190.2
Due to customers		**64,781.4**	61,820.5
Trading liabilities	10	**190.8**	116.2
Derivative financial instruments	24	**2,391.4**	3,014.9
Financial liabilities designated at fair value	15	**4,263.1**	4,399.3
Debt issued	16	**1,152.7**	1,059.8
Accrued expenses and deferred income		**530.1**	492.3
Current tax liabilities		**65.6**	115.4
Deferred tax liabilities	17	**41.6**	137.9
Provisions	18	**575.2**	89.5
Other liabilities		**509.7**	459.9
Total liabilities		**79,173.5**	76,896.0
Share capital	19	**4.5**	4.5
Retained earnings		**5,467.8**	5,560.3
Other components of equity		**-317.9**	-57.4
Treasury shares		**-218.9**	-178.7
Equity attributable to shareholders of Julius Baer Group Ltd.		**4,935.6**	5,328.7
Non-controlling interests		**6.4**	9.1
Total equity		**4,942.0**	5,337.8
Total liabilities and equity		**84,115.5**	82,233.8

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital *CHF m*	Retained earnings[1] *CHF m*
At 1 January 2014	4.5	5,235.8
Net profit	-	366.2
Unrealised gains/(losses)	-	-
Realised (gains)/losses reclassified to the income statement	-	-
Changes	-	-
Total other comprehensive income for the year recognised directly in equity	-	-
Total comprehensive income for the year recognised in the income statement and in equity	-	366.2
Capital increase	-	79.4[2]
Changes in non-controlling interests	-	-
Dividends	-	-133.2
Dividend income on own shares	-	2.4
Share-based payments expensed for the year	-	53.5
Share-based payments vested	-	-44.5
Changes in derivatives on own shares	-	0.0
Acquisitions of own shares	-	-
Disposals of own shares	-	0.6
At 31 December 2014	4.5	5,560.3

	Share capital *CHF m*	Retained earnings[1] *CHF m*
At 1 January 2015	**4.5**	**5,560.3**
Net profit	**-**	**121.2**
Unrealised gains/(losses)	**-**	**-**
Realised (gains)/losses reclassified to the income statement	**-**	**-**
Changes	**-**	**-**
Total other comprehensive income for the year recognised directly in equity	**-**	**-**
Total comprehensive income for the year recognised in the income statement and in equity	**-**	**121.2**
Dividends	**-**	**-223.8**
Dividend income on own shares	**-**	**4.8**
Share-based payments expensed for the year	**-**	**60.0**
Share-based payments vested	**-**	**-55.1**
Changes in derivatives on own shares	**-**	**14.2**
Acquisitions of own shares	**-**	**-**
Disposals of own shares	**-**	**-13.8**
At 31 December 2015	**4.5**	**5,467.8**

[1] 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.
[2] Capital increase is related to the transfer of consideration shares (see Notes 19 and 30).
[3] Related to the acquisition of GPS Investimentos Financeiros e Participações S.A.

Other components of equity						
Financial investments available-for-sale, net of taxes *CHF m*	Remeasurement of defined benefit obligation *CHF m*	Translation differences *CHF m*	Treasury shares *CHF m*	Equity attributable to shareholders of Julius Baer Group Ltd. *CHF m*	Non-controlling interests *CHF m*	**Total equity** *CHF m*
71.1	-45.4	-58.5	-169.5	5,037.9	0.6	5,038.6
-	-	-	-	366.2	1.2	367.4
26.2	-	-0.1	-	26.1	-0.4	25.7
11.2	-	15.7	-	26.9	-	26.9
-	-77.6	-	-	-77.6	-	-77.6
37.4	-77.6	15.6	-	-24.6	-0.4	-25.0
37.4	-77.6	15.6	-	341.6	0.8	342.5
-	-	-	-	79.4	-	79.4
-	-	-	-	-	7.6[3]	7.6
-	-	-	-	-133.2	-	-133.2
-	-	-	-	2.4	-	2.4
-	-	-	-	53.5	-	53.5
-	-	-	44.5	-	-	-
-	-	-	22.8	22.8	-	22.8
-	-	-	-249.5	-249.5	-	-249.5
-	-	-	173.1	173.7	-	173.7
108.5	-123.0	-42.9	-178.7	5,328.7	9.1	5,337.8
108.5	**-123.0**	**-42.9**	**-178.7**	**5,328.7**	**9.1**	**5,337.8**
-	**-**	**-**	**-**	**121.2**	**1.4**	**122.5**
-85.8	**-**	**-76.9**	**-**	**-162.6**	**-2.7**	**-165.4**
0.3	**-**	**0.2**	**-**	**0.5**	**-**	**0.5**
-	**-98.4**	**-**	**-**	**-98.4**	**-**	**-98.4**
-85.4	**-98.4**	**-76.7**	**-**	**-260.5**	**-2.7**	**-263.2**
-85.4	**-98.4**	**-76.7**	**-**	**-139.3**	**-1.4**	**-140.7**
-	**-**	**-**	**-**	**-223.8**	**-1.3**	**-225.1**
-	**-**	**-**	**-**	**4.8**	**-**	**4.8**
-	**-**	**-**	**-**	**60.0**	**-**	**60.0**
-	**-**	**-**	**55.1**	**-**	**-**	**-**
-	**-**	**-**	**8.9**	**23.2**	**-**	**23.2**
-	**-**	**-**	**-232.0**	**-232.0**	**-**	**-232.0**
-	**-**	**-**	**127.9**	**114.1**	**-**	**114.1**
23.1	**-221.4**	**-119.6**	**-218.9**	**4,935.6**	**6.4**	**4,942.0**

CONSOLIDATED STATEMENT OF CASH FLOWS

	2015 *CHF m*	2014 *CHF m*
Net profit	**122.5**	367.4
Adjustments to reconcile net profit to cash flow from/(used in) operating activities:		
Non-cash items included in net profit and other adjustments:		
- Depreciation of property and equipment	**34.5**	31.1
- Amortisation and impairment of intangible assets	**184.8**	177.5
- Allowance for credit losses	**35.9**	17.9
- Income from investment in associates	**-5.9**	-20.3
- Deferred tax expense/(benefit)	**-60.3**	-2.9
- Net loss/(gain) from investing activities	**92.1**	45.8
- Other non-cash income and expenses	**60.0**	53.5
Net increase/decrease in operating assets and liabilities:		
- Net due from/to banks	**-981.6**	-2,830.0
- Trading portfolios and derivative financial instruments	**-1,295.9**	-1,584.9
- Net loans/due to customers	**-529.3**	3,341.1
- Accrued income, prepaid expenses and other assets	**-400.0**	52.6
- Accrued expenses, deferred income, other liabilities and provisions	**158.9**	-34.9
Adjustment for income tax expenses	**76.5**	105.7
Income taxes paid	**-125.3**	-51.2
Cash flow from operating activities after taxes	**-2,633.1**	-331.7
Dividend of associates	**4.4**	6.1
Purchase of property and equipment and intangible assets	**-105.9**	-82.5
Disposal of property and equipment and intangible assets	**0.7**	1.0
Net (investment in)/divestment of financial investments available-for-sale	**-2,415.1**	-1,436.5
Acquisition of subsidiaries and businesses, net of cash and cash equivalents acquired	**967.7**	1,434.1
Acquisition of associates/increase in participation	**-28.9**	-55.8
Cash flow from investing activities	**-1,577.1**	-133.5
Net money market instruments issued/(repaid)	**-0.1**	-8.5
Net movements in treasury shares and own equity derivative activity	**-89.9**	-50.7
Dividend payments	**-223.8**	-133.2
Issuance and repayment of financial liabilities designated at fair value	**-211.4**	-520.1
Issuance of perpetual tier 1 subordinated bond	**319.3**	347.2
Dividend payment to non-controlling interests	**-1.3**	-
Cash flow from financing activities	**-207.3**	-365.2
Total	**-4,417.6**	-830.3

	2015 *CHF m*	2014 *CHF m*
Cash and cash equivalents at the beginning of the year	**22,293.4**	23,336.2
Cash flow from operating activities after taxes	**-2,633.1**	-331.7
Cash flow from investing activities	**-1,577.1**	-133.5
Cash flow from financing activities	**-207.3**	-365.2
Effects of exchange rate changes	**252.9**	-212.5
Cash and cash equivalents at the end of the year	**18,128.7**	22,293.4

	31.12.2015 *CHF m*	31.12.2014 *CHF m*
Cash and cash equivalents are structured as follows:		
Cash	**9,185.7**	11,201.9
Money market instruments	**2,298.1**	2,312.1
Due from banks (original maturity of less than three months)	**6,645.0**	8,779.3
Total	**18,128.7**	22,293.4

	31.12.2015 *CHF m*	31.12.2014 *CHF m*
Additional information		
Interest received	**605.5**	654.3
Interest paid	**-121.2**	-115.1
Dividends on equities received (including associates)	**153.7**	81.7

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

Julius Baer Group Ltd. is a Swiss corporation which is committed to the private banking business. The consolidated financial statements as at 31 December 2015 comprise those of Julius Baer Group Ltd. and all its subsidiaries (the Group). The Board of Directors approved these financial statements on 29 January 2016. In addition, they are submitted for approval at the Annual General Meeting on 13 April 2016.

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

USE OF ESTIMATES IN PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

ACCOUNTING POLICIES

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

Business combinations
In a business combination, the acquirer obtains control over the net assets of one or more businesses. The business combination is accounted for using the acquisition method. This involves recognising the identifiable assets, including previously unrecognised intangible assets, and liabilities of the acquired business, at acquisition-date fair value. Any excess of the consideration provided, such as assets or equity instruments issued and measured at acquisition-date fair value, over the identifiable net assets acquired, is recognised as goodwill. Transaction costs are expensed as incurred.

Subsidiaries and associates
Investees in which Julius Baer Group Ltd. exercises control are fully consolidated. The following three elements constitute control:

- power over the investee;
- exposure, or rights, to variable returns from involvement with the investee; and
- the ability to use power over the investee to affect the amount of the investor’s returns.

If the Group is exposed to all three elements, it controls an investee. The assessment is based on all facts and circumstances and is reassessed as conditions may change.

A complete list of these companies is provided in Note 26. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control is transferred to the Group until the date that control ceases.

Companies in which Julius Baer Group Ltd. has the ability to exercise significant influence over the financial and operating policies are reported in the consolidated financial statements using the equity method. These associates are initially recorded at

cost as of the date of acquisition. Subsequently, the carrying amount is adjusted for the post-acquisition change in the Group's share of the associate's net assets.

The effects of all intercompany transactions and balances are eliminated on consolidation. Gains and losses resulting from transactions with associates are recognised only to the extent of the unrelated investor's interest in the associate.

Foreign currency translation
The Group companies prepare their financial statements in the respective functional currency. The balance sheets of Group companies that are denominated in foreign currencies are translated into Swiss francs at the closing exchange rates on the balance sheet date. Average exchange rates for the reporting period are used for the income statements. Exchange differences arising from consolidation using closing and average exchange rates for the reporting period are recognised in other comprehensive income. When a foreign operation is disposed of such that control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

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

The following exchange rates are used for the major currencies:

	Year-end rates		Average exchange rates for the year	
	31.12.2015	31.12.2014	**2015**	2014
USD/CHF	**1.0010**	0.9936	**0.9645**	0.9195
EUR/CHF	**1.0874**	1.2024	**1.0640**	1.2125
GBP/CHF	**1.4753**	1.5493	**1.4710**	1.5120

Reporting of transactions
Foreign exchange, securities and derivatives transactions are recorded in the balance sheet on trade date. All other financial instruments are recorded on settlement date. The financial instruments are assigned to one of the four categories according to IAS 39: loans and receivables, held-to-maturity investments, financial assets and financial liabilities at fair value through profit or loss, and available-for-sale financial assets. They are uniformly recognised within these categories on trade date or settlement date.

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

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

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

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

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

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

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

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

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

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

Securities lending and borrowing transactions
Securities lending and borrowing transactions are collateralised by securities or cash. The transactions are usually conducted under standard agreements employed by the market participants; the counterparties are subject to the Group's normal credit risk process.

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

Cash collateral received is recognised with a corresponding obligation to return it, and cash collateral provided is derecognised and a corresponding receivable reflecting the Group's right to receive it back is recognised.

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

Repurchase and reverse repurchase transactions
Reverse repurchase transactions and repurchase transactions are considered secured financing transactions and are recorded at the value of the cash provided or received. The transactions are generally conducted under standard agreements employed by the market participants; the counterparties are subject to the Group's normal credit risk process.

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

Cash received is recognised with a corresponding obligation to return it, and cash provided is derecognised and a corresponding receivable reflecting the Group's right to receive it back is recognised.

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

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

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

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

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

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

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

In addition, the Group reports assets and liabilities related to certain structured investments where the client bears all the related risks and rewards from the investments, as designated at fair value.

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

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

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

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

When fair value hedge accounting is discontinued prospectively, any hedging adjustment made previously to a hedged financial instrument is amortised to the income statement over the remaining term to maturity of the hedged item.

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

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

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

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

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

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

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

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

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

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

Goodwill and intangible assets
Goodwill and intangible assets are classified into the following categories:

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

Customer relationships: This position comprises long-term customer relationship intangibles from recent business combinations that are initially recognised at fair value at the date of acquisition. Customer relationships are amortised over their estimated useful life not exceeding ten years, using the straight-line method.

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

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

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

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

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

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

Restructuring provisions are recognised if a constructive obligation is incurred, which requires commencement of an approved detailed and formal

restructuring plan or the announcement of its main features to the affected employees before the balance sheet date.

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

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

Deferred tax assets arising from temporary differences and from loss carryforwards eligible for offsetting are capitalised if it is likely that sufficient taxable profits will be available against which those differences or loss carryforwards can be offset. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

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

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

Post-employment benefits
For defined benefit plans, the net defined benefit liability recognised in other liabilities in the balance sheet is the present value of the defined benefit obligation less the fair value of the plan assets as of the reporting date. The Group applies the projected unit credit method to determine the present value of the defined benefit obligation and the current and past service cost. The corresponding calculations are carried out by independent qualified actuaries.

All changes in the present value of the defined benefit obligation and in the fair value of the plan assets are recognised in the financial statements immediately in the period they occur. Service costs, including past service costs, and net interest on the net defined benefit liability are recognised in the consolidated income statement. The Group determines the net interest expense based on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation. The remeasurement of the net defined benefit liability is recognised in other comprehensive income which comprises movements in actuarial gains and losses and return on plan assets (excluding net interest cost).

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

Share-based payments
The Group maintains various share-based payment plans in the form of share plans for its employees. When such payments are made to employees, the fair value of these payments at grant date serves as the basis for calculating the personnel expenses. Share-based payments that are not subject to any further conditions are expensed immediately at grant date. Share-based payments that are subject to the completion of a service period or to other vesting conditions are expensed over the respective vesting period starting at grant date. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related services and non-market performance vesting conditions are expected to be met.

Share-based payment plans that are settled in own equity instruments (i.e. Julius Baer Group Ltd. shares) result in a corresponding increase in equity and are not remeasured for subsequent changes in the fair value of the underlying equity instruments.

Share capital
The share capital comprises all issued, fully paid shares of Julius Baer Group Ltd.

Incremental costs that are directly attributable to the issuance of new shares are deducted from equity.

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

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

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

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

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

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

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

Contingent liabilities and irrevocable commitments
Contingent liabilities and irrevocable commitments are not recognised in the balance sheet. However, if an outflow of resources becomes probable and is a present obligation from a past event that can be reliably measured, a respective liability is recognised.

