Julius Bär

BUSINESS REVIEW FIRST HALF 2019

JULIUS BAER GROUP

ABOUT JULIUS BAER

Julius Baer is the leading Swiss wealth management group. We focus on providing personal advice to private clients around the world, powered by high-end services and expertise. As pioneers, we actively embrace change to remain at the forefront of our industry – as we have done for nearly 130 years.

We manage our company for the long term and with an exclusive strategic focus on wealth management.

Our strategy is built on three principles: delivering a best-in-class experience to our clients, being the most admired and respected firm in our sector and pursuing sustainable profitability (see also page 21 f.).

We help our clients to achieve their financial aspirations through holistic solutions that take into account what truly matters to them – in their business and personal life, today and for future generations.

With almost 6,800 employees, we stand for:

SOLID FOUNDATIONS

PURE WEALTH MANAGEMENT

PERSONAL CONNECTIONS

INTERNATIONAL NETWORK

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KEY FIGURES JULIUS BAER GROUP[1]

	H1 2019 *CHF m*	H1 2018 *CHF m*	H2 2018 *CHF m*	Change *to H1 2018 in %*
Consolidated income statement				
Operating income	1,699.0	1,788.8	1,579.0	-5.0
Adjusted operating expenses	1,229.2	1,206.1	1,184.7	1.9
Profit before taxes	469.8	582.7	394.4	-19.4
Adjusted net profit for the Group	390.5	479.6	330.0	-18.6
IFRS net profit for the Group[2]	342.9	443.8	291.6	-22.7
Cost/income ratio[3]	71.0%	67.3%	74.3%	-
Pre-tax margin (basis points)	23.0	29.8	19.9	-

	30.06.2019	30.06.2018	31.12.2018	Change *to 31.12.2018 in %*
Assets under management (CHF bn)				
Assets under management	412.3	399.9	382.1	7.9
Net new money (in period)	6.2	9.9	7.5	-
Consolidated balance sheet (CHF m)				
Total assets	103,654.9	103,540.2	102,898.3	0.7
Total equity	6,086.7	5,788.7	6,041.9	0.7
BIS total capital ratio	20.7%	20.2%	18.7%	-
BIS CET1 capital ratio	13.1%	13.7%	12.8%	-
Return on tangible equity (RoTE) annualised[4]	25%	33%	22%	
Return on common equity Tier 1 capital (RoCET1)[5]	28%	36%	24%	
Personnel (FTE)				
Number of employees	6,768	6,643	6,693	1.1
Number of relationship managers	1,490	1,475	1,501	-0.7
Capital structure				
Number of shares	223,809,448	223,809,448	223,809,448	-
Market capitalisation (CHF m)	9,727	13,044	7,836	24.1
Moody's rating Bank Julius Baer & Co. Ltd.				
Long-term deposit rating	Aa2	Aa2	Aa2	-
Short-term deposit rating	Prime-1	Prime-1	Prime-1	-

[1] Adjusted results derived by excluding from the reviewed IFRS financial statements the integration and restructuring expenses as well as the amortisation of intangible assets related to previous acquisitions or divestments and the taxes on those respective items.
[2] Reconciliation with adjusted net profit for the Group is detailed in the table on page 8.
[3] Calculated using adjusted operating expenses, excluding provisions and losses.
[4] Adjusted net profit attributable to shareholders/(half-yearly) average shareholders' equity less goodwill and other intangible assets.
[5] Adjusted net profit attributable to shareholders/(half-yearly) average CET1 capital.

FOREWORD

Dear Reader

After a very weak second half of 2018, financial markets saw a strong rebound in the first six months of the year, backed by solid economic fundamentals and accommodative monetary policies. This upswing was also fuelled by hope of an impending renewal of the US-China trade negotiations. Failure on this front remains a low-probability but high-impact scenario, which clouds market sentiment. The ongoing stalemate in the negotiations, and its mounting negative impact on global trade, continue to temper risk appetite, equity valuations, macroeconomic expectations and client activity.

Against the backdrop of more favourable market conditions, Julius Baer's results for the first half of 2019 improved substantially compared to the last six months of 2018. Julius Baer continues to benefit from its positioning as a pure wealth manager in our chosen strategic markets. Nevertheless, we have taken structural cost measures to safeguard the Group's profitability in view of further financial market volatility and potential future downturns.

Our continued investments in Julius Baer's focused business model and longer-term growth are backed by a solid capital position. At the end of June 2019, the BIS CET1 capital ratio was 13.1%, and the BIS total capital ratio stood at 20.7%. At these levels, the capital ratios remain comfortably above the Group's floors of 11% and 15%, respectively, and significantly above the regulatory floors of 8.2% and 12.4%, respectively.

'Our results have improved substantially compared to the last six months of 2018.'

In order to fully capture the attractive long-term growth potential in our industry, we have defined three strategic action items for the years to come, which will drive the evolution and ensure the future-proofing of our business. *Smarter market coverage* ensures that we grow in or develop those markets which yield the best returns for our company. *Holistic and personalised advice* differentiates Julius Baer in offering wealthy clients relevant and valuable solutions in an increasingly commoditised world. And *technology and digital transformation* forms the core of our drive to pioneer innovation in wealth management, in order to fulfil client requirements and to further improve our efficient operation today and tomorrow.

During the first half of 2019, we made considerable progress in implementing this strategy of focus, investment and growth. In particular, we further strengthened our footprint in our defined 17 core markets globally, by opening new offices in the UK and Spain and by increasing our stake in NSC Asesores in Mexico. We are also progressively adding to our offering in all our core markets to match the highest local standards. In Thailand – a market we are developing – we have formally launched the operation of SCB-Julius Baer Securities Co., Ltd., our joint venture with The Siam Commercial Bank, the leading local bank.

On the management front, the Board of Directors appointed Philipp Rickenbacher at the beginning of July 2019 as next CEO as part of its long-term succession planning. Currently heading our intermediaries and global custody business, Philipp Rickenbacher has a compelling leadership and industry track record and is deeply familiar with Julius Baer's culture and business. In addition, he is prepared to actively address the challenges of the future. He will take over as CEO on 1 September 2019.

Jointly with the new CEO, the Board will build on Julius Baer's heritage of almost 130 years. We will refine our growth story by preserving our areas of strength and, at the same time, we will challenge the status quo in light of the fundamental shifts in our industry.

We are grateful for our stakeholders' trust in us. It serves as both validation of our efforts and an incentive to continue to develop Julius Baer on its proven path of long-term sustainable and profitable growth.

Romeo Lacher
Chairman

Bernhard Hodler
Chief Executive Officer

FINANCIAL PERFORMANCE IN FIRST HALF 2019

While adjusted[1] net profit could not match the record result achieved in the first half of last year, profitability recovered considerably from the challenging second half of 2018, driven by a strong sequential increase in asset valuations and gross margin[2]. The Group's capital position remained solid.

Dieter A. Enkelmann, Chief Financial Officer

Assets under management[3] (AuM) ended the first six months of 2019 at CHF 412 billion, an increase of CHF 30 billion, or 8%, since the end of 2018. The growth in AuM was helped by a strong recovery in global stock markets, as well as net new money[3] of CHF 6.2 billion and the first-time consolidation of NSC Asesores in Mexico, which added CHF 3 billion. The strengthening Swiss franc had a slightly negative impact on AuM.

While the annualised net new money growth rate[4] of 3.2% was below the Group's medium-term target range (4–6%), it moved closer to the target in the last quarter. Excluding Kairos, net inflows developed at a satisfactory level inside the targeted range, driven by solid inflows from clients domiciled in Asia, Europe and the Middle East. However, these net inflows were partly offset by net outflows from Kairos funds (following a decline in fund performance in 2018; in H1 2019, the performance improved again). The Group's net new money was also negatively impacted to some extent by a limited number of client exits in the context of the ongoing client risk review project (which is nearing completion), as well as by modest outflows following a wider application of negative interest rates to large cash holdings in affected currencies, mainly Swiss francs and euros. Including assets under custody[3] of CHF 67 billion, total client assets[3] grew by 8% from year-end 2018 to CHF 479 billion.

Operating income was CHF 1,699 million, a decrease of 5% versus H1 2018. Compared to the second half of 2018, operating income grew by 8%. As monthly average AuM increased to CHF 408 billion (up 4% year on year and 3% versus H2 2018), the gross margin came to 83.2 basis points (bp), a decline versus H1 2018 (91.5 bp), but an improvement from H2 2018 (79.6 bp).

Net commission and fee income decreased by 6% year on year to CHF 956 million. This decline was driven mainly by lower client transaction activity compared to the first half of 2018, and to a lesser extent by modest fee pressure on discretionary mandates and a lower contribution from Kairos.

[1] Cf. footnote 1 to the table on the next page
[2] Annualised total operating income divided by monthly average assets under management.
[3] For the definition of assets under management, net new money and client assets, please refer to the Annual Report 2018, pp. 197 and 198. Assets under custody are those client assets that are not assets under management.
[4] Annualised net new money as a percentage of assets under management at the end of the previous year.

CONSOLIDATED INCOME STATEMENT[1]

	H1 2019 *CHF m*	H1 2018 *CHF m*	H2 2018 *CHF m*	Change *to H1 2018 in %*
Net interest and dividend income	515.2	553.5	365.7	-6.9
Net commission and fee income	955.9	1,015.5	887.4	-5.9
Net trading income	197.1	206.3	323.9	-4.4
Net credit losses/(recoveries) on financial assets	-3.1	-0.4	3.4	-
Other ordinary results	27.6	13.2	5.4	109.8
Operating income	**1,699.0**	1,788.8	1,579.0	-5.0
Personnel expenses	832.8	845.9	772.9	-1.5
General expenses[2]	316.7	317.4	364.0	-0.2
Depreciation and amortisation	79.6	42.8	47.8	86.1
Adjusted operating expenses	**1,229.2**	1,206.1	1,184.7	1.9
Profit before taxes	**469.8**	582.7	394.4	-19.4
Income taxes	79.3	103.1	64.4	-23.1
Adjusted net profit for the Group	**390.5**	479.6	330.0	-18.6
IFRS net profit for the Group[3]	**342.9**	443.8	291.6	-22.7
Attributable to:				
Shareholders of Julius Baer Group Ltd.	390.4	479.6	330.1	-18.6
Non-controlling interests	0.1	-	-0.1	
Adjusted EPS attributable to shareholders of Julius Baer Group Ltd. (CHF)	1.79	2.20	1.51	-18.5
Key performance ratios				
Cost/income ratio[4]	71.0%	67.3%	74.3%	-
Gross margin (basis points)	83.2	91.5	79.6	-
Pre-tax margin (basis points)	23.0	29.8	19.9	-
Tax rate	16.9%	17.7%	16.3%	-

[1] Adjusted results derived by excluding from the reviewed IFRS financial statements the integration and restructuring expenses as well as the amortisation of intangible assets related to previous acquisitions or divestments and the taxes on those respective items.

[2] Including provisions and losses.

[3] Reconciliation with adjusted net profit for the Group is detailed in the table on page 8.

[4] Calculated using adjusted operating expenses, excluding provisions and losses.

Net interest and dividend income declined by 7% year on year to CHF 515 million. It included CHF 162 million of dividend income on trading portfolios, up 2% year on year. Excluding this item, underlying net interest and dividend income decreased by 10% to CHF 354 million. Underlying net interest income benefitted from an increase in interest income on loans (driven by higher US interest rates) and interest income on debt instruments at FVOCI[5] (following an increase in investments of excess deposits into the Group's treasury portfolio, at higher rates). However, this benefit was more than offset by an increase in interest expense on deposits from customers.

Net trading income decreased by 4% year on year to CHF 197 million. Including the dividend income related to trading portfolios, underlying net trading income declined by 2% to CHF 359 million.

Other ordinary results (which among other items includes income from associates, rental income and net gains/losses from the disposal of investments from the financial assets portfolio) grew by CHF 14 million year on year to CHF 28 million.

Net credit recoveries on financial assets improved from close to zero in H1 2018 to CHF 3 million.

Operating expenses according to IFRS rose by 3% year on year to CHF 1,281 million. This was driven by a 1% decrease in *personnel expenses* to CHF 835 million (despite the inclusion of CHF 17 million of one-off redundancy costs related to the cost-reduction programme), a 1% increase in *general* expenses to CHF 324 million, a 22% increase in amortisation to CHF 74 million and a 163% increase in *depreciation* to CHF 49 million. The first-time application of IFRS 16 (Leases) resulted effectively in a shift of CHF 31 million from general expenses to depreciation. Compared to the second half of 2018, IFRS operating expenses grew by 4%.

BREAKDOWN OF ASSETS UNDER MANAGEMENT BY CURRENCY

	30.06.2019	30.06.2018	31.12.2018
USD	47%	46%	46%
EUR	21%	23%	22%
CHF	10%	10%	10%
GBP	4%	4%	4%
HKD	3%	4%	3%
SGD	2%	1%	2%
RUB	1%	1%	1%
CAD	1%	1%	1%
Other	11%	10%	11%

As in previous years in the analysis and discussion of the results in the Business Review, *adjusted operating expenses* exclude acquisition-related integration and restructuring expenses (CHF 9 million, H1 2018: CHF 4 million, H2 2018: CHF 6 million) as well as the acquisition-related amortisation of intangible assets (CHF 43 million, H1 2018: CHF 36 million, H2 2018: CHF 37 million).

Compared to the first half of 2018, adjusted operating expenses increased by 2% to CHF 1,229 million, as the 2% decrease year on year in adjusted personnel expenses, to CHF 833 million, and the unchanged adjusted general expenses of CHF 317 million, were more than offset by a 163% increase in adjusted depreciation to CHF 49 million, and a 27% increase in adjusted amortisation to CHF 31 million. Compared to the second half of 2018, adjusted operating expenses increased by 4%.

At 6,768 full-time equivalents (FTEs), personnel has risen by 2%, or 125 FTEs, in the twelve months since 30 June 2018, and by 1%, or 75 FTEs, in the six months since the end of 2018. This included 55 FTEs following the first-time consolidation of NSC Asesores in March 2019. Compared to the first half of 2018, the monthly average number of employees grew by 5% to 6,780. At the end of June 2019, the Group employed 1,490 relationship managers (RMs), including 20 at NSC Asesores. This represents an increase of 15 RMs since 30 June 2018 and a decrease of 11 RMs since the end of 2018.

Despite the 5% rise year on year in average staff levels and the inclusion of CHF 17 million of one-off severance costs related to the cost-reduction programme, *adjusted personnel expenses* declined by 2% year on year to CHF 833 million, following a decrease in performance-related remuneration.

Adjusted general expenses were unchanged year on year at CHF 317 million, despite a CHF 20 million increase in provisions and losses (to CHF 22 million) but helped by the first-time application of IFRS 16 (Leases).

[5] Fair value through other comprehensive income.