CHANGES IN ACCOUNTING POLICIES

In 2015, there have been no material impacts from new or revised accounting standards on the Group's consolidated financial statements.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Certain new standards, revisions and interpretations of existing standards were published that must be applied in future financial periods. The Group plans not to adopt these in advance. A number of these changes may have an impact on the Group's consolidated financial statements, as outlined below.

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

IFRS 9 – Financial Instruments
The new standard includes the following changes to current accounting for financial instruments:

Recognition and measurement: The new standard uses two criteria to determine how financial assets should be classified and therefore measured: a) the entity's business model for managing the financial assets; and b) the contractual cash flow characteristics of the financial asset.

A business model refers to how an entity manages its financial assets in order to generate cash flows:

- by collecting contractual cash flows, i.e. cash flows stem primarily from interest payments and repayment of the principal;
- by selling the financial assets, i.e. cash flows stem primarily from buying and selling the financial asset; or
- by a combination of the two models above.

The additional criteria for determining the classification of a financial asset is whether the contractual cash flows are solely payments of principal and interest. Interest under this model can comprise a return not only for the time value of money and credit risk but also for other components such as return for liquidity risk, amounts to cover expenses and a profit margin.

Based on an analysis of the business model and the nature of the contractual cash flows, a financial asset is measured at amortised cost, fair value through profit or loss, or fair value through other comprehensive income (with and without recycling).

Expected credit losses: Contrary to the current impairment model for financial assets, the new standard requires an entity to recognise expected credit losses at inception and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. It is therefore no longer necessary for a trigger event to have occurred before credit losses are recognised.

In general, the expected credit loss model uses a dual measurement approach: if the credit risk of a financial asset has not increased significantly since its initial recognition, the financial asset will attract a loss allowance equal to 12-month expected losses. If its credit risk has increased significantly, it will attract an allowance equal to lifetime expected credit losses.

Financial liabilities: Financial liabilities are measured at amortised cost or fair value. The new standard retains the fair value option for financial liabilities, but requires that the amount of change in fair value attributable to changes in the credit risk of the liability (own credit risk) be presented in other comprehensive income (OCI) without reclassification to the income statement. The remaining amount of total gain or loss is included in the income statement. If this approach creates or enlarges an accounting mismatch, the whole change in fair value may be recognised in the income statement.

Hedge accounting: The new standard puts in place a model that introduces significant improvements principally by aligning the accounting for hedges more closely with the underlying risk management purposes. To that effect, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Hedge qualification will be based on qualitative, forward-looking hedge effectiveness assessments, rather than on bright lines. There are also enhanced disclosure requirements about hedge accounting and risk management activities.

The new standard will be effective 1 January 2018, with early application available for certain parts. However, the Group does not intend to early apply these parts of IFRS 9. The impact of the new standard on the Group's financial statements is currently being assessed.

IFRS 15 – Revenue Recognition
The new standard introduces the core principle to recognise revenue to depict the transfer of services to customers in amounts that reflect the consideration (that is, payment) to which the Group expects to be entitled in exchange for those services.

The standard contains a single model that applies to contracts with customers and two approaches to recognise revenue: at a point of time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised:

- identify the contract(s) with a customer (step 1);
- identify the performance obligations in the contract (step 2);
- determine the transaction price (step 3);
- allocate the transaction price to the performance obligations in the contract (step 4);
- recognise revenue when (or as) the Group satisfies a performance obligation (step 5).

The new standard also provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. In addition, enhanced disclosures about revenue are required.

The new standard will be effective 1 January 2018 with earlier application permitted. However, the Group does not intend to early apply IFRS 15. The impact of the new standard on the Group's financial statements is currently being assessed.

Disclosure Initiative
The amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

The amended standard will be effective 1 January 2016 with earlier application permitted. The impact of the amendments on the presentation of the Group's financial statements will not be material.

Annual Improvements to IFRSs (2012–2014 Cycle)
A number of amendments to several standards are included in the IASB's Annual Improvement Projects. The amendments will be applicable starting 1 January 2016. The amendments will not have a material impact on the Group's financial statements.

IFRS 16 – Leases
The new standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability.

The new standard will be effective 1 January 2019 with earlier application permitted. However, the Group does not intend to early apply IFRS 16. The impact of the new standard on the Group's financial statements has not yet been assessed.

COMMENT ON RISK AND CAPITAL MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND PROCESS

Risk types
For the purposes of this report, risk comprises both the probability of a given event occurring and its potential adverse impact in the event of a deviation from the Group's defined objectives. Risk-taking is an inherent component of our day-to-day business activities. Risk management therefore constitutes an integral part of the Group's business framework. It is supported by a number of risk-control procedures, which are seen as business enablers critical to the management process of the Julius Baer Group (the Group). The principal risks to which the Group is exposed are:

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

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

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

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

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

The Board of Directors delegates the supervision of operational risks to the Audit Committee, while the supervision of all other risks is entrusted to the Chairman's and Risk Committee. The responsibilities of these two committees are described in further detail in the Board of Directors section of this report.

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

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

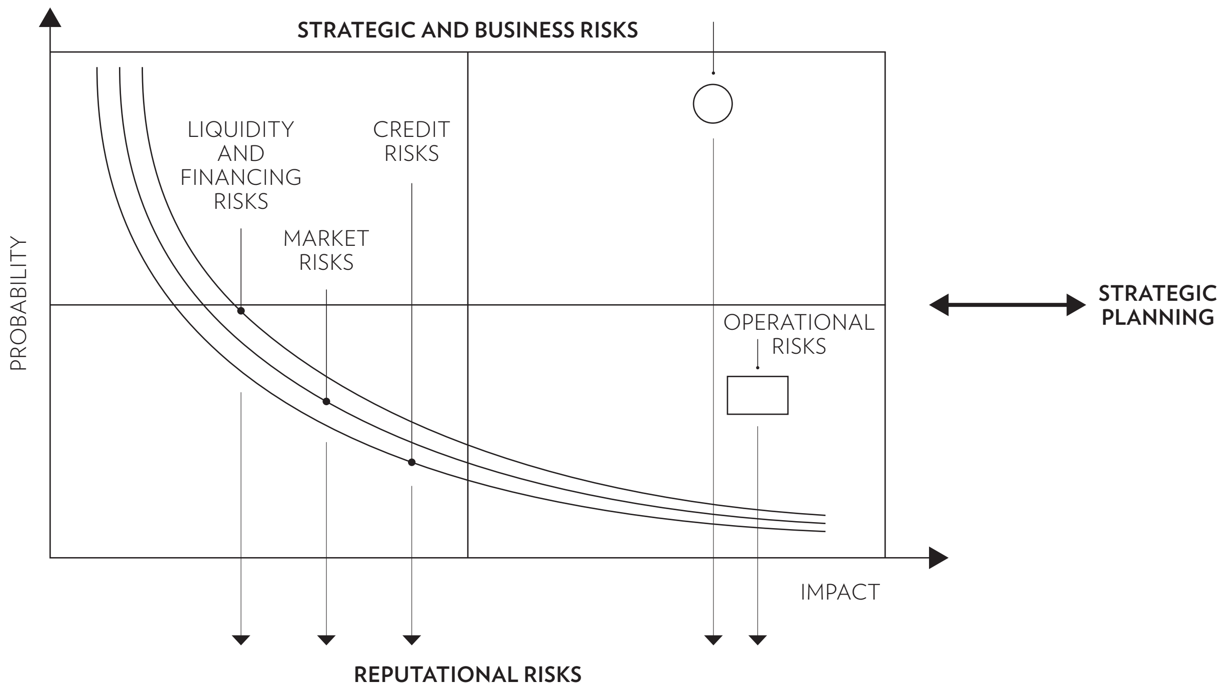
The Credit Committee of the Executive Board of Bank Julius Baer & Co. Ltd. is responsible for measuring and supervising credit risk. In particular, it is responsible for:

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

The Information Security Committee of the Executive Board of Bank Julius Baer & Co. Ltd. is responsible both for monitoring and supervising information security risk and for related activities for the purpose of ensuring data confidentiality.

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

Risk landscape: illustrative diagram



STRATEGIC AND BUSINESS RISK

Strategic and business risk comprises the danger of external or internal events or decisions resulting in strategic and day-to-day business objectives not being attained. Based on the principles of value- and risk-oriented management and controlling, an annual strategic check-up is carried out, and the results are consolidated in the aforementioned risk landscape. This check-up reviews the probability and impact of potential strategic and business risks and defines mitigating actions. The results are also used as an important input into the strategic planning process and thus influence the rolling three-year plan and hence the annual budgets.

CREDIT RISK

Credit or counterparty risk is the risk of a client or a counterparty being either unable, or only partially able, to meet an obligation owed to the Group or to an individual Group company. Such non-compliance may result in a financial loss to the Group.

The Group has a policy of lending to private clients primarily on a collateralised basis. The credit risk taken on by the Group as a result of such transactions may arise from lending or from actual or potential receivables due to the Group on client-held positions in derivatives on foreign exchange, equity, interest rate or commodity products. As part of the risk management process, clients' collateral positions are individually assessed and valued. Depending on the quality of the collateral and the degree of diversification within individual client portfolios, an advanceable value is set for each collateral position. The overwhelming majority of collateral positions is revalued every day, thus enabling the Group's credit positions to be monitored on a daily basis.

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

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

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

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

The credit risk breakdown presented below is calculated before deduction of eligible collateral and in accordance with Swiss capital adequacy requirements, which are largely based on the international guidelines contained in the Basel Committee on Banking Supervision's (BCBS) Basel III Accord. The BCBS has its registered offices at the Bank for International Settlements (BIS) in Basel, Switzerland. Differences between the total amounts and the corresponding balance sheet positions are explained in the 'Reconciliation of credit risk totals' section of this report.

In the following table the counterparty domicile serves as the fundamental basis for the geographical breakdown. For the secured portion of the credit, however, geographical allocation is shown on the basis either of the domicile of the assets pledged, e.g. the domicile of the issuer of securities which are pledged as collateral, or the domicile of the guarantor.

Credit risk by region

	Switzerland *CHF m*	Europe *CHF m*	Americas *CHF m*	Asia/Pacific *CHF m*	Other countries *CHF m*	**31.12.2015** **Total** *CHF m*
Due from banks	1,927	1,676	482	2,152	1	**6,238**
Loans	9,217	10,714	8,398	7,652	400	**36,381**
Financial assets designated at fair value	-	149	48	-	-	**197**
Financial investments available-for-sale	68	7,328	6,437	2,607	45	**16,485**
Investments in associates	-	61	29	-	-	**90**
Derivative financial instruments	1,383	586	382	245	7	**2,603**
Contingent liabilities	102	163	169	65	13	**512**
Irrevocable commitments	188	131	64	21	1	**405**
Securities lending and repo transactions	829	2,996	486	113	6	**4,430**
Total	13,714	23,804	16,495	12,855	473	**67,341**

	Switzerland *CHF m*	Europe *CHF m*	Americas *CHF m*	Asia/Pacific *CHF m*	Other countries *CHF m*	31.12.2014 Total *CHF m*
Due from banks	455	5,845	672	1,748	-	8,720
Loans	8,344	10,694	7,665	6,747	241	33,691
Financial assets designated at fair value	12	107	3	-	-	122
Financial investments available-for-sale	149	8,079	3,280	2,926	45	14,479
Investments in associates	-	66	-	-	-	66
Derivative financial instruments	948	1,082	519	454	5	3,008
Contingent liabilities	148	229	179	62	21	639
Irrevocable commitments	109	93	67	30	1	300
Securities lending and repo transactions	970	1,236	705	55	5	2,971
Total	11,135	27,431	13,090	12,022	318	63,996

In the following table the counterparty industry code serves as the fundamental basis for the sector breakdown. For the secured portion of the credit, however, sector allocation is shown on the basis either of the industry code of the assets pledged, e.g. the industry code of the issuer of securities which are pledged as collateral, or the industry code of the guarantor.

The column headed 'Other' is used for disclosure of securities issued by companies outside the financial sector: these consist partly of proprietary positions of the Group which are reported on the balance sheet as financial investments available-for-sale and partly of the portion of the credit collateralised by securities issued by companies outside the financial sector.

Credit risk by sector

					31.12.2015
	Governments and agencies *CHF m*	Financial institutions *CHF m*	Private clients *CHF m*	Other *CHF m*	**Total** *CHF m*
Due from banks	-	6,238	-	-	**6,238**
Loans	486	4,536	24,369	6,990	**36,381**
Financial assets designated at fair value	-	197	-	-	**197**
Financial investments available-for-sale	5,975	6,102	-	4,408	**16,485**
Investments in associates	-	90	-	-	**90**
Derivative financial instruments	15	1,530	857	201	**2,603**
Contingent liabilities	8	56	364	84	**512**
Irrevocable commitments	35	118	185	67	**405**
Securities lending and repo transactions	675	2,914	46	795	**4,430**
Total	7,194	21,781	25,821	12,545	**67,341**

					31.12.2014
	Governments and agencies *CHF m*	Financial institutions *CHF m*	Private clients *CHF m*	Other *CHF m*	Total *CHF m*
Due from banks	-	8,720	-	-	8,720
Loans	609	4,606	21,990	6,486	33,691
Financial assets designated at fair value	-	122	-	-	122
Financial investments available-for-sale	4,136	6,785	-	3,558	14,479
Investments in associates	-	66	-	-	66
Derivative financial instruments	27	1,378	1,348	255	3,008
Contingent liabilities	6	61	426	146	639
Irrevocable commitments	31	52	160	57	300
Securities lending and repo transactions	850	1,458	52	611	2,971
Total	5,659	23,248	23,976	11,113	63,996

The collateral pledged to cover Lombard loans, OTC derivatives positions and securities lending and repo transactions consists primarily of readily marketable securities. In the following table all the collateral accepted within the scope of the capital adequacy regulations is disclosed. The haircuts applied to the collateral positions are in accordance with current Swiss regulatory requirements, which are based on the Basel III BIS standard haircuts.

Credit risk secured/not secured

			31.12.2015
	Secured by recognised financial collaterals[1] *CHF m*	Not secured by recognised financial collaterals *CHF m*	**Total** *CHF m*
Due from banks	2,426	3,812	**6,238**
Loans	33,764	2,617	**36,381**
Financial assets designated at fair value	-	197	**197**
Financial investments available-for-sale	-	16,485	**16,485**
Investments in associates	-	90	**90**
Derivative financial instruments	1,237	1,366	**2,603**
Contingent liabilities	473	39	**512**
Irrevocable commitments	195	210	**405**
Securities lending and repo transactions	3,658	772	**4,430**
Total	41,753	25,588	**67,341**

			31.12.2014
	Secured by recognised financial collaterals[1] *CHF m*	Not secured by recognised financial collaterals *CHF m*	Total *CHF m*
Due from banks	4,775	3,945	8,720
Loans	32,300	1,391	33,691
Financial assets designated at fair value	-	122	122
Financial investments available-for-sale	-	14,479	14,479
Investments in associates	-	66	66
Derivative financial instruments	1,701	1,307	3,008
Contingent liabilities	627	12	639
Irrevocable commitments	193	107	300
Securities lending and repo transactions	2,238	733	2,971
Total	41,834	22,162	63,996

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

The following table gives an overview of the credit risk classified by regulatory risk weightings. The regulatory risk weightings are in accordance with current Swiss regulatory requirements, which are based on the Basel III BIS approach. The allocation of the receivables to the risk weights depends on the type and current rating of the counterparty or the individual rating of the specific financial investment held. The collateralised portion of receivables (other than mortgages) is allocated to the 0% risk-weight column, since no regulatory capital is required in respect of these lending positions.