ASSETS UNDER MANAGEMENT

	30.06.2019 CHF bn	30.06.2018 CHF bn	31.12.2018 CHF bn	Change to 31.12.2018 in %
Assets under management	412.3	399.9	382.1	7.9
Change through net new money	*6.2*	*9.9*	*7.5*	-
Change through market and currency impacts	*25.6*	*-2.8*	*-23.9*	-
Change through acquisition	*3.0*	*4.5*	-	-
Change through divestment	*-1.7*[1]	*-0.0*[1]	*-1.3*[1]	-
Change through other effects	*-2.8*[2]	*-0.0*[2]	*-0.1*[2]	-
Average assets under management (in period)	408.3	391.1	396.6	2.9

[1] Assets under management were affected by the Group's decision to discontinue its offering to clients from a number of selected countries.
[2] Includes assets which have been reclassified following the completed roll-out of the new client advisory models in Switzerland and continental Europe.

Depreciation grew by 163% year on year to CHF 49 million, mainly as a consequence of IFRS 16 (Leases), and *adjusted amortisation* rose by 27% to CHF 31 million. The growth in adjusted amortisation mainly reflects the rise in IT-related investments in recent years, including the completion in 2018 of the new core banking system in Singapore and Hong Kong.

As a result, the Group achieved an adjusted *cost/income ratio*[6] of 71.0% (H1 2018: 67.3%, H2 2018: 74.3%).

As announced last February, while continuing its strategic growth investments, Julius Baer has put in place a CHF 100 million gross cost-reduction programme which encompasses a number of structural measures, including a decrease in the Group's headcount by a net 2% between the end of 2018 and the end of 2019. The execution of this programme is on track, and the results from these structural cost reductions are expected to start materialising partly in the second half of 2019 and fully in the 2020 financial results, with the reconfirmed aim to reduce the adjusted cost/income ratio below 68% in 2020 – assuming no meaningful deterioration relative to the 2018 average market conditions.

IFRS *profit before taxes* declined by 23% year on year to CHF 418 million. As income taxes were 24% lower at CHF 75 million, *net profit for the Group* as well as net profit attributable to shareholders of Julius Baer Group Ltd. decreased by 23% to CHF 343 million, and EPS also by 23% to CHF 1.58. Compared to the second half of 2018, IFRS profit before taxes grew by 19%, and net profit and EPS by 18%.

Adjusted profit before taxes of CHF 470 million represented a drop of 19% year on year (but an increase of 19% compared to H2 2018), resulting in an adjusted pre-tax margin[7] of 23.0 bp (H1 2018: 29.8 bp, H2 2018: 19.9 bp). The related income taxes were CHF 79 million, corresponding to a tax rate of 16.9% (H1 2018: 17.7%, H2 2018: 16.3%).

BREAKDOWN OF ASSETS UNDER MANAGEMENT BY ASSET MIX

	30.06.2019	30.06.2018	31.12.2018
Equities	27%	28%	26%
Investment funds	26%	26%	25%
Bonds/convertibles	20%	19%	20%
Client deposits	17%	18%	19%
Structured products	5%	6%	5%
Money market instruments	4%	3%	4%
Other	1%	0%	1%

[6] Total operating expenses divided by total operating income; calculated using adjusted operating expenses (as defined in footnote 1), excluding provisions and losses.
[7] Annualised adjusted profit before taxes (using adjusted operating expenses as defined in footnote 1), divided by monthly average assets under management.

Adjusted net profit for the Group[8] came to CHF 391 million, a decrease of 19% year on year (but an improvement of 18% compared to H2 2018). Adjusted EPS attributable to shareholders was CHF 1.79, a decline of 18% from H1 2018 (but an increase of 18% compared to H2 2018).

The adjusted return on CET1 capital[9] was 28% (H1 2018: 36%, H2 2018: 24%).

BALANCE SHEET AND CAPITAL DEVELOPMENT

Since the end of 2018, *total assets* increased by 1% to CHF 104 billion. *Loans* grew by 3% to CHF 47 billion – comprising over CHF 37 billion of Lombard loans (+4%) and over CHF 9 billion of mortgages (-1%). As the *deposits from customers* position declined by 1% to CHF 71 billion, the loan-to-deposit ratio[10] went up to 66% (end of 2018: 63%). *Equity attributable to shareholders of Julius Baer Group Ltd.* grew by 1% to CHF 6.1 billion.

Since the end of 2018, BIS CET1 capital increased by 4% to CHF 2.8 billion. In June 2019, the Group placed CHF 350 million of perpetual Additional Tier 1 (AT1) subordinated bonds with a coupon of 2.375%. As a result of the increase in BIS CET1 capital and the AT1 bond issue, BIS tier 1 capital grew by 12% to CHF 4.4 billion and BIS total capital by 13% to CHF 4.5 billion.

As risk-weighted assets went up by 2% to CHF 21.7 billion, the *BIS CET1 capital ratio* rose to 13.1% (compared to 12.8% at the end of 2018) and the *BIS total capital ratio* to 20.7% (up from 18.7% at the end of 2018). The leverage exposure grew by 1% to CHF 103 billion, resulting in the Tier 1 leverage ratio rising to 4.3% (compared to 3.9% at the end of 2018).

At these levels, the Group continues to be solidly capitalised: the CET1 and total capital ratios remain well above the Group's own floors of 11% and 15% and significantly in excess of the regulatory minimums of 8.2% and 12.4%, respectively, while the Tier 1 leverage ratio is comfortably above the 3.0% regulatory minimum.

[8] Cf. footnote 1 to the table on page 5

[9] Annualised adjusted net profit attributable to shareholders of Julius Baer Group Ltd., divided by the average of CET1 capital at the start of the period and at the end of the period.

[10] The loans to customers position divided by the deposits from customers position.

RECONCILIATION CONSOLIDATED FINANCIAL STATEMENT[1] IFRS TO ADJUSTED NET PROFIT

	H1 2019 *CHF m*	H1 2018 *CHF m*	H2 2018 *CHF m*	Change *to H1 2018 in %*
IFRS net profit attributable to shareholders of Julius Baer Group Ltd.	**343.1**	443.8	291.6	-22.7
Non-controlling interests	-0.2	-	-0.1	
IFRS net profit for the Group	**342.9**	443.8	291.6	-22.7
Amortisation of intangible assets related to previous acquisitions or divestments[2]	**43.2**	36.2	37.4	19.3
Total adjustment to personnel expenses	2.0	1.1	1.5	73.7
Total adjustment to general expenses	7.2	2.9	4.2	148.8
Integration and restructuring expenses	**9.1**	4.0	5.6	127.8
Adjustments to operating expenses and profit before taxes	**52.3**	40.2	43.0	30.1
Tax impact	**-4.7**	-4.3	-4.6	9.1
Adjustments to net profit	**47.6**	35.9	38.5	32.7
Adjusted net profit for the Group	**390.5**	479.6	330.0	-18.6

[1] Detailed financial statements are available in the Half-Year Report 2019.

[2] Further details on transaction-related amortisation can be found in the presentation to investors, analysts and media.

CONSOLIDATED BALANCE SHEET

	30.06.2019 *CHF m*	30.06.2018 *CHF m*	31.12.2018 *CHF m*	Change *to 31.12.2018 in %*
Assets				
Due from banks	9,405.7	11,863.8	9,228.8	1.9
Loans to customers[1]	46,665.2	46,661.6	45,323.2	3.0
Trading assets	9,971.2	9,411.0	8,415.6	18.5
Financial assets measured at fair value through other comprehensive income	15,120.6	13,044.1	14,587.6	3.7
Goodwill and other intangible assets	2,978.2	2,935.5	2,932.2	1.6
Other assets	19,513.9	19,624.1	22,411.1	-12.9
Total assets	**103,654.9**	103,540.2	102,898.3	0.7
Liabilities and equity				
Due to banks	6,589.7	8,219.5	6,892.2	-4.4
Deposits from customers	71,084.5	70,236.7	71,506.4	-0.6
Financial liabilities designated at fair value	14,009.7	13,824.8	13,703.6	2.2
Other liabilities	5,884.2	5,470.5	4,754.2	23.8
Total liabilities	97,568.1	97,751.5	96,856.4	0.7
Equity attributable to shareholders of Julius Baer Group Ltd.	6,077.5	5,788.7	6,039.9	0.6
Non-controlling interests	9.3	-	1.9	379.1
Total equity	6,086.7	5,788.7	6,041.9	0.7
Total liabilities and equity	**103,654.9**	103,540.2	102,898.3	0.7
Key performance ratios				
Loan-to-deposit ratio	66%	66%	63%	-
Book value per share outstanding (CHF)[2]	28.7	27.2	28.4	1.1
Return on tangible equity (RoTE) annualised[3]	25%	33%	22%	-
Return on common equity Tier 1 capital (RoCET1)[4]	28%	36%	24%	-
BIS statistics				
Risk-weighted assets	**21,699.8**	19,471.0	21,338.4	1.7
BIS total capital	**4,495.7**	3,934.9	3,991.2	12.6
BIS CET1 capital	**2,836.8**	2,676.6	2,731.2	3.9
BIS total capital ratio	**20.7%**	20.2%	18.7%	-
BIS CET1 capital ratio	**13.1%**	13.7%	12.8%	-

1 Mostly Lombard lending and mortgages to clients.
2 Based on shareholders' equity.
3 Adjusted net profit attributable to shareholders/(half-yearly) average shareholders' equity less goodwill and other intangible assets.
4 Adjusted net profit attributable to shareholders/(half-yearly) average CET1 capital.

DEVELOPMENTS IN FIRST HALF 2019

We made considerable progress in implementing our strategy of focus, investment and growth, further strengthening our Group's presence along our market priorities. At the same time, we continued to complement our holistic offering in line with client preferences, thus ensuring its relevance and accessibility in an increasingly digital world.

EVOLVING STRATEGIC PRIORITIES

Our Group's strategy is built around three principles: delivering a best-in-class wealth management experience to our clients, being the most admired and respected firm in our sector and pursuing sustainable profitability. These principles are designed to ensure industry leadership in the world of tomorrow.

In order to fully capture the attractive long-term growth potential in our industry, we have defined three strategic action items for the years to come, which will drive the evolution and ensure the future-proofing of our business. *Smarter market coverage* ensures that we grow in or develop those markets which yield the best returns for our company. *Holistic and personalised advice* differentiates Julius Baer in offering wealthy clients relevant and valuable solutions in an increasingly commoditised world. And *technology and digital transformation* forms the core of our drive to pioneer innovation in wealth management, in order to fulfil client requirements and to further improve our efficient operation today and in the future.

TECHNOLOGY, PLATFORM AND INNOVATION

Julius Baer's IT strategy is powered by three operational hubs, located in Switzerland, Luxembourg and Asia. These platforms ensure utmost flexibility in adapting our business model to evolving local requirements and client-specific preferences as well as flexible interfaces to third-party FinTech solutions.

In all three hubs, digitalisation continues to be the focus of various initiatives towards new and further improved tools and channels. The overarching aim is to continuously improve the client and user experience throughout all stages of the client journey. Leveraging the high and growing e-/mobile banking usage rate among clients booked in Switzerland and Guernsey, similar upgraded applications will gradually be introduced to our clients in Asia in summer this year. In parallel, significant investments have been made in digital services that enable clients to interact with the Bank in a more convenient way.

Through our partnership with Switzerland's *F10 FinTech Incubator & Accelerator* association, we remain close to the rapidly evolving local FinTech ecosystem. This allows us to evaluate novel approaches and solutions in a growing number of application areas for possible integration into our business. Internal initiatives in the areas of client management and operational efficiency have resulted in a growing number of robotics solutions across the Group.

At the end of February, Julius Baer announced it will enter into a partnership with *SEBA Crypto AG* of Zug, Switzerland, to take advantage of their innovative platform and capabilities in order to meet the growing demand of Julius Baer clients for leading-edge solutions in the area of digital assets. Through this partnership, which will come into effect upon the granting of the FINMA banking and securities dealer licence to SEBA, Julius Baer plans to extend its service range providing storage, transaction and investment solutions for digital assets.

Upon completion last year of the MIFID II implementation in the Group's European locations, the regulatory focus has now shifted towards Swiss consumer protection legislation FinfraG (infrastructure) and FIDLEG (services), which are expected to enter into force on 1 January 2020. As FIDLEG has a similar aim as MIFID II, the gap analysis was completed in H1 2019 and the functionality and scope of our *Digital Advisory Suite* (see page 15) has been updated accordingly.

Risk management remains an area of focus. At the end of 2019, the ongoing three-year client risk review project will be completed. This will enable us to control risk even more effectively, in line with the highest quality standards of our industry. At the same time, it will pave the way for data-driven, more targeted service and advice for clients.

In parallel, the Group's compliance framework has been further strengthened in both scope and effectiveness. Apart from the increasing use of automated monitoring and sophisticated analytics tools, compliance awareness and knowledge among employees remains key. Related compliance training efforts have been rolled out to the entire Group – relationship managers (RMs) and other client-facing staff in particular – including mandatory certification programmes and corresponding refresher courses.

SWITZERLAND

Switzerland is Julius Baer's home market and the Group's main booking centre. As the leading Swiss wealth management group, we serve a significant number of domestic clients and resident clients with an international background. The country's location in the heart of Europe makes it easily accessible from all over the world and attracts a diverse population of wealthy individuals. Its notable cultural and linguistic diversity is matched by our network of 14 locations, thus ensuring client proximity, which is an important aspect of our value proposition.

Switzerland is considered a relatively saturated banking market. However, its high degree of wealth concentration and the level of sophistication that goes along with it provide ample opportunities for us as a pure wealth manager and for our comprehensive offering encompassing wealth management, wealth planning and wealth financing. Our clients value the holistic quality of our structured advisory approach *Julius Baer – Your Wealth*. Adaptive by design, it serves our clients through all stages of their lives and ensures optimal wealth structures today and over generations.

Your Wealth also enables us to fully harness the Group's broad range of expertise for the benefit of our clients. In order to sensitise existing as well as new clients to key interdependencies in managing personal wealth and the resulting long-term implications, we launched a year-long comprehensive information campaign for clients. Topics we cover comprise home market bias, responsible and *Next Generation* investments as well as real estate, including all associated aspects from taxation and succession planning to household diversification.