Credit risk by regulatory risk weightings

								31.12.2015
	0% *CHF m*	20% *CHF m*	35% *CHF m*	50% *CHF m*	75% *CHF m*	100% *CHF m*	150% or greater *CHF m*	**Total** *CHF m*
Due from banks	2,440	3,132	-	643	-	19	4	**6,238**
Loans	24,943	42	6,677	320	631	3,764	4	**36,381**
Financial assets designated at fair value	197	-	-	-	-	-	-	**197**
Financial investments available-for-sale	4,954	5,552	-	5,647	-	315	17	**16,485**
Investments in associates	-	-	-	-	-	-	90	**90**
Derivative financial instruments	1,237	269	-	868	-	229	-	**2,603**
Contingent liabilities	472	-	-	8	-	32	-	**512**
Irrevocable commitments	195	30	-	81	-	99	-	**405**
Securities lending and repo transactions	3,658	593	-	-	-	179	-	**4,430**
Total	38,096	9,618	6,677	7,567	631	4,637	115	**67,341**

								31.12.2014
	0% *CHF m*	20% *CHF m*	35% *CHF m*	50% *CHF m*	75% *CHF m*	100% *CHF m*	150% or greater *CHF m*	Total *CHF m*
Due from banks	4,787	3,473	-	444	-	15	1	8,720
Loans	24,221	-	6,336	45	452	2,631	6	33,691
Financial assets designated at fair value	122	-	-	-	-	-	-	122
Financial investments available-for-sale	2,990	6,035	-	5,211	-	232	11	14,479
Investments in associates	-	-	-	-	-	-	66	66
Derivative financial instruments	1,702	125	-	554	-	627	-	3,008
Contingent liabilities	626	-	-	8	-	5	-	639
Irrevocable commitments	193	27	-	14	-	66	-	300
Securities lending and repo transactions	2,238	501	-	-	-	232	-	2,971
Total	36,879	10,161	6,336	6,276	452	3,808	84	63,996

Reconciliation of credit risk totals
The values shown in the tables above are based on the requirements of the approaches chosen in accordance with applicable Swiss regulatory requirements. These are based on the capital-adequacy guidelines of the Basel Committee on Banking Supervision (the Basel III BIS approach). Balance sheet and off-balance sheet positions exposed to credit risks are disclosed, with the exception of the following balance sheet positions, which include non-financial instruments: accrued income and prepaid expenses, deferred tax assets and other assets. The list and tables below explain the differences between the total amounts according to the Basel III BIS approach and the corresponding balance sheet and off-balance sheet positions.

- The difference in the due-from-banks position is attributable to the fact that under IFRS reverse repurchase positions are recognised on the balance sheet. This differs from the Basel III BIS approach, under which reverse repurchase positions are disclosed as off-balance sheet items under securities lending and repurchase positions. The credit risk tables have been adjusted to avoid double counting.
- The difference in the loans position is due to the fact that the collective allowance as at end of 2014 is not deducted from loans under the Basel III BIS approach.
- In the financial investments available-for-sale position the unrealised gains are deducted from the market value under the Basel III BIS approach.
- The total amount of exposure in derivative financial instruments under the Basel III BIS approach corresponds to the total of the replacement values as disclosed in the balance sheet, plus calculated add-ons, minus any netting permitted under Basel III BIS. The add-on is a percentage of the notional amount of the instrument underlying the contract. The percentage depends on the type of the underlying and the residual term to maturity of the contract. Positive and negative replacement values of derivative exposures with the same counterparty (irrespective of maturity or currency) are netted against each other if a legally acknowledged netting agreement has been signed.
- Under the Basel III BIS approach, the total contingent liabilities and irrevocable commitments off-balance sheet positions correspond to the calculated credit equivalents. The credit equivalent of each off-balance sheet position is determined by multiplying its nominal value (or current value should this be lower) by a credit-conversion factor. The conversion factor depends on the original maturity of the contract. The contingent liabilities and irrevocable commitments as presented in the credit risk tables do not qualify as contingent liabilities under IFRS.
- Under the Basel III BIS approach, securities lending and repurchase transactions are disclosed including risk premiums. The percentage of the risk premium depends on the quality of the security involved in each securities lending or repo transaction.

Reconciliation of credit risk totals with balance sheet positions

	Basel III BIS approach *CHF m*	Balance sheet *CHF m*	Deviation *CHF m*	Comment
Due from banks	6,237.8	6,901.1	-663.3	reverse repurchase transactions of CHF 666.3 million deducted
Loans	36,380.9	36,380.9	-	
Financial assets designated at fair value	197.0	197.0	-	
Financial investments available-for-sale	16,485.0	16,572.5	-87.5	unrealised gains deducted under BIS approach (CHF 108.2 million); partly offset by transfer of securities from trading to banking book under BIS approach (CHF 20.7 million)
Investments in associates	90.3	90.3	-	
Derivative financial instruments	2,603.1	2,189.1	414.0	
of which security supplement (add-ons)			*876.9*	*according to add-on and netting rules under BIS approach*
of which netting of replacement values			*-462.9*	*impact of netting rules under BIS approach*
Total 31.12.2015	**61,994.1**	**62,330.9**	**-336.8**	

Comments on off-balance sheet positions

	Basel III BIS approach *CHF m*	Off-balance sheet total *CHF m*	Deviation *CHF m*	Comment
Contingent liabilities	512.2	1,024.3[1]	-512.1	converted in credit equivalent with factor 0.5 or 0.2
Irrevocable commitments	405.0	858.0[1]	-453.0	converted in credit equivalent with factor 0.5 or 0.2
Securities lending and repo transactions	4,429.7	4,133.0	296.7	including risk premium
Total 31.12.2015	**5,346.9**			

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

Reconciliation of credit-risk totals with balance sheet positions

	Basel III BIS approach *CHF m*	Balance sheet *CHF m*	Deviation *CHF m*	Comment
Due from banks	8,720.3	8,922.6	-202.3	reverse repurchase transactions of CHF 203.5 million deducted; collective allowance of CHF 1.2 million not deducted under BIS approach
Loans	33,690.6	33,669.1	21.5	collective allowance not deducted
Financial assets designated at fair value	121.8	121.8	-	
Financial investments available-for-sale	14,479.3	14,597.3	-118.0	unrealised gains deducted under BIS approach (CHF 136.8 million); partly offset by transfer of securities from trading to banking book under BIS approach (CHF 18.8 million)
Investments in associates	66.0	66.0	-	
Derivative financial instruments	3,007.6	3,001.9	5.7	
of which security supplement (add-ons)			*1,003.7*	*according to add-on and netting rules under BIS approach*
of which netting of replacement values			*-998.0*	*impact of netting rules under BIS approach*
Total 31.12.2014	60,085.6	60,378.7	-293.1	

Comments on off-balance sheet positions

	Basel III BIS approach *CHF m*	Off-balance sheet total *CHF m*	Deviation *CHF m*	Comment
Contingent liabilities	639.2	1,195.8[1]	-556.6	converted in credit equivalent
Irrevocable commitments	299.7	695.5[1]	-395.8	converted in credit equivalent
Securities lending and repo transactions	2,970.9	2,743.7	227.2	including risk premium under BIS approach
Total 31.12.2014	3,909.8			

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

The following table provides an analysis of the Group's exposure to credit risk by credit quality and contains data from the internal credit supervision system used for the calculation and monitoring of the Group's exposure to credit risk. Credit exposure is measured against the following two types of limits: a) risk limits for unsecured credit exposures, which apply mainly to banks and brokers, but also include selected non-financial institutions issuing debt securities; and b) Lombard and mortgage limits for collateralised credit exposures, which relate mainly to private clients.

In this analysis, credit exposure primarily comprises the following elements: cash exposure (such as advances, account overdrafts, cash balances with correspondent banks, etc.), derivatives exposure (replacement value plus add-on), and issuer risk from debt securities held in the Group's investment and treasury books. Exposure from reverse repo and securities lending transactions is not included in this credit exposure analysis, since these positions are over-collateralised on a net basis and therefore do not constitute credit risk. In this context, over-collateralised on a net basis means that, in each transaction, the value of the collateral provided (without regulatory standard haircuts being applied) exceeds the value of the securities lent (without a risk premium being applied). Intraday settlement exposures are also not included in the credit exposure analysis. These are monitored separately. The credit exposure arising from the trading book, which is insignificant compared to that arising from the positions listed above, is also not included in this analysis.

For the purpose of this analysis, cash balances across different accounts are netted against each other for clients with Lombard limits. Derivatives exposures across different products, accounts and counterparties are netted against each other provided an ISDA close-out netting master agreement has been signed.

Exposure to credit risk by credit quality

	31.12.2015 Collateralised *CHF m*	31.12.2014 Collateralised *CHF m*	**31.12.2015** Unsecured *CHF m*	31.12.2014 Unsecured *CHF m*
Neither past due nor impaired	**40,843.4**	38,908.3	**31,165.7**	30,654.9
Past due but not impaired	**14.9**	19.2	**-**	-
Impaired	**65.0**	47.4	**-**	2.9
Total	**40,923.3**	38,974.9	**31,165.7**	30,657.8
Neither past due nor impaired				
R1 to R3	**34,658.6**	32,811.1	**29,758.8**	29,323.9
R4 to R6 (including temporarily unrated)	**6,184.8**	6,097.2	**1,406.9**	1,331.0
Total	**40,843.4**	38,908.3	**31,165.7**	30,654.9
Collateral held or credit enhancement available	***164,035.7***	*163,480.7*	**-**	-
Past due but not impaired				
R7	**14.9**	19.2	**-**	-
Total	**14.9**	19.2	**-**	-
Collateral held or credit enhancement available	***12.4***	*25.7*	**-**	-
Impaired				
R8	**28.6**	40.5	**-**	-
R9 to R10	**36.4**	6.9	**-**	2.9
Total	**65.0**	47.4	**-**	2.9
Collateral held or credit enhancement available	***14.8***	*14.9*	**-**	-
Allowance for credit losses[1]				
Specific allowance for credit losses	**65.8**	33.4	**-**	2.9
Collective allowance for credit losses	**24.3**	21.5	**2.3**	1.2
Total	**90.1**	54.9	**2.3**	4.1

[1] The allowance for credit losses in this table includes allowances related to loans acquired in business combinations and therefore reflects the risk view. The respective amount in Note 9C does not include allowances related to acquired loans, as such loans have to be recognised net of allowances for IFRS purposes.

The internal credit ratings R1–R10 form the basis for calculating allowances for credit losses. Loans, receivables and other exposures are allocated to one of the ten rating classes. In the case of balances in rating classes R1–R6, the balances are serviced, the fair value of the collateral pledged for collateralised exposures equals or exceeds the balances, and repayment of the balance is not in doubt. For these exposures, no specific allowances for credit losses are established. Balances in rating class R7 are past due, but the exposure is still covered by collateral, and allowances are established only for past-due interest payments. For balances in rating class R8, specific allowances for credit losses are established if it is more likely than not that a loss will arise. The credit risks in rating classes R9 and R10 are very high, and specific allowances for credit losses are established for balances in these rating classes.

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

Maximum exposure to credit risk

	31.12.2015 Gross maximum exposure *CHF m*	31.12.2014 Gross maximum exposure *CHF m*
Cash (excluding cash on hand)	**9,155.5**	11,170.7
Due from banks	**6,901.1**	8,922.6
Loans	**36,380.9**	33,669.1
Trading assets	**1,155.7**	945.1
Derivative financial instruments	**2,189.1**	3,001.9
Financial assets designated at fair value	**197.0**	121.8
Financial investments available-for-sale	**16,475.3**	14,515.6
Accrued income	**326.9**	282.8
Total	**72,781.5**	72,629.6
Off-balance sheet		
Irrevocable commitments[1]	**824.9**	657.0
Total maximum exposure to credit risk	**73,606.4**	73,286.6

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

MARKET RISK (TRADING BOOK)

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

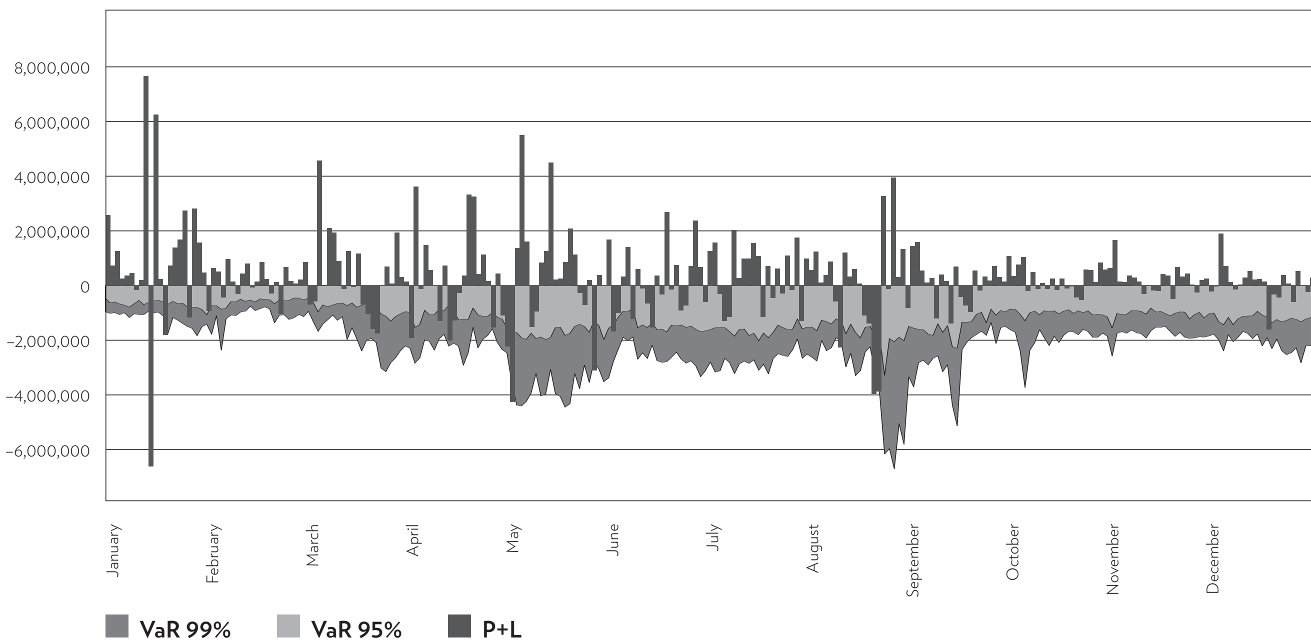
Market risk measures the potential loss to which the Group is exposed through changes in market prices in interest rate, equity, foreign exchange and commodity markets. Market risk management involves the identification, measurement, control and management of the market risks assumed. The trading units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

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

The following methods are used to measure and limit market risk: value at risk (VaR) limits, sensitivity or concentration limits (delta, vega, basis-point and nominal limits as well as scenario analysis), and country limits for trading positions. VaR, the key risk figure, measures the magnitude of the loss on a portfolio that, under normal circumstances and for a specific probability (confidence interval), will not be exceeded during the observed holding period. The VaR of the Group amounted to CHF 1.25 million on 31 December 2015 (one-day holding period, 95% confidence interval). The maximum VaR recorded in 2015 amounted to CHF 3.29 million; the minimum