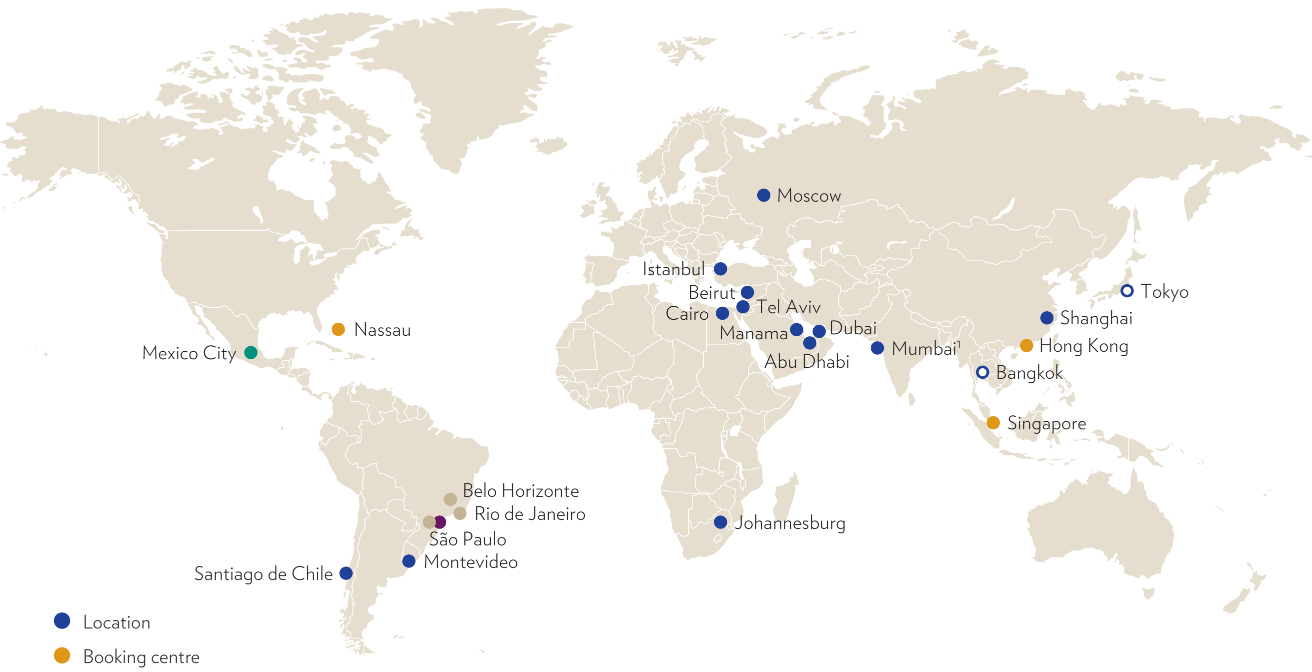
In the first six months of the year, asset gathering remained challenging. Clients' relatively cautious stance weighed on both transaction-related and asset-based income. However, with our focused approach and stringent market positioning in the areas described above, we were able to counter these developments.

GLOBAL PRESENCE

EUROPE

SWITZERLAND

OUR LOCATIONS IN OTHER PARTS OF THE WORLD



- Location
- Booking centre
- GPS, a fully owned subsidiary
- Reliance Group, majority participation of 95% and fully consolidated subsidiary
- NSC Asesores, majority participation of 70%
- Strategic partnerships in Bangkok, Thailand, with The Siam Commercial Bank and in Tokyo, Japan, with Nomura Holdings Inc.
- Kairos Investment Management S.p.A., a fully owned subsidiary
  Julius Baer is present in Milan with Julius Baer Fiduciaria S.p.A.

[1] Additional advisory locations in Bangalore, Chennai, Kolkata and New Delhi

Fully aligned with our *Next Generation* investment philosophy, Julius Baer again opened a window to the future at the second *Julius Baer Swiss E-Prix,* which took place in the country's capital of Berne on 22 June 2019. As part of our global partnership with *ABB FIA Formula E*, it gave us the opportunity to share with a larger audience our ambition to help shape, and benefit from, the sustainable structural changes of tomorrow. Beyond the obvious topic of mobility, our campaign centred on the motto *How we invest today is how we live tomorrow* and touched on topics such as energy transition, future cities and digital disruption.

EUROPE

Europe is an important region for our Group where we see good growth opportunities. In line with our clients' preferences, we serve the region both from international Group locations as well as locally from our advisory locations across the continent. While our private client business in Germany is booked locally, our booking centre in Luxembourg serves as the hub for our other European business. It supports our European operating model by providing unified booking centre capabilities for private clients and intermediaries. In our effort to streamline our European operations further, the Monaco booking centre will be consolidated into our European hub in Luxembourg in the course of the year.

The first six months of 2019 saw a stable continuation of net new money inflows from European clients, albeit a bit below the levels of H1 2018. Last year's introduction of MIFID II continued to impact client behaviour, which is particularly evident in the increased share of mandate-based solutions. Higher assets under management contributed to overall stable revenues.

Germany is one of the most attractive wealth management markets in Europe and is served from a number of Group locations. Despite being fragmented and mature, the German market continues to show sustainable growth rates. The strong reputation of the Julius Baer brand underlines the competitive market standing we have achieved through the successful expansion of our franchise in recent years.

Client proximity and local focus are differentiating factors, essential for retaining existing clients and winning new ones. Following last year's opening of new locations in Hanover and Berlin, our local network now comprises ten offices across the country.

Frankfurt-based *Bank Julius Bär Deutschland AG's* locally booked private client business showed robust momentum in H1 2019. Backed by a rising RM base, we achieved gratifying net new money inflows, albeit at a somewhat slower pace than a year ago. Higher assets under management and increased mandate penetration contributed to overall stable revenues.

In ***Spain***, the seeming dominance of a few large universal banks obscures the true business potential for clients seeking pure wealth management services. Capitalising on Julius Baer's growing reputation in the Spanish market, we complemented our local presence with a new office in Barcelona at the beginning of April 2019. The greater number of RMs, also in our Madrid office, resulted in continued positive net new money inflows, contributing to higher asset levels.

We continued to outpace the overall market growth in ***Monaco*** in H1 2019, thus confirming our position as the leading wealth manager in the principality. The planned consolidation of our locally booked private clients into the Group's European hub in Luxembourg will help us leverage the wealth management capabilities of this important location even further. The new advisory service models we are introducing there will benefit not only our large and growing local client base but also private clients from selected markets in Western and Eastern Europe, the Middle East and Latin America.

Italy is served from various Swiss locations. Local activities centre on specialised wealth and asset manager *Kairos* and on *Julius Baer Fiduciaria S.p.A.* in Milan, one of the largest fiduciary companies in the country. Italy is one of the largest European markets in terms of savings, with significant potential for risk diversification as well as geographic diversification of the local asset base. However, persistent political uncertainty dampened business momentum and net new money development in the first six months of the year.

The investment products of our Italian asset management subsidiary *Kairos* performed very well in H1 2019. However, following last year's decline in performance, Kairos suffered net outflows in the first six months of the year. As announced in May 2019, Julius Baer is currently reviewing strategic options for *Kairos*, in line with its strengthened focus on pure wealth management.

Our local business activities in the ***United Kingdom*** showed attractive growth rates in the first six months of the year. We continued to strengthen our RM base, particularly in our offices in Manchester, Leeds and Edinburgh. This regional presence was complemented by a new office in Belfast, which became operational in the second quarter of 2019.

The regions outside of London and the south east account for two thirds of the UK's wealth. Its growth is mainly driven by an innovative, privately owned corporate sector, which so far has largely defied Brexit-related uncertainties. This client segment of entrepreneurs, business owners and wealthy individuals shows a comparatively high propensity for wealth planning and discretionary solutions. This favours our compelling and growing offering in these areas, contributing to our distinct standing in the marketplace. On the back of rapidly increasing mandate penetration, the share of asset-based income further increased, contributing to the quality of revenues and stable margins.

Our business in the smaller yet dynamic wealth management market of ***Ireland*** is served from Dublin. Net new money inflows were strong in H1 2019, contributing to higher asset levels and rising revenues.

RUSSIA, CENTRAL & EASTERN EUROPE

This geographic area continues to be a key region for our growth investments. Given persistent geopolitical, regulatory and economic uncertainties, however, the business environment was challenging in H1 2019. Continued deleveraging in clients' portfolios and the negative interest rate environment affected net new money inflows, which nevertheless were positive. Assets under management remained well supported, contributing to stable revenues.