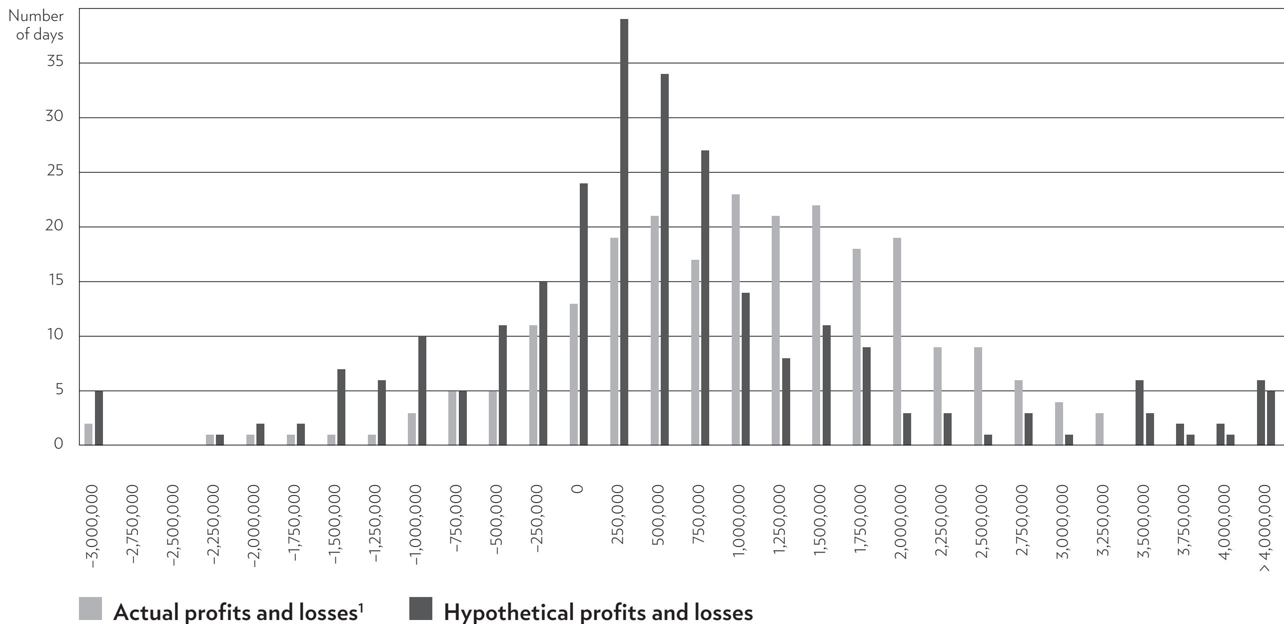
was CHF 0.45 million. The adequacy of the VaR calculation, which is based on historical market movements, is monitored through regular back testing. This involves the comparison of the daily gains and losses generated by the trading book with the VaR values calculated each day. The following chart shows the daily calculations of VaR in 2015 (at confidence intervals of 95% and 99% and for a one-day holding period) compared with the hypothetical gains or losses which would have occurred if the positions had been left unchanged for one day. A back-testing excession occurs when the change in overall position value resulting from the back-testing simulation is negative and its absolute value is greater than the VaR (at a confidence interval of 99%) for the relevant day's closing positions.

Back testing of Julius Baer Group trading book positions in 2015 (CHF)



The following chart compares these hypothetical revenues with the actual profit and loss generated by the trading operations of the Group. To ensure comparability, pure commission income has been removed from these profit-and-loss results.

Distribution of daily revenues from trading activities of Julius Baer Group for 2015 (CHF)



[1] Pure trading revenues excluding commissions and fees

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

At the beginning of 2015, the preceding 12-month period contained one back-testing excession, which had occurred in 2014 and had been caused by the marked correction experienced by equity markets in December 2014. In January 2015, the decision by the Swiss National Bank to abandon its targeted floor for the EUR against the CHF resulted in a substantial appreciation of the CHF and a pronounced correction in Swiss share prices. This prompted two back-testing excessions on the USD position the Group continued to hold for the financing of its acquisition of parts of Merrill Lynch's International Wealth Management business. In May and June, weakness in the USD and the Swiss Market Index led to two further back-testing excessions. As a result, the total number of back-testing excessions over the preceding 12-month period exceeded the permitted statistical limit and the multiplier had to be increased accordingly. In August, markedly lower share prices in China caused international equity markets to falter, which again strengthened the CHF. This resulted in two additional back-testing excessions and a further increase in the multiplier. In the course of December 2015 the amount of back-testing excessions in the preceding 12 months was reduced again due to the drop out of an excession from the year 2014. Hence the multiplier decreased correspondingly.

All back-testing excessions are examined individually and each is reported to the Chief Executive Officer, the Chief Risk Officer, the internal and external auditors and the Swiss Financial Market Supervisory Authority (FINMA).

VaR method and regulatory capital

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

In addition to the normal VaR calculations detailed above, a so-called stress-based VaR calculation is also carried out. Instead of the historical prices observed over the last 300 trading days, this stress-based VaR calculation uses those observed during a highly volatile period in the past (the stress period). The Group's stress-based VaR amounted to CHF 1.88 million on 31 December 2015 (for a one-day holding period and a 95% confidence interval). The maximum stress-based VaR recorded in 2015 amounted to CHF 3.47 million; the minimum was CHF 0.92 million. Under FINMA regulations, the capital requirement for market risk is the sum of the normal VaR and the stress-based VaR.

FINMA applies a multiplier to the capital requirement for market risk. Every back-testing excession over and above the statistically based maximum permitted number of excessions results in an increase in the multiplier applied to the capital requirement for market risk. Based on the above-mentioned back-testing excessions, FINMA temporarily raised the multiplier applicable to the Group. No other action was taken by FINMA in this matter.

Given the limited materiality of the positions concerned, the specific risk of the Group's fixed-income trading positions is calculated according to the standard method. The incremental risk charge and comprehensive risk-capital charge requirements are not applicable.

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

Market risk – VaR positions by risk type

				2015
	At 31 December *CHF m*	Average *CHF m*	Maximum *CHF m*	Minimum *CHF m*
Equities	**-0.4**	**-0.6**	**-1.6**	**-0.2**
Interest rates	**-0.2**	**-0.2**	**-0.4**	**-0.1**
Foreign exchange/precious metals	**-1.0**	**-1.0**	**-2.1**	**-0.1**
Effects of correlation	**0.4**			
Total	**-1.3**	**-1.2**	**-3.3**	**-0.5**

				2014
	At 31 December *CHF m*	Average *CHF m*	Maximum *CHF m*	Minimum *CHF m*
Equities	-0.3	-0.4	-1.3	-0.1
Interest rates	-0.2	-0.2	-0.4	-0.1
Foreign exchange/precious metals	-0.4	-1.1	-2.3	-0.1
Effects of correlation	0.4			
Total	-0.4	-1.1	-2.1	-0.3

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 risk 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 are reported to the Group ALMCO at least once a month. The particular liquidity and interest-rate risks to which Bank Julius Baer & Co. Ltd. is exposed are monitored and managed on a daily basis, as are those of the other Group companies. The Treasury Risk Control unit provides independent reports on the relevant risk positions for this purpose.

Management of liquidity and financing risks
The objective of the Group's liquidity risk management is to maintain a healthy liquidity position which enables the Group to meet all its obligations when they fall due and to maintain sufficient flexibility to be able to react to company-specific stress situations in tight market conditions.

A liquidity-stress scenario is modelled, which, over a time horizon of 30 days, essentially simulates substantial outflows of client deposits which would be stable under normal circumstances and the Group's ability to compensate for these by selling highly liquid investments and taking other appropriate measures. This scenario models an extreme stress situation combining company-specific stress events with tight market conditions. It is calculated on a daily basis.

To complement the analysis provided by the liquidity-stress scenario, a variety of early-warning indicators are monitored with respect to the current liquidity position.

Switzerland's Liquidity Ordinance and FINMA's 'Liquidity Risks – Banks' circular make it a regulatory requirement for the Group to calculate and monitor its Liquidity Coverage Ratio (LCR). The LCR provides banks with a metric to assist them in ensuring that they hold a sufficient quantity of highly liquid assets to enable them to withstand a short-term (30-day) company-specific stress situation which coincides with a period of general market stress.

Basel III regulations also require publication of the LCR from 2015 onwards. This requirement is contained in the revised version of the FINMA 'Disclosure – Banks' circular, which came into effect on 1 January 2015. Additional qualitative and quantitative information relating to the LCR will be published in a separate disclosure report. This report will be available on the www.juliusbaer.com website from the end of April, 2016.

In managing its financing risks, the Group aims to ensure that it has access to appropriate sources of financing at all times. At present, the Group's activities are largely financed by client sight deposits. Given its active participation in the interbank market, the Group would, however, quickly be able to access additional sources of refinancing at any time.

The Group's liquidity risk management arrangements set out an emergency plan which forms an integral part of its global crisis concept. This emergency plan includes an overview of alternative sources of financing and liquidity metrics, as well as a range of emergency measures.

Management of interest-rate risks
One measure of interest-rate risk can be provided by showing the impact of a positive change of 1% (+100 basis points) in the entire yield curve in the

respective currency. The table below, broken down according to maturity bands and currencies, shows the results of such a scenario as at 31 December 2015. Negative values under this scenario reflect a potential drop in fair value within the respective maturity band; positive values reflect a potential increase in fair value. This risk measure is also used to carry out scenario analyses on a regular basis. As there are no material option structures in the banking book, a negative change of 1% in the yield curves would result in scenario values of similar magnitude but with the opposite sign, though such outcomes are mitigated by the fact that the yield curves for the markets in which the Group carries out most of its activities are currently close to zero.

Interest-rate-sensitive positions

	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	**Total** *CHF m*
Interest sensitivity by time bands and 100 bp parallel increase						
CHF						
2015	**1.7**	**-5.3**	**28.3**	**52.2**	**-62.6**	**14.4**
2014	2.8	1.2	40.9	6.0	-46.2	4.7
USD						
2015	**14.4**	**-2.3**	**-3.2**	**-155.8**	**-4.7**	**-151.5**
2014	4.2	7.5	20.9	-124.3	-2.1	-93.8
EUR						
2015	**6.1**	**-2.3**	**-9.5**	**53.0**	**-3.6**	**43.7**
2014	2.3	1.3	9.1	-36.4	-4.5	-28.2
Other						
2015	**2.4**	**-2.2**	**-0.8**	**22.7**	**0.1**	**22.1**
2014	1.0	-0.2	4.1	-11.2	0.1	-6.2

In addition, the effect on interest earnings resulting from a parallel shift of 1% in the yield curve is measured. In this gap analysis, the interest-bearing assets and liabilities are offset within maturity bands. The impact of the yield curve shift on the residual exposure over the time horizon from the next repricing date to a point 12 months ahead is measured. Based on the assumptions described above, the effect on interest earnings was CHF -128.9 million at the end of 2015 (2014: CHF -32.5 million).

Hedging interest rate risks

The Group accepts deposits from clients at both floating and fixed rates and for various periods and either lends these funds on a collateralised basis or invests them in high-quality assets. By consolidating the short-term money deposited by clients and lending it out at longer maturities, an effort is made to increase the interest margin. At the same time, sufficient liquid assets are held in order to be always able to meet all maturing obligations.
In managing the associated interest rate risks, the Group applies fair value hedges for hedging a portion of the interest rate exposure by employing interest rate swaps. The market value of these swaps on 31 December 2015 amounted to a net CHF -72.5 million (2014: CHF -50.8 million). The fair value gain on the hedged mortgages attributable to the hedged interest rate risk amounts to CHF 70.2 million (2014: CHF 49.7 million).

The following table shows an analysis of the Group's financial assets and financial liabilities by remaining expected maturities as of the balance sheet date. The expected maturities are based on management estimates and may differ from the contractual maturities. Balances are classified as on demand if the nature of the position concerned indicates that expected maturity modelling will not yield useful insights.

Remaining expected maturities of financial assets and liabilities

	On demand *CHF m*	Due within 3 months *CHF m*	Due within 3 to 12 months *CHF m*	Due within 12 months to 5 years *CHF m*	Due after 5 years *CHF m*	**Total** *CHF m*
Financial assets						
Cash	9,185.7	-	-	-	-	**9,185.7**
Due from banks	-	6,679.6	201.5	20.0	-	**6,901.1**
Loans	-	29,311.0	2,477.9	2,257.1	2,335.0	**36,380.9**
Trading assets	8,984.0	-	-	-	-	**8,984.0**
Derivative financial instruments	2,189.1	-	-	-	-	**2,189.1**
Financial assets designated at fair value	197.0	-	-	-	-	**197.0**
Financial investments available-for-sale	-	2,514.7	1,943.4	11,417.1	697.3	**16,572.5**
Accrued income	-	326.9	-	-	-	**326.9**
Total 31.12.2015	20,555.7	38,832.2	4,622.9	13,694.1	3,032.3	**80,737.2**
Total 31.12.2014	21,749.8	40,015.5	5,725.6	9,923.2	1,807.6	79,221.6

	On demand *CHF m*	Due within 3 months *CHF m*	Due within 3 to 12 months *CHF m*	Due within 12 months to 5 years *CHF m*	Due after 5 years *CHF m*	**Total** *CHF m*
Financial liabilities						
Due to banks	-	4,672.0	-	-	-	**4,672.0**
Due to customers	-	64,589.4	192.0	-	-	**64,781.4**
Trading liabilities	190.8	-	-	-	-	**190.8**
Derivative financial instruments	2,391.4	-	-	-	-	**2,391.4**
Financial liabilities designated at fair value	760.6	1,070.7	1,222.8	917.8	291.2	**4,263.1**
Debt issued	0.1	-	-	-	1,152.6	**1,152.7**
Accrued expenses	-	154.4	-	-	-	**154.4**
Other liabilities[1]	-	0.5	12.0	12.1	-	**24.5**
Total 31.12.2015	3,342.9	70,486.9	1,426.7	929.9	1,443.8	**77,605.8**
Total 31.12.2014	3,995.9	67,718.4	1,761.4	968.4	1,371.8	75,815.9

[1] Relates to the deferred purchase price of WMPartners Wealth Management Ltd., Fransad Gestion SA and NSC Asesores, S.A. de C.V., see Note 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*
Financial liabilities recognised on balance sheet						
Due to banks	3,915.2	756.9	-	0.3	-	**4,672.4**
Due to customers	59,991.8	4,598.7	194.0	0.2	-	**64,784.8**
Trading liabilities	190.8	-	-	-	-	**190.8**
Derivative financial instruments	2,318.9	-	-	16.9	55.6	**2,391.4**
Financial liabilities designated at fair value	760.6	1,093.2	1,260.0	927.9	291.2	**4,333.0**
Debt issued	0.1	28.4	77.1	114.4	1,152.6	**1,372.6**
Accrued expenses	-	154.4	-	-	-	**154.4**
Other liabilities[1]	-	0.5	12.0	12.1	-	**24.5**
Total 31.12.2015	67,177.5	6,632.1	1,543.1	1,071.7	1,499.4	**77,923.8**
Due to banks	4,103.5	1,086.0	1.2	0.3	-	5,191.0
Due to customers	54,130.2	7,245.7	448.9	-	-	61,824.8
Trading liabilities	116.2	-	-	-	-	116.2
Derivative financial instruments	2,964.1	-	-	5.1	45.7	3,014.9
Financial liabilities designated at fair value	864.6	1,210.0	1,257.4	933.0	205.0	4,470.0
Debt issued	0.2	13.6	34.2	112.7	1,074.7	1,235.4
Accrued expenses	-	147.1	-	-	-	147.1
Other liabilities[2]	-	-	62.4	5.5	-	67.9
Total 31.12.2014	62,178.8	9,702.4	1,804.1	1,056.6	1,325.4	76,067.3

Financial liabilities not recognised on balance sheet						
Irrevocable commitments[3]	754.9	22.2	43.5	3.2	1.0	**824.9**
Total 31.12.2015	754.9	22.2	43.5	3.2	1.0	**824.9**
Total 31.12.2014	543.9	24.6	56.7	29.8	2.0	657.0

[1] Relates to the deferred purchase price of WMPartners Wealth Management Ltd., Fransad Gestion SA and NSC Asesores, S.A. de C.V., see Note 26B and 27.
[2] Relates to the deferred purchase price of WMPartners Wealth Management Ltd. and GPS Investimentos Financeiros e Participações S.A., see Note 27.
[3] These amounts reflect the maximum payments the Group is committed to making.

Exposures to risks, in addition to interest rate and liquidity risks, arising from positions held by the Group in the banking book are limited and monitored using nominal and VaR limits. Price-risk exposures arise from positions in equities, funds and non-traditional funds. They are managed by the Treasury department of Bank Julius Baer & Co. Ltd. Currency risks on the banking book are transferred to the trading book. By way of exception, Group entities may carry currency exposures. These exposures are limited and measured according to individual balance-sheet-management guidelines and are also included in the Group's VaR calculations.

OPERATIONAL RISK

Operational risk is defined as the risk of losses arising as a result either of the inadequacy or failure of internal processes, people or systems or as a consequence of external events.

Framework for the management of operational risk

The framework used to manage and limit operational risk is defined by the Group Risk Management function. This framework is based on a structured approach whose objective is to apply a set of uniform standards and methodologies for identifying, evaluating, monitoring, controlling and reporting risks across the Group. A further objective is to allow individual business areas and legal entities sufficient flexibility to adapt the specific components of this framework to meet their particular needs while at the same time ensuring that Group-wide minimum standards continue to be met.

The key components of this framework are described below:

- Organisational structure: the tasks, responsibilities and processes for managing operational risk, and the relevant escalation procedures relating thereto, are set out in a series of directives, guidelines and manuals.
- Willingness to assume risk and levels of risk tolerance: operational risk appetite and the underlying level of operational risk tolerance is determined by the Board of Directors and the Executive Board as part of their annual review of the overall risk landscape. The processes for monitoring risk appetite and the level of risk tolerance include directives, limits and defined levels of authority, which are also reflected in the Group's business strategy and personnel policy.
- Control system: the control environment which has been established to manage operational risk requires that activities are carried out in accordance with defined directives and guidelines, so that processes operate as specified. Under this approach, controls are integrated into business processes wherever possible. Key controls are carried out in a timely fashion and their results are monitored by Risk Management. In addition, the quality and completeness of certain key controls is subject to independent verification, which ensures that their specifications and effectiveness are assessed on a regular basis. In addition there are independent control functions in place that are monitoring certain specific operational risks.
- Register of operational risks: the individual legal entities maintain operational risk registers listing the operational risks which have been identified as inherent to their specific business activities and the measures which have been put in place to eliminate or reduce them. These operational risks are classified and evaluated according to a uniform, Group-wide risk taxonomy and a uniform quantitative risk-evaluation template charting potential risks and the probability of their occurrence.
- Record of operational risk events: Losses arising as a result of operational risk are recorded by Risk Management in a Group-wide database. Systematic evaluation of these events enables operational weaknesses to be identified so that appropriate measures can be taken to remedy them.
- Self evaluation of risks and of the quality of the control system: these self evaluations are carried out by the individual specialised areas and legal entities with the assistance of Risk Management. The process involves applying a uniform risk taxonomy to identify inherent operational risks and their causes, to evaluate the effectiveness of the controls and other risk-minimising measures in place and to determine the level of residual risk. The results of these self evaluations are

incorporated into the Group-wide risk landscape which is presented to the Executive Board, the Chairman's & Risk Committee and the Audit Committee each year.

- Risk information consolidation process: the risk managers have unrestricted access to all the information they require to identify and evaluate operational risks in the areas for which they are responsible. This includes internal and external audit reports, data on operational losses, information from risk committees, quantitative risk indicators (Key Risk Indicators), control results, complaints from clients and other internal and external risk information. The resulting operational risk evaluation and the extent to which risk-minimising measures have been implemented are regularly reviewed and updated by the risk manager and those responsible for managing the business areas concerned. A further objective of these discussions is to identify potential new risks at an early stage and to determine possible initiatives to address them.
- Reporting to senior management: a number of formal risk reports are submitted to management and the Board of Directors. These reports incorporate the key insights and developments relating to operational risks, thus ensuring that timely and appropriate action can be taken in response to operational risk events and to any activities which exceed current levels of operational risk appetite.

Business Continuity Management

The objective of the Business Continuity Management (BCM) Programme is to establish and maintain the stability of the overall organisation in the event of massive disturbances to its operations and in crisis situations. The programme aims to protect the Group's reputation and to minimise any financial loss to clients, the Group and its employees. To that end, Julius Baer has formulated a BCM strategy and implemented a set of Group-wide BCM directives and guidelines, which assign BCM tasks and responsibilities across the Group and define the structure of the crisis-management organisation. These directives and guidelines also define the processes for planning, analysing and assessing recovery and continuity measures, and the procedures for communication and internal training.

The BCM Programme is based on national and international standards (such as ISO standards) and on the business-continuity recommendations formulated by the Swiss Bankers' Association, some of which have been defined as compulsory by FINMA. The programme also reflects local BCM requirements applicable to BCM-relevant business units outside Switzerland.

Regular crisis-organisation exercises are conducted to assess the effectiveness of these measures, and regular internal and external audits are carried out to review the content of the programme.

Legal and compliance risk

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

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

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

As described in the risk governance section of this report, the General Counsel and the Chief Risk Officer coordinate the management and control of legal and compliance risk. Legal and compliance risks are regularly reported to the Board of Directors. In line with the development of the legal and regulatory environment of the industry, the Group has

consistently invested in personnel and technical resources to ensure adequate compliance coverage. A comprehensive framework of policies and regular specialised training sessions ensure that staff receive appropriate ongoing education and training in this area. Julius Baer has, for example, defined a set of standards governing the cross-border services it offers, as well as drawing up country-specific manuals for the major national markets it serves. A large-scale staff training and education concept is in place to ensure observance of the standards and compliance with the country manuals. These standards are kept under regular review and adapted in accordance with regulatory developments.

Insurance

In line with general industry practice, and in addition to controlling and minimising the operational risks described above, we also endeavour to cover or reduce their potential adverse financial impact by transferring the risk of loss in specific areas of our business activities to insurance companies.

REPUTATIONAL RISK

Reputational risk describes the risk of events which could do lasting harm to the Group's reputation and thus impair its franchise. The Group's ability to conduct its business is critically dependent on the reputation which Bank Julius Baer & Co. Ltd., the Group's main operating entity, has established in the course of its more-than-125-year history. Maintaining its good reputation is therefore vitally important for the Group, and all staff must make this a top priority. Appropriate measures are taken on a regular basis to ensure that staff are aware of the critical importance of the Group's reputation.

MANAGEMENT OF CAPITAL INCLUDING REGULATORY CAPITAL

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

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

In 2015, the scope of consolidation used for the calculation of capital adequacy is identical to that applied for accounting purposes. Note 26A provides an overview of the Group's consolidated companies. The Group's equity stake in its Kairos associate company is directly deducted from eligible capital.

Since 2013, when the Group changed the basis of its regulatory reporting to the international standard approach, the Group's calculations of its risk-weighted assets published in the Annual Report 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 will gradually be incorporated into the Group's calculations of risk-weighted assets and eligible equity capital during the period from 2014 to 2018. Furthermore, recognition of tier 1 and tier 2 instruments which are not compliant with Basel III requirements will gradually be discontinued between 2013 and 2022.

The Basel III international standard approach requires CET1 equivalent to at least 4.5% of risk-weighted assets, plus a CET1 capital buffer of 2.5%, plus 1.5% of additional tier 1 (AT1) capital (or better-quality capital), plus 2% of supplementary tier 2 capital (or better-quality capital). In aggregate, this amounts to an overall capital requirement of at least 10.5% of risk-weighted assets. FINMA minimum capital requirements for the Group are 7.8% for CET1, 1.8% for AT1 and 2.4% for tier 2, which puts its overall minimum capital requirement at 12% of risk-weighted assets. At present, the Group is also required to hold an additional anti-cyclical CET1 capital buffer for mortgages on residential properties in Switzerland which adds a further 0.2% to its minimum capital requirement of 12% of risk-weighted assets. The capital held by the Group at 31 December 2015 and at 31 December 2014 was sufficient to meet the relevant BIS and FINMA requirements.

Capital ratios

	31.12.2015 *Basel III phase-in[1] CHF m*	31.12.2014 *Basel III phase-in[1] CHF m*
Risk-weighted positions		
Credit risk	**13,775.4**	12,206.8
Non-counterparty-related risk	**510.0**	547.9
Market risk	**776.5**	346.6
Operational risk	**4,232.9**	3,876.4
Total	**19,294.8**	16,977.7
Eligible capital		
Tier 1 capital (= CET1 capital)[2]	**3,534.2**	3,739.6
of which hybrid tier 1 instruments[3]	***908.0***	*772.8*
Tier 2 capital	**214.2**	240.8
of which lower tier 2 instruments[4]	***171.4***	*193.0*
Total capital	**3,748.4**	3,980.4
Tier 1 capital ratio (= CET1 capital ratio)	**18.3%**	22.0%
Total capital ratio	**19.4%**	23.4%

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

Further details regarding tier 1 and tier 2 instruments can be found in the Regulatory Disclosures section of www.juliusbaer.com. Please also refer to debt issued, Note 16.

The principal adjustment to the Group's total equity under IFRS for the purpose of determining total eligible capital is the deduction of intangible assets. These and other capital components are shown in the following table. In addition to the table below, a separate Basel III pillar 3 report has been prepared which shows a full reconciliation between all components of the Group's eligible regulatory capital and its reported IFRS balance sheet as at 31 December 2015. This report, which is published in the Regulatory Disclosures section of www.juliusbaer.com, has been prepared in accordance with the FINMA regulations governing the disclosure of the composition of eligible regulatory capital (information will be available at the end of April 2016).

Capital components

	31.12.2015 *Basel III phase-in CHF m*	31.12.2014 *Basel III phase-in CHF m*
Gross common equity tier 1 capital[1]	**4,939.4**	5,335.9
of which non-controlling interests	***3.8***	*7.3*
Effects of IAS19 revised relating to pension liabilities	**132.8**	98.4
Goodwill and other intangible assets	**-1,250.9**	-1,390.8
Other deductions	**-287.1**	-303.9
Common equity tier 1 capital	**3,534.2**	3,739.6
Tier 1 capital instruments	**908.0**	772.8
of which preferred securities (phase-out capital instrument)	**-**	*180.0*
of which tier 1 bond (Basel III-compliant capital instrument)	***908.0***	*592.8*
Goodwill and intangible assets, offset against tier 1 capital instruments	**-908.0**	-772.8
Additional tier 1 capital	**-**	-
Tier 1 capital	**3,534.2**	3,739.6
Tier 2 capital	**214.2**	240.8
of which lower tier 2 capital (phase-out capital instrument)	***171.4***	*193.0*
of which other tier 2 capital	***42.8***	*47.8*
Total capital	**3,748.4**	3,980.4

[1] Phase-in of 60% of non-controlling interests of CHF 6.4 million (31.12.2014 phase-in of 80% of CHF 9.1 million)

Required capital (see table below) for credit risks arising from amounts due from banks, loans, financial investments and derivative financial instruments accounts for more than 71% (2014: 72%) of the total required capital. Capital required for non-counterparty risk (2015: 3%; 2014: 3%) and market risk (2015: 4%; 2014: 2%) is of minor significance. The capital required to cover operational risk accounts for more than 22% of total required capital (2014: 23%).

Minimum capital requirement

	31.12.2015 *Basel III phase-in CHF m*	31.12.2014 *Basel III phase-in CHF m*
Credit risk	**1,102.0**	976.6
of which for equity securities in the banking book	***4.4***	*7.7*
Non-counterparty-related risk	**40.8**	43.8
Market risk	**62.1**	27.7
Operational risk	**338.7**	310.1
Total	**1,543.6**	1,358.2

Leverage ratio

In November 2014, FINMA published a new 'Leverage Ratio' circular, which sets out the rules for calculating the leverage ratio in Switzerland. In addition to the existing requirement for banks to hold eligible capital proportionate to their risk-weighted assets, the circular defines the leverage ratio as a new, non-risk-based metric. The leverage ratio is defined as the ratio between eligible (Tier 1) core capital and total exposure. Total exposure encompasses all balance-sheet and off-balance-sheet positions, and the new 'Leverage Ratio' circular defines how these are to be calculated. The Basel Committee on Banking Supervision will define the requirements which it will place on the leverage ratio from 2018 after the conclusion of an observation period. That period will also be used to clarify a number of currently open questions regarding the calculation of total exposure. The indicative leverage ratio requirement, which is not yet binding at this stage, is three percent. This may however be subject to change once the observation period has concluded.

Basel III regulations also require publication of the leverage ratio from 2015 onwards. This requirement is contained in the revised version of the FINMA 'Disclosure – Banks' circular, which came into effect on 1 January 2015. Additional qualitative and quantitative information relating to the leverage ratio will be published in a separate disclosure report. This report will be available on the www.juliusbaer.com website from the end of April, 2016.

INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

1 NET INTEREST AND DIVIDEND INCOME

	2015 *CHF m*	2014 *CHF m*	Change *%*
Interest income on amounts due from banks	**38.3**	36.5	5.0
Interest income on loans	**444.5**	405.7	9.6
Interest income on financial investments available-for-sale	**191.4**	171.6	11.5
Total interest income using the effective interest method	**674.3**	613.9	9.8
Dividend income on financial investments available-for-sale	**10.3**	3.9	163.0
Interest income on trading portfolios	**23.6**	90.3	-73.9
Dividend income on trading portfolios	**139.1**	71.8	93.8
Total interest and dividend income	**847.2**	779.9	8.6
Interest expense on amounts due to banks	**8.7**	3.3	160.5
Interest expense on amounts due to customers	**49.5**	87.8	-43.6
Interest expense on debt issued	**50.7**	41.0	23.7
Interest expense on financial assets[1]	**26.8**	-	
Total interest expense using the effective interest method	**135.7**	132.2	2.7
Total	**711.5**	647.7	9.8

[1] Interest expense on financial assets is related to negative effective interests on the respective financial instruments.

2 NET COMMISSION AND FEE INCOME

	2015 *CHF m*	2014 *CHF m*	Change *%*
Advisory and management commissions	**857.8**	811.0	5.8
Investment fund fees	**227.3**	203.0	12.0
Fiduciary commissions	**6.4**	6.5	-0.6
Total commission and fee income from asset management	**1,091.5**	1,020.5	7.0
Brokerage commissions and income from securities underwriting	**551.6**	561.4	-1.7
Commission income from credit-related activities	**6.7**	7.5	-11.0
Commission and fee income on other services	**82.3**	136.4[1]	-39.7
Total commission and fee income	**1,732.1**	1,725.8	0.4
Commission expense	**209.7**	207.8	0.9
Total	**1,522.4**	1,518.1	0.3

[1] Including revenues related to AuM transferred from Merrill Lynch & Co., Inc. where the AuM have not been booked by the Group, see Note 30.