The size of our franchise, our brand recognition and our market reach combined with exemplary client proximity continue to set us apart. Our aim is to gain market share, also by continuously expanding our base of RMs. Our local presence in ***Russia*** has been significantly strengthened by the upgrade of our Moscow office with a new advisory licence. This will allow us to increase our client proximity and service offering in what is our biggest target market in the region. In Central and Eastern Europe, we focus on serving clients in the Czech Republic, Hungary and Poland. In addition to our office in Moscow, clients from this attractive region are also served from various Group locations in Europe, the Middle East and Asia.

ASIA

Asia features many of the world's fastest growing countries for wealth creation. As a result, the region by now not only harbours the largest number of ultra-high net worth individuals (UHNWIs) and high net worth individuals (HNWIs) worldwide but also continues to outpace all other regions in the growth of these client segments' wealth.

Julius Baer is one of the region's largest and most focused wealth management providers, and therefore we call Asia the Group's second home market. As the region's base of investable assets rises, so does the degree of sophistication of existing and new clients. Their rising propensity for holistic wealth services and customised solutions makes us the first address for private clients in search of a trusted advisor.

Julius Baer serves this diverse region from a number of locations, including Singapore, Hong Kong and India, and via joint ventures from Bangkok and Tokyo. We are currently focusing on five key markets: mainland China, Hong Kong, Indonesia, Singapore and India. Other promising markets in the region we aim to develop include Thailand, the Philippines as well as Japan.

The core banking platforms of our local booking centres of ***Singapore*** and ***Hong Kong***, introduced in March last year, continued to be enhanced with new functionalities. One key area is the introduction of tools to further automate and grow our discretionary mandate solutions. Locally booked clients account for about a quarter of the Group's total assets under management.

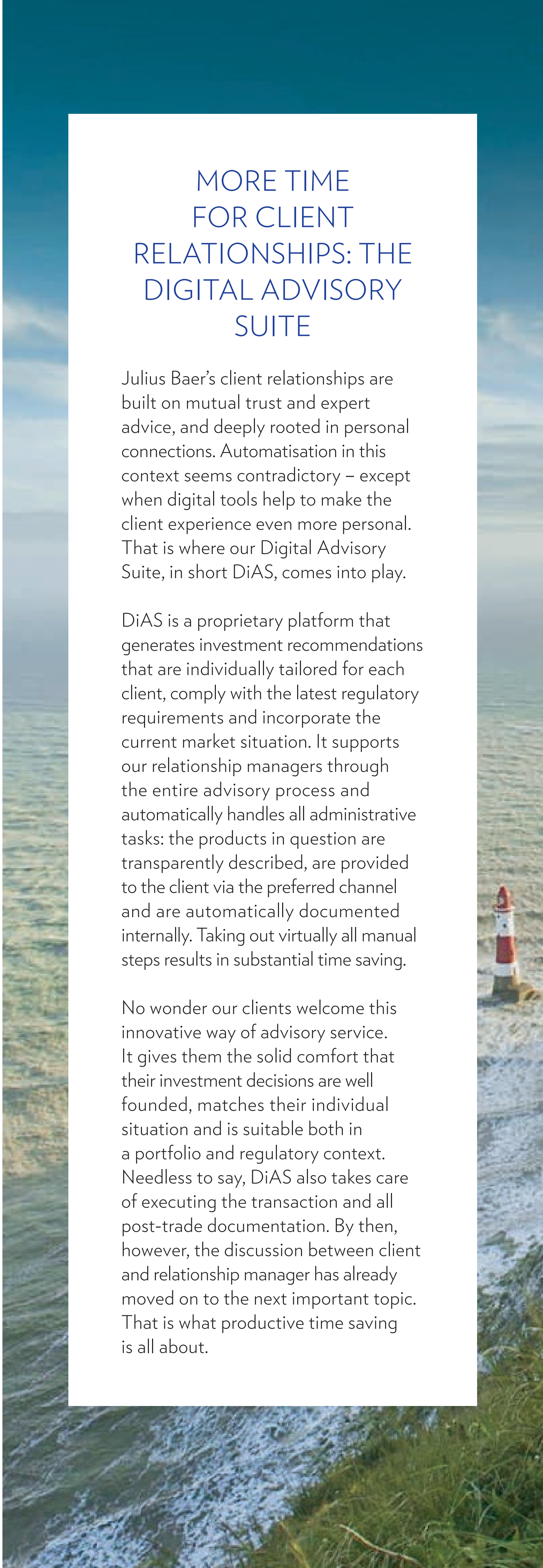
To complement our organic growth in the region, we seek strategic opportunities via partnerships and other inorganic initiatives. After having received the necessary approvals and licences, our joint venture with The Siam Commercial Bank (SCB) in ***Thailand***, *SCB-Julius Baer Securities Co., Ltd.*, became operational in April. It combines SCB's strong reputation and deep domestic knowledge with Julius Baer's pure wealth management expertise, resulting in a competitive offering of international wealth management capabilities for Thai clients in Asia. The Thai wealth management landscape and the market for luxury goods was analysed in a dedicated *SCB Julius Baer Wealth Report: Thailand* launched in June 2019.

Our strategic partnership with Nomura in ***Japan*** rapidly gained traction. *Julius Baer Nomura Wealth Management Ltd.*'s aim is to introduce our bespoke discretionary mandate services to Nomura's local high net worth client base. At the end of May 2019, the two partners held a joint client event to launch the fifth annual *Julius Baer Wealth Report: Japan* at the Swiss embassy in Tokyo.

Client confidence improved as the year progressed, reversing the trend of deleveraging in their portfolios. The demand for value-adding services continued to increase mandate penetration. Net new money inflows markedly improved year on year, contributing to higher assets under management and rising revenues.

In recognition of our long-standing dedication to the ***Philippines*** and the unwavering trust from clients, Julius Baer was named *Best Private Bank – Philippines International* for the second consecutive time by *Asian Private Banker* at its *Awards for Distinction 2018* ceremony.

Julius Baer is one of the largest and best-established foreign wealth managers in ***India***. The domestic Indian market is covered from the five major cities of Mumbai, New Delhi, Kolkata, Chennai and Bangalore. In addition, Julius Baer serves a large and rising global base of non-resident Indians from different Group locations in Asia, the Middle East and Europe. This *Global India* approach is a key competitive advantage for Julius Baer and a significant source of further growth. Business momentum continued to be very strong in H1 2019 and we successfully broadened our RM base.



MORE TIME FOR CLIENT RELATIONSHIPS: THE DIGITAL ADVISORY SUITE

Julius Baer's client relationships are built on mutual trust and expert advice, and deeply rooted in personal connections. Automatisation in this context seems contradictory – except when digital tools help to make the client experience even more personal. That is where our Digital Advisory Suite, in short DiAS, comes into play.

DiAS is a proprietary platform that generates investment recommendations that are individually tailored for each client, comply with the latest regulatory requirements and incorporate the current market situation. It supports our relationship managers through the entire advisory process and automatically handles all administrative tasks: the products in question are transparently described, are provided to the client via the preferred channel and are automatically documented internally. Taking out virtually all manual steps results in substantial time saving.

No wonder our clients welcome this innovative way of advisory service. It gives them the solid comfort that their investment decisions are well founded, matches their individual situation and is suitable both in a portfolio and regulatory context. Needless to say, DiAS also takes care of executing the transaction and all post-trade documentation. By then, however, the discussion between client and relationship manager has already moved on to the next important topic. That is what productive time saving is all about.