3 NET TRADING INCOME

	2015 *CHF m*	2014 *CHF m*	Change *%*
Debt instruments	**30.0**	18.8	59.7
Equity instruments	**-104.0**	-58.5	-77.6
Foreign exchange	**509.8**	367.3	38.8
Total	**435.8**	327.5	33.1

4 OTHER ORDINARY RESULTS

	2015 *CHF m*	2014 *CHF m*	Change *%*
Net gains/(losses) from disposal of financial investments available-for-sale	**0.9**	7.6	-88.6
Impairment on financial investments available-for-sale	**-7.0**	-	-
Income from investments in associates	**5.9**	20.3	-70.9
Real estate income	**5.3**	5.2	2.0
Other ordinary income	**20.2**	24.1	-16.0
Other ordinary expenses	**0.5**	3.7	-86.1
Total	**24.7**	53.4	-53.7

5 PERSONNEL EXPENSES

	2015 *CHF m*	2014 *CHF m*	Change *%*
Salaries and bonuses	**988.8**	981.0	0.8
Contributions to staff pension plans (defined benefits)	**69.6**	61.4	13.4
Contributions to staff pension plans (defined contributions)	**27.0**	26.2	2.9
Other social security contributions	**76.1**	82.0	-7.2
Share-based payments	**60.0**	53.5	12.1
Other personnel expenses	**42.6**	54.4	-21.8
Reimbursement of personnel expenses	**-27.9**[1]	-	-
Total	**1,236.1**	1,258.6	-1.8

[1] Represents a reimbursement from Bank of America in the amount of CHF 27.9 million for certain payments related to retention plans in the acquisition of Merrill Lynch's International Wealth Management (IWM).

6 GENERAL EXPENSES

	2015 *CHF m*	2014 *CHF m*	Change *%*
Occupancy expense	**83.8**	85.4	-1.9
IT and other equipment expense	**64.6**	72.1	-10.4
Information, communication and advertising expense	**162.2**	168.0	-3.4
Service expense, fees and taxes	**207.7**	212.8	-2.4
Valuation allowances, provisions and losses	**574.6**[1]	59.9	-
Other general expenses	**7.3**	11.1	-34.5
Total	**1,100.2**	609.3	80.6

[1] Including the provision in the amount of USD 547.25 million related to the settlement of the US Department of Justice's investigation in Julius Baer's legacy US cross-border business (see Note 18).

7 INCOME TAXES

	2015 *CHF m*	2014 *CHF m*	Change *%*
Income tax on profit before taxes (expected tax expense)	**30.5**	103.4	-70.5
Effect of tax rate differences in foreign jurisdictions	**-20.4**	-14.7	-
Effect of domestic tax rate differences	**1.6**	-4.3	-
Income subject to a reduced tax rate	**-43.4**	-23.2	-
Effect of utilisation of prior-year losses	**-2.2**	-1.3	-
Effect from not capitalised losses	**7.8**	18.2	-
Adjustments related to prior years	**-8.3**	0.1	-
Write-off of deferred tax assets	**0.2**	-	-
Non-deductible expenses	**51.5**	25.4	-
Other	**-1.0**	-0.8	-
Actual income tax expense	**16.3**	102.8	-84.2

The tax rate of Switzerland of 22% (2014: 22%) was applied as the basis for the above expected tax expenses.

Unrecognised accumulated loss carryforwards in the amount of CHF 242.9 million (2014: CHF 260.9 million) exist in the Group that do not expire.

	2015 *CHF m*	2014 *CHF m*	Change *%*
Domestic income taxes	**2.8**	84.5	-96.7
Foreign income taxes	**13.5**	18.3	-26.0
Total	**16.3**	102.8	-84.2

Current income taxes	**76.5**	105.7	-27.6
Deferred income taxes	**-60.3**	-2.9	-
Total	**16.3**	102.8	-84.2

Tax effects relating to components of other comprehensive income

			2015
	Before-tax amount *CHF m*	Tax (expense)/ benefit *CHF m*	Net-of-tax amount *CHF m*
Items that may be reclassified to the income statement			
Net unrealised gains/(losses) on financial investments available-for-sale	-97.4	11.6	-85.8
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	0.3	0.0	0.3
Translation differences	-79.6	-	-79.6
Realised (gains)/losses on translation differences reclassified to the income statement	0.2	-	0.2
Items that will not be reclassified to the income statement			
Remeasurement of defined benefit obligation	-126.1	27.7	-98.4
Other comprehensive income for the year recognised directly in equity	**-302.6**	**39.4**	**-263.2**

			2014
	Before-tax amount *CHF m*	Tax (expense)/ benefit *CHF m*	Net-of-tax amount *CHF m*
Items that may be reclassified to the income statement			
Net unrealised gains/(losses) on financial investments available-for-sale	26.1	0.1	26.2
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	11.8	-0.6	11.2
Translation differences	-0.5	-	-0.5
Realised (gains)/losses on translation differences reclassified to the income statement	15.7	-	15.7
Items that will not be reclassified to the income statement			
Remeasurement of defined benefit obligation	-99.1	21.5	-77.6
Other comprehensive income for the year recognised directly in equity	-46.0	21.0	-25.0

8 EARNINGS PER SHARE AND SHARES OUTSTANDING

	2015	2014
Basic earnings per share		
Net profit (CHF m)	**121.2**	366.2
Weighted average number of shares outstanding	**218,613,533**	218,451,680
Basic earnings per share (CHF)	**0.55**	1.68
Diluted earnings per share		
Net profit (CHF m)	**121.2**	366.2
Less (profit)/loss on equity derivative contracts (CHF m)	**-0.1**	-0.3
Net profit for diluted earnings per share (CHF m)	**121.1**	365.9
Weighted average number of shares outstanding	**218,613,533**	218,451,680
Dilution effect	**-7,076**	-33,281
Weighted average number of shares outstanding for diluted earnings per share	**218,606,457**	218,418,399
Diluted earnings per share (CHF)	**0.55**	1.68

	31.12.2015	31.12.2014
Shares outstanding		
Total shares issued at the beginning of the year	**223,809,448**	223,809,448
Less treasury shares	**5,269,422**	4,324,753
Total	**218,540,026**	219,484,695

INFORMATION ON THE CONSOLIDATED BALANCE SHEET

9A DUE FROM BANKS

	31.12.2015 *CHF m*	31.12.2014 *CHF m*	Change *CHF m*
Due from banks	**6,903.4**	8,926.7	-2,023.3
Allowance for credit losses	**-2.3**	-4.1	1.8
Total	**6,901.1**	8,922.6	-2,021.5

Due from banks by type of collateral:

Securities collateral	**1,024.6**	698.9	325.7
Without collateral	**5,876.5**	8,223.7	-2,347.2
Total	**6,901.1**	8,922.6	-2,021.5

9B LOANS

	31.12.2015 *CHF m*	31.12.2014 *CHF m*	Change *CHF m*
Loans	**27,913.7**	25,584.6	2,329.0
Mortgages	**8,549.9**	8,132.1	417.8
Subtotal	**36,463.5**	33,716.7	2,746.8
Allowance for credit losses	**-82.6**	-47.7	-34.9
Total	**36,380.9**	33,669.1	2,711.9

Loans by type of collateral:

Securities collateral	**20,171.5**	19,551.1	620.4
Mortgage collateral	**8,640.2**	8,084.4	555.9
Other collateral (mainly cash and fiduciary deposits)	**7,450.7**	6,005.3	1,445.4
Without collateral	**118.6**	28.3	90.3
Total	**36,380.9**	33,669.1	2,711.9

9C ALLOWANCE FOR CREDIT LOSSES

		2015		2014
	Specific *CHF m*	Collective *CHF m*	Specific *CHF m*	Collective *CHF m*
Balance at the beginning of the year	**29.0**	**22.8**	30.9	21.2
Write-offs	**-2.5**	**-**	-20.4	-
Increase in allowance for credit losses	**35.7**	**6.2**	17.2	4.2
Decrease in allowance for credit losses	**-3.6**	**-2.5**	-0.8	-2.7
Translation differences and other adjustments	**-0.1**	**-0.1**	2.1	-0.0
Balance at the end of the year	**58.5**	**26.3**	29.0	22.8

9D IMPAIRED LOANS

	31.12.2015 *CHF m*	31.12.2014 *CHF m*	Change *CHF m*
Gross loans	**72.2**	54.1	18.1
Specific allowance for credit losses	**-58.5**	-29.0	-29.5
Net loans	**13.7**	25.1	-11.5

10 TRADING ASSETS AND LIABILITIES

	31.12.2015 *CHF m*	31.12.2014 *CHF m*	Change *CHF m*
Trading assets			
Debt instruments	**1,155.7**	945.1	210.6
of which quoted	***1,097.5***	*882.5*	*215.0*
of which unquoted	***58.2***	*62.6*	*-4.4*
Equity instruments	**5,802.0**	4,766.9	1,035.1
of which quoted	***5,389.5***	*4,264.5*	*1,125.0*
of which unquoted	***412.5***	*502.4*	*-89.9*
Precious metals (physical)	**2,026.3**	1,712.2	314.1
Total	**8,984.0**	7,424.2	1,559.8

	31.12.2015 *CHF m*	31.12.2014 *CHF m*	Change *CHF m*
Trading liabilities			
Short positions – debt	**117.2**	32.4	84.8
of which quoted	***116.2***	*32.0*	*84.3*
of which unquoted	***1.0***	*0.4*	*0.6*
Short positions – equity	**73.6**	83.8	-10.2
of which quoted	***54.0***	*70.4*	*-16.4*
of which unquoted	***19.6***	*13.4*	*6.2*
Total	**190.8**	116.2	74.6

11A FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	31.12.2015 *CHF m*	31.12.2014 *CHF m*	Change *CHF m*
Money market instruments	**2,298.1**	2,312.1	-14.0
Government and agency bonds	**3,560.1**	1,571.3	1,988.8
Financial institution bonds	**6,187.1**	7,055.5	-868.4
Corporate bonds	**4,387.7**	3,574.0	813.7
Other bonds	**42.3**	2.8	39.5
Debt instruments	**14,177.2**	12,203.5	1,973.7
of which quoted	***13,210.8***	*10,882.7*	*2,328.1*
of which unquoted	***966.4***	*1,320.9*	*-354.5*
Equity instruments	**97.2**	81.7	15.5
of which quoted	***15.7***	-	*15.7*
of which unquoted	***81.5***	*81.7*	*-0.2*
Total	**16,572.5**	14,597.3	1,975.2

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

Debt instruments by credit rating classes (excluding money market instruments)	**Fitch, S&P**	**Moody's**	**31.12.2015** *CHF m*	31.12.2014 *CHF m*	Change *CHF m*
1–2	AAA – AA-	Aaa – Aa3	**9,122.4**	7,332.0	1,790.4
3	A+ – A-	A1 – A3	**4,662.0**	4,344.9	317.1
4	BBB+ – BBB-	Baa1 – Baa3	**286.6**	267.2	19.4
5–7	BB+ – CCC-	Ba1 – Caa3	**42.9**	47.2	-4.3
8–9	CC – D	Ca – C	**4.3**	3.0	1.3
Unrated			**59.1**	209.2	-150.1
Total			**14,177.2**	12,203.5	1,973.7

12 GOODWILL, INTANGIBLE ASSETS AND PROPERTY AND EQUIPMENT

	Goodwill *CHF m*	Customer relationships *CHF m*	Software *CHF m*	**Total intangible assets** *CHF m*	Bank premises *CHF m*	Other property and equipment *CHF m*	**Total property and equipment** *CHF m*
Historical cost							
Balance on 01.01.2014	1,446.9	1,162.5	467.6	3,076.9	395.2	185.4	580.6
Translation differences	-7.3	-3.1	-0.1	-10.5	-	1.2	1.2
Additions	-	-	56.2	56.2	8.0	18.3	26.3
Additions from business combinations	240.7	128.3	0.4	369.4	-	0.7	0.7
Disposals/transfers[1]	-	-	45.1	45.1	-	12.4	12.4
Balance on 31.12.2014	1,680.3	1,287.7	479.0	3,446.9	403.2	193.2	596.4
Translation differences	-48.7	-20.0	-1.4	-70.1	-	-1.9	-1.9
Additions	-	-	81.4	81.4	4.1	20.4	24.5
Additions from business combinations	80.8	42.3	0.0	123.1	-	2.3	2.3
Disposals/transfers[1]	-	-	1.8	1.8	-	6.8	6.8
Balance on 31.12.2015	1,712.5	1,309.9	557.1	3,579.4	407.3	207.2	614.5
Depreciation, amortisation and impairment							
Balance on 01.01.2014	-	684.5	265.5	950.0	74.4	120.0	194.4
Translation differences	-	-0.3	-0.1	-0.4	-	0.7	0.7
Charge for the period	-	126.4	51.2[2]	177.5	7.4	23.7[2]	31.1
Disposals/transfers[1]	-	-	44.2	44.2	-	12.4	12.4
Balance on 31.12.2014	-	810.6	272.4	1,083.0	81.8	131.9	213.7
Translation differences	-	-2.7	-0.5	-3.1	-	-0.6	-0.6
Charge for the period	-	126.2	58.6[3]	184.8	9.5	25.0[3]	34.5
Disposals/transfers[1]	-	-	1.6	1.6	-	6.4	6.4
Balance on 31.12.2015	-	934.0	329.0	1,263.1	91.3	150.0	241.3
Book value							
Balance on 31.12.2014	1,680.3	477.1	206.5	2,363.9	321.4	61.3	382.7
Balance on 31.12.2015	**1,712.5**	**375.9**	**228.0**	**2,316.4**	**316.0**	**57.2**	**373.2**

[1] Includes also derecognition of fully depreciated and amortised assets
[2] Includes impairment of CHF 2.0 million related to software and other property and equipment not used anymore
[3] Includes impairment of CHF 2.9 million related to software and other property and equipment not used anymore

Goodwill – Impairment testing
To identify any indications of impairment on goodwill, the recoverable amount based on the value in use is determined for the respective cash-generating unit (i.e. for the smallest identifiable groups of assets that generate cash inflows independently from other assets) and is subsequently compared to the carrying amount of that unit. Within the Group, cash inflows are not attributable to either any dimension (e.g. geographical areas, booking centres, clients or products) or group of assets. In addition, management makes operating decisions based on information on the Group level (see also Note 20 regarding the determination of the segments). Therefore, the goodwill is allocated to and tested on the level of the Group, except for GPS, which is tested on a stand-alone basis. GPS is regarded a cash-generating unit as its cash inflows are generated independently from other assets.

The acquisition of Merrill Lynch's International Wealth Management business did not change the legal or organisational structure of the Group, as the acquired businesses have been immediately fully integrated into the existing Group business organisation.

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

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

To each of these applicable key parameters, reasonably expected growth assumptions are applied in order to calculate the projected cash flows. However, the Group expects in the medium and long term a favourable development of the private banking activities which is reflected in the respective growth of the key parameters, but the Group cannot exclude short-term market disruptions. The Group also takes the relative strengths of itself as a pure private banking competitor vis-à-vis its peers into consideration, which should result in a better-than-average business development in the respective market. Additionally, the estimates of the expected free cash flows take into account the projected investments which are necessary to maintain the level of economic benefits expected to arise from the underlying assets in their current condition. The resulting free cash flows are discounted to present value, using a pre-tax discount rate of 8.9% (2014: 10.0%). For GPS, the pre-tax discount rate used is 21.8% (2014: 24.4%).

The Group's approach to determine the key assumptions and related growth expectations is based on management's knowledge and reasonable expectations of future business, using internal and external market information, planned and/or started business initiatives and other reasonable intentions of management. For that purpose, the Group uses historical information by taking into consideration the current and expected market situations as well as the current and expected future relative market position of the Group vis-à-vis its respective competitors and in its industry. The long-term growth rate beyond the planning horizon for assets under management is assumed at 1% for both cash-generating units. This growth rate is considerably below the actual average rate of the last five years.

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

Changes in key assumptions
Deviations of future actual results achieved vs. forecast/planned key assumptions, as well as future changes of any of the key assumptions based on a future different assessment of the development of relevant markets, and/or the businesses, may occur. Such deviations may result from changes in products and client mix, profitability, required types and intensity of personnel resources, general and company-specific driven personnel cost development and/or changes in the implementation of known or addition of new business initiatives and/or other internal and/or external factors. These changes may cause the value of the business to alter and

therefore either increase or reduce the difference between the carrying value in the balance sheet and the unit's recoverable amount or may even lead to a partial impairment of goodwill.

Management has performed sensitivity analyses on the discount rates and growth rates applied to a forecast period. Under these scenarios, the reasonably possible changes in key assumptions would not result in the carrying amount exceeding the recoverable amount. Therefore, no impairment resulted from these analyses. However, there remains a degree of uncertainty involved in the determination of these assumptions due to the general market environment.

13 OPERATING LEASE COMMITMENTS

	31.12.2015 *CHF m*	31.12.2014 *CHF m*
Not later than one year	**62.6**	61.3
Later than one year and not later than five years	**168.9**	171.6
Later than five years	**78.5**	101.5
Subtotal	**310.0**	334.3
Less sublease rentals received under non-cancellable leases	**23.3**	26.7
Total	**286.6**	307.6

Expenses for operating leases in the gross amount of CHF 59.7 million are included in operating expenses for the 2015 financial year (2014: CHF 60.7 million).

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

		31.12.2015		31.12.2014
	Book value *CHF m*	Effective commitment *CHF m*	Book value *CHF m*	Effective commitment *CHF m*
Securities	**1,477.4**	**1,477.4**	1,366.6	1,344.3
Other	**16.3**	**16.3**	12.1	10.9
Total	**1,493.7**	**1,493.7**	1,378.6	1,355.2

The assets are mainly pledged for Lombard limits at central banks, stock exchange securities deposits and collateral in OTC derivatives trading. Due to the increased volatility in the securities markets, higher collaterals have been asked for compared to earlier years.

15 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

	2016 *CHF m*	2017 *CHF m*	2018 *CHF m*	2019 *CHF m*	2020 *CHF m*	2021–2025 *CHF m*	2026– *CHF m*	un-assigned *CHF m*	**31.12.2015** *CHF m*	31.12.2014 *CHF m*
Fixed rate	1,606.9	103.1	2.6	2.2	52.1	-	-	-	**1,766.9**	1,951.0
Interest rates (ranges in %)	0.5–48.0	1.0–12.66	3.1–4.6	3.78	1.2–2.2	-	-	-	**-**	-
Floating rate	686.6	401.9	144.9	143.8	67.2	284.1	7.1	760.5	**2,496.2**	2,448.2
Total	**2,293.5**	**505.0**	**147.5**	**146.0**	**119.3**	**284.1**	**7.1**	**760.5**	**4,263.1**	4,399.3

The table above indicates the maturities of the structured debt issues of Bank Julius Baer & Co. Ltd. with fixed interest rate coupons ranging from 0.5% up to 48.0%. The high and low coupons generally relate to structured debt issues prior to the separation of embedded derivatives. As a result, the stated interest rate generally does not reflect the effective interest rate paid to service the debt after the embedded derivative has been separated.

As the redemption amount on the structured debt issues is linked to changes in stock prices, indices, currencies or other assets, the Group cannot determine the difference between the carrying amount and the amount the Group would be contractually required to pay at maturity to the holder of the structured debt issues.

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

16 DEBT ISSUED

	31.12.2015 *CHF m*	31.12.2014 *CHF m*
Money market instruments	**0.1**	0.2
Bonds	**1,152.6**	834.5
Preferred securities	**-**	225.0
Total	**1,152.7**	1,059.8

Bonds and preferred securities

Issuer/Year of issue	Stated interest rate %		Currency	Notional amount m	**31.12.2015** Total *CHF m*	31.12.2014 Total *CHF m*
Julius Baer Capital (Guernsey) I Ltd.						
2005	3.63	Preferred securities	CHF	225.0	**-**	225.0
Julius Baer Group Ltd.						
2011[1]	4.50	Lower tier 2 bond	CHF	250.0	**244.6**	241.8
Julius Baer Group Ltd.						
2012[2]	5.375	Perpetual tier 1 subordinated bond	CHF	250.0	**249.3**	247.8
Julius Baer Group Ltd.						
2014[3]	4.25	Perpetual tier 1 subordinated bond	CHF	350.0	**343.9**	345.0
Julius Baer Group Ltd.						
2015[4]	5.90	Perpetual tier 1 subordinated bond	SGD	450.0	**314.7**	-
Total					**1,152.6**	1,059.5

[1] Own bonds of CHF 2.9 million are offset with bonds outstanding (2014: CHF 5.3 million). The effective interest rate amounts to 4.89%.
[2] No own bonds are offset with bonds outstanding (2014: CHF 1.2 million). The effective interest rate amounts to 5.59%.
[3] Own bonds of CHF 2.0 million are offset with bonds outstanding (2014: CHF 0.1 million). The effective interest rate amounts to 4.41%.
[4] No own bonds are offset with bonds outstanding. The effective interest rate amounts to 6.128%.

Preferred securities
The hybrid capital created through the issuance of the preferred securities consists of a liability – in the form of a non-cumulative perpetual subordinated note ('Note') – of Julius Baer Group Ltd. in favour of Julius Baer Capital (Guernsey) I Limited, in exchange for which the latter issued *preferred securities* with identical terms guaranteed by Julius Baer Group Ltd. The distributions paid in respect of the preferred securities are identical, with regard to contractual terms, timing and amount, to the interest and capital payments made by Julius Baer Group Ltd. under the terms of the Note. In the statements above, these instruments and the guarantee relating to them are designated, in aggregate, as 'preferred securities'. Statements regarding their seniority and terms resulting in a payment obligation under the preferred securities, which are designated as interest and capital payments, relate to Julius Baer Group Ltd., which is designated as the 'Issuer'. The maturity of the preferred securities is essentially perpetual and they are subordinate to all the Issuer's other borrowings (with the exception of its hybrid tier 1 capital, with which they share an equal claim). The preferred securities are fully paid up and devoid of any voting rights. From the date of their issuance (2 December 2005) until 2 December 2015 the preferred securities pay a fixed rate of interest of 3.63% per annum.

The preferred securities were repaid on 2 December 2015 at nominal value plus accrued interest.

Lower tier 2 capital
Lower tier 2 capital consists of subordinated unsecured bonds ('bonds'), fully paid up and listed on the SIX Swiss Exchange. The bonds were issued by Julius Baer Group Ltd. ('the Issuer') in December 2011 in the amount of CHF 250 million. From 1 January 2013 onwards, the proportion of the issued lower tier 2 capital which may be allocated, in the form of complementary (tier 2) capital, towards meeting the Group's capital adequacy requirements is reduced by 10% each year. These tier 2 bonds constitute valid and legally binding obligations of the Issuer enforceable in accordance with their terms and rank at least pari passu with all other unsecured and subordinated obligations of the Issuer. The maturity date of the bonds is 23 December 2021.

From the issue date (23 December 2011) to the reset date (23 December 2016), the bonds pay a fixed rate of interest of 4.50% per annum and during the period (reset period) commencing on the reset date and ending on the maturity date (23 December 2021) a fixed rate of interest each year equal to the sum of the benchmark rate (i.e. the five-year CHF mid-market swap rate calculated on the basis of the rate displayed on ISDAFIX page CHFSFIX at 11:00 a.m. [CET] on the date falling five business days before the reset date) and a fixed margin of 3.815%. The interest is payable annually, in arrears and on a 30/360-day basis, on 23 December (the 'interest payment date'). Julius Baer Group Ltd. may redeem the bonds on the reset date (23 December 2016) and upon the occurrence of a capital event or a tax event as defined in the prospectus in whole but not in part at the par value per bond plus accrued but unpaid interest thereon, upon giving not less than 30 days' notice to the holders of the bonds.

Perpetual tier 1 subordinated bonds
The maturities of the perpetual tier 1 subordinated bonds issued by Julius Baer Group Ltd. are essentially perpetual. These bonds are unsecured, subordinate to all borrowings (with the exception of the remainder of the tier 1 capital), fully paid up, capable of sustaining losses and devoid of any voting rights. The bonds can first be redeemed, at the Issuer's discretion, five to six years after their issue date, and at yearly intervals thereafter, provided the regulator approves such redemption. In addition, the bonds may also be redeemed upon a Regulatory Event or Tax Event, as described in the prospectus. In the case of a Viability Event occurring, i.e. at a point in time where there is a threat of insolvency ('Point of non-viability' or 'PONV'), as described in Article 29 of the Capital Adequacy Ordinance of the Swiss Financial Market Supervisory Authority FINMA (CAO), all monies (including par value and any interest) due on the bonds will automatically cease to be payable and the bonds will be completely written off (i.e. their value will be written down to zero). Should a Trigger Event occur – i.e. should tier 1 common equity (under Basel III) fall below 5.125% – the value of the bonds will be written down to ensure that the Write-Down Threshold Ratio which originally triggered the event is restored to a level equal to or exceeding its trigger level. Here, too, in a worst-case scenario, all monies

due on the bonds will cease to be payable in their entirety. In the event of the monies payable on the bonds ceasing to be payable either in part or in full, no subsequent increase in the value of the bonds is envisaged or permitted. From the issue date to the reset date the bonds will pay interest at a fixed rate. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate and a margin. Interest on the bonds is payable, in arrears on a 30/360-day basis, until the bonds have either been redeemed or fully written off. Interest payments on the bonds are prohibited in the event of this being ordered by the regulator (FINMA) or should there be insufficient retained earnings on the balance sheet of Julius Baer Group Ltd. to finance the payment of interest on tier 1 capital and to make any distributions already planned in respect of the previous financial year. Once suspended, any interest payments will permanently cease to be payable. Such interest payments are not cumulative, nor will they be paid at any future date. In the event of interest payments on the bonds being suspended, the Board of Directors of Julius Baer Group Ltd. will not be permitted to recommend any dividend payments to the Annual General Meeting until such time as interest payments on the bonds are resumed. Moreover, in the event of interest payments on the bonds being suspended, Julius Baer Group Ltd. will not repurchase any of its own shares, neither directly nor indirectly.

2012 issue
The perpetual tier 1 subordinated bond was issued by Julius Baer Group Ltd. on 18 September 2012. The bonds can first be redeemed, at the Issuer's discretion, five and a half years after their issue date (i.e. on 19 March 2018). From the issue date to the reset date (19 March 2018) the bonds will pay interest at a fixed rate of 5.375% per annum. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate (i.e. the five-year mid-market CHF swap rate) and a margin of 4.98%. Interest on the bonds is payable annually in arrears on 19 March in each year.

2014 issue
The perpetual tier 1 subordinated bond was issued by Julius Baer Group Ltd. on 5 June 2014. The bonds can first be redeemed, at the Issuer's discretion, six years after their issue date (i.e. on 5 June 2020). From the issue date to the reset date (5 June 2020) the bonds will pay interest at a fixed rate of 4.25% per annum. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate (i.e. the five-year mid-market CHF swap rate) and a margin of 3.7625%. Interest on the bonds is payable annually in arrears on 5 June in each year.

2015 issue
The perpetual tier 1 subordinated bond, which is denominated in SGD, was issued by Julius Baer Group Ltd. on 18 November 2015. The bonds can first be redeemed, at the Issuer's discretion, five years after their issue date (i.e. on 18 November 2020). From the issue date to the reset date (18 November 2020) the bonds will pay interest at a fixed rate of 5.9% per annum. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate (i.e. the five-year SGD swap offer rate) and a margin of 3.32%. Interest on the bonds is payable semi-annually in arrears on 18 May and 18 November in each year.

17A DEFERRED TAX ASSETS

	31.12.2015 *CHF m*	31.12.2014 *CHF m*
Balance at the beginning of the year	**15.3**	15.6
Income statement – credit	**8.7**	0.9
Income statement – charge	**-1.0**	-1.2
Acquisition of subsidiaries	**0.1**	-
Recognised directly in equity	**1.1**	-
Translation differences and other adjustments	**-0.3**	-0.0
Balance at the end of the year	**23.8**	15.3

The components of deferred tax assets are as follows:

Operating loss carryforwards	**18.9**	11.8
Employee compensation and benefits	**4.4**	2.8
Property and equipment	**0.1**	0.3
Valuation adjustments on loans	**0.5**	0.3
Total	**23.8**	15.3

17B DEFERRED TAX LIABILITIES

	31.12.2015 *CHF m*	31.12.2014 *CHF m*
Balance at the beginning of the year	**137.9**	142.8
Income statement – charge	**1.5**	1.0
Income statement – credit	**-54.1**	-4.2
Acquisition of subsidiaries	**0.0**	20.1
Recognised directly in equity	**-38.3**	-21.0
Translation differences and other adjustments	**-5.4**	-0.8
Balance at the end of the year	**41.6**	137.9

The components of deferred tax liabilities are as follows:

Provisions	**1.4**	55.2
Property and equipment	**15.4**	15.5
Financial investments available-for-sale	**19.6**	23.3
Intangible assets	**47.7**	61.5
Other	**11.6**	10.9
Deferred tax liability before set-off	**95.7**	166.4
Offset of pension liability taxes	**-54.1**	-28.6
Total	**41.6**	137.9

18 PROVISIONS

	Restructuring *CHF m*	Legal risks *CHF m*	Other *CHF m*	**2015 Total** *CHF m*	2014 Total *CHF m*
Balance at the beginning of the year	**0.0**	**57.3**	**32.2**	**89.5**	72.1
Utilised during the year	**-**	**-35.1**	**-30.5**	**-65.6**	-12.0
Provisions made during the year	**-**	**532.9**[1]	**1.3**	**534.1**	34.8
Provisions reversed during the year	**-0.0**	**-7.4**	**-0.1**	**-7.5**	-6.8
Acquisition of subsidiaries	**-**	**-**	**0.4**	**0.4**	-
Translation differences	**-**	**24.2**	**-**	**24.2**	1.6
Balance at the end of the year	**-**	**571.9**	**3.2**	**575.2**	89.5

[1] Including the provision in the amount of USD 547.25 million related to the settlement of the US Department of Justice's investigation in Julius Baer's legacy US cross-border business.

Maturity of provisions					
Up to one year	**-**	**552.3**	**1.3**	**553.7**	57.7
Over one year	**-**	**19.6**	**1.9**	**21.5**	31.8

Introduction
The Group operates in a legal and regulatory environment that exposes it to significant litigation, compliance, reputational and other risks arising from disputes and regulatory proceedings.

Non-compliance with regulatory requirements may result in regulatory authorities taking enforcement action or initiating criminal proceedings against the Group and its employees. Possible sanctions could include the revocation of licences to operate certain businesses, the suspension or expulsion from a particular jurisdiction or market of any of the Group's business organisations or their key personnel and the imposition of fines and censures on companies and employees. Regulators in certain markets may determine that industry practices, e.g. regarding the provision of services to clients, are or have become inconsistent with their interpretations of existing local laws and regulations.

The risks described below may not be the only risks to which the Group is exposed. The additional risks not presently known or risks and proceedings currently deemed immaterial may also impair the Group's future business, results of operations, financial condition and prospects. The realisation of one or more of these risks may individually or together with other circumstances materially adversely affect the Group's business, results of operations, financial condition and prospects.