Julius Baer India excelled in several categories at the *Euromoney Awards 2019,* including number one rankings in *Technology*, *International Clients* and *Social Impact Investing*. In the categories *High Net Worth Clients* and *Best Private Banking Services Overall*, Julius Baer ranked second and third, respectively.

EASTERN MEDITERRANEAN, MIDDLE EAST & AFRICA

Despite the challenging geopolitical tensions, subdued economic expansion and ever changing regulatory regimes, we were able to maintain positive business momentum across the Eastern Mediterranean region as well as our chosen markets in the Middle East and Africa. We serve this diverse region primarily from our main regional hub in Dubai, complemented by local offices in Istanbul, Beirut, Manama, Abu Dhabi, Tel Aviv and Cairo, as well as from a growing number of Group locations in Europe and Asia. At the beginning of April, we further strengthened our presence in ***South Africa*** by complementing our existing representative office in Johannesburg with a fully licensed advisory office.

We successfully broadened our base of experienced RMs in several teams in H1 2019, which contributed to attractive net new money inflows and higher asset levels.

Julius Baer ranks among the top foreign wealth managers in ***Israel***. We serve this appealing but highly competitive market from a number of Group locations and locally from our Tel Aviv office. We target Israel's significant wealth creation both domestically and via the global Israeli community. On the back of an expanding domestic economy and particularly tech-oriented sectors, net new money inflows remained promising in H1 2019, contributing to higher asset levels and rising revenues.

LATIN AMERICA

Latin America is a demographically young region with a well-educated middle class and rapidly growing population of entrepreneurs. The region's considerable economic progress, however, is more often than not clouded by numerous obstacles. Notwithstanding its significant diversity and challenges, we firmly believe in the business potential the region has to offer.

We are serving Latin American private clients both locally and increasingly from other key Group locations. This combination of local proximity with our international investment expertise differentiates us from most local providers. As a major international wealth manager in Latin America, our holistic approach to investment advice and our comprehensive offering appeal to the region's HNWIs and UHNWIs.

We continued to align our business strategy with the aim to reduce complexity and risk. This again limited the overall business potential in the first six months of the year, but paves the way for exploring new growth possibilities in certain key markets. The performance we achieved in our core markets was very satisfactory.

In ***Brazil***, Julius Baer is the largest local independent wealth manager and operates under the *GPS* and *Reliance* brands. The collaboration between the two fully owned subsidiaries continued to strengthen both operationally and in terms of client offering. Clients' growing interest in diversifying their assets geographically and by asset classes favoured our comprehensive discretionary mandate solutions. In addition, we broadened our offering of selected alternative investments. With the emerging segment of younger, tech-savvy investors in mind, at the beginning of May 2019 we joined forces with the leading local digital investment advisor Magnetis, in which we plan to take a minority stake. The aim is to create the best digital experience for a broad range of investors.

Our activities in ***Mexico*** continued to develop very favourably. On the back of our growing RM base and brand recognition, business with Mexican clients yielded substantial net new money inflows. Our cooperation with *NSC Asesores*, one of the largest independent wealth management companies in Mexico, reached a new level at the beginning of March 2019. By acquiring an additional 30% stake, Julius Baer became majority shareholder with a 70% participation. This step will significantly increase the level of cooperation for the benefit of Mexican clients of both companies.

INTERMEDIARIES BUSINESS

In order to further strengthen our collaboration with intermediaries, i.e. external asset managers (EAMs) and external financial advisors (EFAs), the Bank created the new front unit Intermediaries & Global Custody, effective 1 January 2019. The aim is to deploy the Group's solution capabilities – including our investment management and wealth planning expertise, our product structuring capabilities and our connectivity and execution services – to the full benefit of the intermediaries and their clients.

During H1 2019, we were able to further grow the Intermediaries & Global Custody franchise. Particularly strong net new money inflows originated from strategic growth markets in the Asia Pacific region and from Europe. In close collaboration with the Bank's private client business, we were able to expand our activities in Asia, the emerging markets and Europe as well as selectively in Switzerland.

Technology is a significant component of our service offering to intermediaries. Julius Baer provides a comprehensive digital platform while simultaneously expanding technological capabilities across the Group's different booking centres. A particular emphasis is placed on connectivity services, which allow intermediaries to connect their systems more efficiently with ours for automated end-to-end processing.

JULIUS BAER'S HOLISTIC SERVICE EXPERIENCE AND PRODUCT OFFERING

Julius Baer's activities are centred on the deep understanding of clients' needs in respect to wealth accumulation, wealth preservation and wealth transfer to next generations. *Julius Baer – Your Wealth* is our holistic client advisory approach to systematically derive the appropriate financial solutions for each client based on their unique situation, encompassing *wealth planning*, *wealth management* and *wealth financing*.

The result is a service experience that holistically matches the individual preferences of our clients – taking into account their financial, business and personal goals. To achieve this, we draw from a wealth of dedicated resources provided by our specialised units Investment Management (IM), Advisory Solutions (AS) and Markets, complemented by Credit and Global Custody.

INVESTMENT MANAGEMENT

IM is an important contributor of discretionary mandate and related investment solutions within *Julius Baer – Your Wealth*. Our product and investment experts around the globe have decades of experience in managing wealth for our high net worth private clients on a discretionary basis.

Our investment decisions are backed by a revolving, multilayer asset allocation process under the lead of the Chief Investment Officer (CIO). By consistently implementing our investment expertise, we aim to deliver consistent risk-adjusted investment returns for our clients.

We are taking firm steps to ensure that IM remains a resourceful partner for our clients, by

- complementing our proven traditional multi- and single-asset-class solutions through value-adding alternative investments such as private equity and hedge funds;
- strengthening our offering of outsourced CIO services, giving third-party providers access to professional support in managing their portfolios in an increasingly complex investment environment;
- digitalising our investment processes further, which provides us greater efficiency and scalability in matching our solutions with client preferences.

ADVISORY SOLUTIONS

A key element of AS's mandate is to support our front units in delivering *Julius Baer – Your Wealth* in a concerted manner across functions. This support is built on three elements: *Holistic Advice,* the related *Advisory Mandates* and the underlying *Digital Advisory Platform*.

In order to assess our clients' needs for financial solutions, we adopt our structured *Holistic Advice* approach. Our RMs are supported in this service by Julius Baer experts in the areas of *wealth planning, wealth management* and *wealth financing*. So far, we have rolled out our *Holistic Advice* approach in Switzerland and the UK.

An important part of *Julius Baer – Your Wealth* is the expert investment advice we provide clients via our suite of *Advisory Mandates*. They encompass services from portfolio monitoring and personalised investment ideas to tailor-made strategies. For instance, our Advice Advanced and Advice Premium advisory mandates are designed to offer clients financial advice from experienced and dedicated experts. Within a staggered approach, the rollout of the new advisory mandates for the Middle East offices was launched this year.

Our client advisory approach is supported by our proprietary *Digital Advisory Platform,* which enables us to share opportunities and address risks with our clients, in tune with financial market development. A key element is our *Digital Advisory Suite* (DiAS, see also page 15). DiAS has been successfully implemented in European locations with clients booked in Luxembourg, and recently in Switzerland.

Our comprehensive *Wealth Planning* services are supported by a growing network of internal and external specialists. In recent months, we have further strengthened our local footprint in the UK,

INVESTMENT RESEARCH: FIRST HALF 2019 IN REVIEW

In unusual consensus, market's verdict on the first half of 2019 seems clear: it was all about trade relations, in particular those between the world's two largest economic players today – the US and China. Despite reaching an impasse in talks last year, the signals were constructive from both sides at the outset of 2019. Accordingly, risk assets experienced one of the strongest quarters ever. A trade deal seemed in the making and the world was in for a splendid summer 2019.