Legal proceedings/contingent liabilities
The Group is involved in various legal, regulatory and administrative proceedings concerning matters arising within the course of normal business operations. The current business environment involves substantial legal and regulatory risks, the impact of which on the financial position or profitability of the Group – depending on the status of related proceedings – is difficult to assess.

The Group establishes provisions for pending and threatened legal proceedings if the management is of the opinion that such proceedings are more likely than not to result in a financial obligation or loss, or if the dispute for economic reasons should be settled without acknowledgment of any liability on the part of the Group and if the amount of such obligation or loss can already be reasonably estimated.

In rare cases in which the amount cannot be estimated reliably due to the early stage of the proceedings, the complexity of the proceedings and/or other factors, no provision is recognised but the case is disclosed as a contingent liability as of 31 December 2015. The contingent liabilities might

have a material effect on the Group or for other reasons might be of interest for investors and other stakeholders.

In 2010 and 2011, litigation was commenced against Bank Julius Baer & Co. Ltd. ('the Bank') and numerous other financial institutions by the liquidators of the Fairfield funds, having acted as feeder funds for the Madoff fraudulent investment schemes. In the direct claims against the Bank, the liquidators of the Fairfield funds are seeking to recover a total amount of approximately USD 64 million in the courts of New York (including USD 17 million that relates to redemption payments made to clients of ING Bank (Suisse) SA, which merged with the Bank in 2010, and USD 26.5 million that relates to redemption payments made to clients of Merrill Lynch Bank (Suisse) SA, which merged with the Bank in 2013, such claims being subject to acquisition-related representation and warranties provisions). The proceedings in the courts of the British Virgin Islands, where an amount of approximately USD 8.5 million have been claimed from the Bank, were finally dismissed in favour of the Bank with a ruling of the Privy Council, the highest court of appeals for the British Virgin Islands. In addition to the direct claims against the Bank, the liquidators of the Fairfield funds have made combined claims in the amount of approximately USD 1.8 billion against more than 80 defendants. Only a fraction of this amount is sought against the Bank and its beneficial owners. The combined claims aggregate the damages asserted against all defendants, such that a reliable allocation of the claimed amounts between the Bank and the other defendants cannot be made at this time. Finally, the trustee of Madoff's broker-dealer company seeks to recover over USD 83 million in the courts of New York (including USD 46 million that relates to redemption payments made to clients of Merrill Lynch Bank (Suisse) SA, which merged with the Bank in 2013, such claims being subject to acquisition-related representation and warranties provisions), largely in relation to the same redemption payments which are the subject matter of the claims asserted by the liquidators of the Fairfield funds. As most of the aforementioned litigation remains in the preliminary procedural stages, a meaningful assessment of the potential outcome is not yet possible. The Bank is challenging these actions on procedural and substantive grounds and has taken further measures to defend and protect its interests. The favourable ruling by the Privy Council may impact some of the claims pending in the United States. In particular, because the underlying facts in these actions are basically the same, the United States courts may apply the reasoning by the Privy Council to the claims at issue in the US Litigation. In addition, as the BVI Commercial Court oversees the Fairfield Funds' liquidation proceedings, the Bank introduced an application in the BVI Commercial Court challenging the Fairfield Liquidator's authority to pursue the US Litigation. In view of this pending application in the BVI, the Fairfield cases pending in the courts of New York remain and a meaningful assessment of the potential outcome is not yet possible. In addition, the District Court for the Southern District of New York ('District Court') has issued a number of preliminary decisions in the cases brought by the Madoff trustee, and the cases have been returned to the bankruptcy court for further proceedings. The District Court decisions and/or decisions from the bankruptcy court are likely to be appealed by the Madoff trustee.

In 2011, the Swiss authorities informed Bank Julius Baer & Co. Ltd. that US authorities had named it as one of several Swiss banks being investigated in connection with their cross-border US private banking services. Since then, the Bank has been in an ongoing, constructive dialogue with the US authorities. It has cooperated with the US authorities in full compliance with Swiss law and in coordination with Swiss authorities with the aim of reaching a resolution of the US investigation. In the context of its cooperation, the Bank has provided the US authorities with information pertaining to its legacy US cross-border private banking business. In addition, in 2013, the US authorities filed a request under the Switzerland/US Double Taxation Treaty for US taxpayer information to which the Bank responded in coordination with Swiss authorities. In parallel, in August 2013, the US Department of Justice ('DOJ') announced a programme for Swiss banks to resolve their US law exposure in connection with their US cross-border private banking business (the 'DOJ Programme'). However, the DOJ Programme is expressly inapplicable to banks under investigation prior to

the announcement of the DOJ Programme. The Bank received notification from the DOJ that it falls within this category of banks and will continue with its individual cooperation and settlement efforts. On 23 June 2015, the Bank further announced its decision to take a provision of USD 350 million reflecting the Bank's then current understanding of the state of the preliminary discussions with the DOJ regarding an eventual settlement with the DOJ regarding its legacy US cross-border business, with the amount remaining subject to change. Based on an agreement in principle reached with the US Attorney's Office for the Southern District of New York with respect to a comprehensive resolution regarding its legacy US cross-border business, the Bank announced on 30 December 2015 that it has taken an additional provision of USD 197.25 million to supplement its preliminary provision of USD 350 million in June 2015 (resulting in a total provision of USD 547.25 million) and that it anticipates the execution of a resolution with the DOJ, and subject to final approval within the DOJ, in the first quarter of 2016.

In a landmark decision on so-called retrocessions, the Swiss Federal Supreme Court ruled in 2012 that the receipt of fund trailer fees by a bank in connection with a Discretionary Portfolio Management mandate may create a potential conflict of interest in the execution of the mandate. The Court considered that by receiving trailer fees in the context of such mandate, a bank may be inclined not to act in the best interest of the client. Therefore, based on applicable Swiss mandate law a bank shall not only account for fund trailer fees obtained from third parties in connection with a client's mandate, but also be obliged to forward respective amounts to a client, provided the client has not validly waived to reclaim such fees. Bank Julius Baer & Co. Ltd. has been assessing the Court decision, the mandate structures to which the Court decision might be applicable and the documentation as well as the impact of respective waivers and the communicated bandwidths having been introduced some years ago, and implemented appropriate measures to address the matter.

Based on the withholding tax treaty between Switzerland and the UK and due to significantly lower than anticipated client regularisation payments under the treaty, as the amount of undeclared assets held by UK citizens and liable for the payment remained substantially below the initial expectations, Bank Julius Baer & Co. Ltd. in January 2015 paid its share of approximately CHF 30.4 million in the total compensation amount of CHF 500 million in accordance with the allocation key as provided by Federal Law. Given such allocation key may still be challenged, the amount remains subject to amendment and change. The amount related to Merrill Lynch Bank (Suisse) SA has not been recognised in the income statement as it is subject to acquisition-related representations and warranties. The amount (approximately CHF 2.3 million) paid relating to Merrill Lynch Bank (Suisse) SA has been reimbursed to Julius Baer under an acquisition-related Covenant Clause.

Bank Julius Baer & Co. Ltd. is confronted with a claim by the liquidator of a foreign corporation arguing that the Bank did not prevent two of its clients from embezzling assets of the foreign corporation. In this context, the liquidator in 2013 presented a draft complaint for an amount of EUR 12 million (plus accrued interest from 2009) and filed a payment order ('Betreibungsbegehren') against the Bank in the amount of CHF 422 million (plus accrued interest from 2009). In June 2014, the liquidator presented another amended draft complaint for an amount of EUR 290 million (plus accrued interest as of September 2009). The Bank has formally repelled the payment order and is contesting the claim whilst taking appropriate measures to defend its interests.

A writ of summons (together with a statement of claim) (the 'Writ') filed by two former clients of the Bank (together, the 'Plaintiffs') in the High Court of Singapore naming Bank Julius Baer & Co. Ltd. Singapore branch and a former relationship manager as defendants respectively was served on the Bank on 25 September 2013. The Plaintiffs' claim stems from a dispute over alleged damages/losses incurred by the Plaintiffs arising from share accumulator transactions in 2007 and 2008. The Plaintiffs claim they suffered damages/losses due to (i) alleged breach of fiduciary duties, (ii) alleged breach of duty of care and/or warranty, (iii) alleged breach of contractual and common law duties of skill and care and/or warranty and/or (iv) alleged misrepresen-

tations (whether fraudulently or negligently made). Due to these alleged breaches and misrepresentations, the Plaintiffs are, among other things, claiming rescission or damages in lieu of rescission, damages/losses amounting to approximately SGD 89 million and HKD 213 million as well as losses arising from loss of use of funds to be assessed at an interest rate of 5.33% p.a. (alternatively, damages to be assessed by the court) plus interests and costs. The Bank is contesting the claim whilst taking appropriate measures to defend its interests.

On 31 March 2014, the Swiss Competition Commission ('COMCO') opened an investigation regarding possible collusion in foreign exchange trading against several banks amongst which also Bank Julius Baer & Co. Ltd. According to its media release of 28 September 2015, the COMCO in addition opened an investigation regarding potential collusive behaviour in precious metal trading. Subject to these investigations are Swiss and foreign financial institutes which are active in foreign exchange and precious metal trading, including Julius Baer. The aim of the investigations, which are part of respective international inquiries, is to clarify possible unlawful collusion amongst market participants and possible violation of market behaviour regulations. Julius Baer, with its primary focus on foreign exchange and precious metals trading for private clients, constructively continues to support the investigation of the COMCO and related inquiries of other authorities in Switzerland and abroad.

Bank Julius Baer & Co. Ltd. has received payment orders ('Betreibungsbegehren') by the Bundesanstalt für vereinigungsbedingte Sonderaufgaben ('BvS'), the German authority responsible for managing the assets of the former German Democratic Republic ('GDR'), in the amount of CHF 110 million plus accrued interest from 2009. BvS claims that the former Bank Cantrade Ltd., which the Bank acquired through its acquisition of Bank Ehinger & Armand von Ernst AG from UBS AG in 2005, allowed unauthorised withdrawals between 1989 and 1992 from the account of a foreign trade company established by former officials of the GDR. Against this background, in September 2014, the BvS has initiated legal proceedings in Zurich, claiming CHF 97 million plus accrued interests from 1994. The Bank is contesting the claims of BvS and has taken and will take appropriate measures to defend its interests. In addition, the claim has been notified under the 2005 transaction agreement with regard to representations and warranties granted in respect of the acquired entities.

In the context of an investigation against a former client regarding alleged participation in a tax fraud in France, a formal procedure ('mise en examen') into suspected lack of due diligence in financial transactions has been initiated against Bank Julius Baer & Co. Ltd. in June 2014. In October 2014, the Bank precautionary made the required security deposit in the amount of EUR 3.75 million with the competent French court. The Bank is cooperating with the French authorities within the confines of applicable laws to clarify the situation and to protect its interests.

In April 2015, Bank Julius Baer & Co. Ltd. was served with 62 claims in Geneva totalling approximately CHF 20 million plus accrued interest. The claimants, being part of a larger group of former clients of an external asset manager claiming damages in a total amount of approximately CHF 40 million, argue lack of due diligence on the part of the Bank in the context of the late external asset manager allegedly having used his personal account and company account with the Bank for flow-through client transactions and pooling of client funds. On 16 October 2015, such claims have been formalized by 51 claimants, claiming a total amount of CHF 11.7 million plus accrued interest. The Bank is contesting the claim and has taken appropriate measures to defend its interests.

Bank Julius Baer & Co. Ltd. is confronted with a claim by a former client arguing that the Bank initiated transactions without appropriate authorisations and that the Bank has not adhered to its duties of care, trust, information and warnings. In April 2015, the client presented a complaint for an amount of USD 70 million (plus accrued interest) and BRL 24 million. The Bank is contesting the claim whilst taking appropriate measures to defend its interests.

In November 2014, Bank Julius Baer & Co. Ltd. was served in Geneva with a claim by an investment fund, acting on its behalf and on behalf of three other funds, that were former clients of Bank of China (Suisse) S.A. having been acquired by Bank Julius Baer & Co. Ltd., in the total amount of USD 29 million (plus accrued interests). Additionally, in October 2015, the claimant filed an amendment of claim in court, by which additionally USD 39 million is claimed. The claimant argues that Bank of China (Suisse) S.A. acted not only as a custodian bank, but also as secured creditor and manager of the funds, and tolerated excess in leverage. It claims that the funds suffered a severe loss consequently to the liquidation of almost the entire portfolio of their assets in May 2010, arguing that this liquidation was performed by Bank of China (Suisse) SA without the consent of the funds' directors and was ill-timed, disorderly and occurred in exceptionally unusual market conditions. The Bank is contesting the claim whilst taking appropriate measures to defend its interests. In addition, such claims are subject to acquisition-related representations and warranties.

In October 2015, Bank Julius Baer & Co. Ltd. was served with a claim by a former client in Zurich in the amount of CHF 1 million plus accrued interests since 2008. The claimant claims losses in the context with foreign exchange transactions and argues that the Bank has breached its duties with respect to diligence, disclosure and information duties. The claimant filed a partial claim, i.e. reserved the right to increase the claimed amount to approximately CHF 121 million arguing that the total loss incurred with foreign exchange transactions amounts to CHF 441 million in total. The Bank is contesting the claim whilst taking appropriate measures to defend its interests.

In October 2015, Julius Baer International Ltd., UK, has been presented a complaint by three associated clients claiming failings with respect to the suitability of investments made on their behalf, obtaining appropriate instructions, the provision of appropriate information and the monitoring processes. As a consequence, the clients claim a loss of approximately USD 37 million. Julius Baer International Ltd. is handling and reporting this case in line with local rules and regulations.

Bank Julius Baer & Co. Ltd. has received inquiries from authorities investigating corruption and bribery allegations surrounding Fédération Internationale de Football Association (FIFA) in Switzerland and the USA. These requests focus on persons named in the so-called 'FIFA Indictment' of 20 May 2015 (Indictment filed in United States v. Webb [E.D.N.Y. 15 CR 0252 (RJD)(RML)]) and in the respective superseding indictment of 25 November 2015. The authorities in Switzerland and abroad are, in addition to the corruption and bribery allegations, investigating whether financial institutions failed to observe due diligence standards as applied in financial services and in particular in the context of anti-money laundering laws in relation to suspicious and potentially illegal transactions. The Bank is supporting the investigations and cooperating with the authorities on this matter.

19 SHARE CAPITAL

	Registered shares (CHF 0.02 par)	
	Number	*CHF m*
Balance on 01.01.2014	223,809,448	**4.5**
of which entitled to dividends	*221,803,359*	***4.4***
Balance on 31.12.2014	223,809,448	**4.5**
of which entitled to dividends	*223,809,448*	***4.5***
Balance on 31.12.2015	223,809,448	**4.5**
of which entitled to dividends	*223,809,448*	***4.5***

The following movements apply to the financial years 2013 and 2014:

As of 24 January 2013, Julius Baer Group Ltd. increased its capital by 7,102,407 shares. These shares have been used to partially finance the acquisition of Merrill Lynch's International Wealth Management business (the consideration shares, see Note 30) and are held by Julius Baer Group Ltd. until used as consideration.

Up to 31 December 2014, all shares have been used as consideration and therefore have been transferred to Merrill Lynch & Co., Inc.

The consideration shares were transferred as follows:
Total for 2013: 5,096,318 shares
Total for 2014: 2,006,089 shares

As at 1 January 2013, in total 17,183,715 shares were authorised. 7,102,407 of these shares have been used to partially finance the acquisition of Merrill Lynch's International Wealth Management business. The remaining 10,081,308 shares are not authorised anymore.