MUSICAL CHAIRS

Then suddenly the music stopped. Or rather it 'was tweeted off' when the US declared the agreed deal not renegotiable, and markets tanked severely in May. However, in the run-up to the G20 summit in June, further supported by conciliatory gestures there, the situation calmed down and risky assets recovered.

THE UNDERLYING STORIES: GRIDLOCK, TECH WAR AND TIGHT MONEY

But then again, maybe the world is not as simple as the trade tension narrative suggests. In order to understand the financial world on the verge of the 2020s, one has to acknowledge that there have been deeper tensions in the economy – which are likely to persist:

1. Gridlock: Political decision-making has been hampered by the stalemate in many countries – most prominently in the US, where the Republican president faces a divided Congress. This leaves little room to manoeuver in the traditional policy framework. Trade policy is one of the few areas left to achieve a domestic impact.
2. Tech war: The race for technological supremacy is far-reaching and cannot simply be resolved by a trade deal. This pertains to issues of intellectual property and market access between the US and China.
3. Tight money: This has been the biggest stumbling block for financial markets in the past months. While the risks to sentiment and growth increased overall, global central banks mused about tightening money supply – in particular the Federal Reserve.

Hence, when assessing the roller coaster ride in the markets since the fourth quarter of 2018, the trade tensions have been rather a headline risk. There have been far more profound topics weighing on financial markets than this. While political gridlock and competition in technology may not go away soon, most hopes are currently centred on more benign monetary conditions. After Asian and European central banks had signalled their inclination for more accommodative policies, US monetary authorities followed in June. This should ease some of the fears that have haunted markets in the past months.

Germany and Brazil. This enables us to provide increasingly multifaceted advice relevant both locally and across borders. Furthermore, our ability to offer multidimensional wealth structuring solutions, for example insurance products across numerous markets, is underpinned by our detailed market analyses and ongoing investments in digital technologies.

In our *Next Generation Research* franchise, our experts identify, analyse and follow up on the long-term structural changes that shape the world we live in. Such a thematic research and investing approach goes beyond the noise of daily headlines. In H1 2019, the most featured topics covered *Blockchain*, *Digital Content*, *Extended Longevity*, *Globesity* (i.e. global obesity) and *Healthy China*.

Our dedicated Advisory Solutions team in Asia serves our clients in line with local needs and consistent with our global approach. Assets under management for both wealth planning and advisory mandates again recorded strong growth year on year. We continue to seek out opportunities to provide our clients with access to first-rate private investments and deals. We presented and showcased our high conviction ideas at our Market Outlook events and connected clients to the best-in-class fund managers at our Alpha Conferences. In conjunction with our strategic joint venture with The Siam Commercial Bank, we launched the special edition *SCB Julius Baer Wealth Report: Thailand* on 12 June 2019.

MARKETS

The Markets unit delivers trade execution, product structuring and advisory services across all asset classes. Our efficient transaction and risk management infrastructure, combined with comprehensive market access via a large counterparty network, ensures the high-quality level of our execution and trading activities. Between the centres in Zurich and Singapore, we offer 24-hour availability. Access to our experts for RMs and in certain instances for clients ensures comprehensive support in all execution, trading and structuring-related matters.

The Markets unit plays an important role as manufacturer of structured products issued from Julius Baer Group's balance sheet. The continued development of our structured products offering across all asset classes is addressing the diverse needs of our global customer base. The *Markets Toolbox,* a real-time platform for structured products, currencies and precious metals, is a key enabler in achieving a high level of service experience and efficiency for private clients and intermediaries. In cooperation with a F10 start-up, we built a platform for the integral management of Julius Baer-issued Actively Managed Certificates.

CREDIT

As part of our holistic *wealth financing* offering, our private clients have access to a wide range of credit products on a secured basis. We offer Lombard loans to accommodate clients' leverage and liquidity purposes as well as real estate lending in the form of residential mortgages, predominantly in Switzerland. Our loan book is prudently managed using a sophisticated credit risk framework.

GLOBAL CUSTODY

As a dedicated provider of custodian services and solutions in Switzerland, this unit enjoys an excellent reputation as a best-in-class global custodian in its well-defined areas of specialised expertise for institutional clients and investment funds as well as for private clients with institutional requirements.

The business covers the full range of country-specific expertise and client-oriented solutions comprising a wide variety of products and services, including custody, centralised asset and depository services as well as transaction banking and access to a wealth of other value-adding bank capabilities such as analytics and reporting. With its modular offering, clients benefit from a high degree of flexibility regarding daily business processes and individualised services to cover their needs.

OUR STRATEGY

Julius Baer's long-term strategy is focused exclusively on wealth management. This strategy was introduced in 2009 with the Group's separation from its asset management business, a move accompanied by the independent listing of today's Julius Baer Group.

The execution of this pure wealth management strategy has been marked ever since by realising profitable growth – through organic development, capital market transactions and cooperation agreements. The Group's international footprint and regional strength, combined with its client-centric service model, form the basis for its aim to create long-term sustainable value for clients and investors.

APPLYING A CLIENT-CENTRIC BUSINESS MODEL

In its pure wealth management business model, Julius Baer targets wealthy private clients, family offices and external asset managers. The Group's position of strength as the leading Swiss wealth management group with international reach is derived from its unmatched focus on providing clients with holistic advice tailored to their needs, fully compliant with local rules and regulations. Personal interaction is a key element, ensured through a dedicated relationship manager for each client. The front organisation is closely supported by Julius Baer's wealth management, wealth planning and wealth financing specialists and is powered by an open product platform, proprietary research and state-of-the-art digital execution capabilities. Combined, this results in comprehensive solutions aligned with clients' aspirations, mirroring what truly matters to them – in their business and personal life, today and for future generations.

GENERATING SUSTAINABLE GROWTH

Julius Baer's strategy is aimed at delivering profitable growth organically as well as inorganically through acquisitions and cooperation agreements.

Organic growth is achieved by generating steady net new money inflows across the economic cycle: by attracting new clients, increasing the share of wallet with existing clients as well as targeted hiring of experienced relationship managers with an impeccable professional record. In this process, the Group's pure wealth management focus and offering, its distinctive corporate culture, its strong brand name, its conservatively managed balance sheet and its steady strategy execution contribute equally to Julius Baer's appeal as a highly attractive employer for top relationship managers and as a first-rate wealth management bank for clients.

Inorganic growth is a complementary element in support of the Group's overall growth strategy. It leverages the Group's key strengths to gain or reinforce domestic presence in promising markets, with a particular focus on growth markets. It comprises selective acquisitions as well as pioneering cooperation agreements with strong commercial partners that offer a valuable strategic and cultural fit.

Julius Baer's international footprint equips the Group to perform sustainably across economic cycles. In its allocation of resources to foster growth, the Group has always aimed to strike a balance between mature markets such as Switzerland and Europe and growth markets around the world – Asia, Latin America, the Middle East, Africa, as well as

Central and Eastern Europe. As a result, the Group's assets under management by client domicile are about evenly spread between mature and growth markets.

In the long-term development of Julius Baer, the Group constantly works towards a fair balance between growing its asset base and fostering profitability. The main driver in this respect is the strong focus on what matters most to clients. The resulting high-end client solutions substantially drive its revenue development: via competitive pricing reflective of the value added to the client and via elevated levels of client satisfaction, which in turn support client retention and spur a growing share of wallet. Active cost management acts as an important complementary element, with a particular focus on fostering productivity. The latter is a constant process encompassing the deployment of technology-based tools and related organisational optimisation, which result in increased process efficiency and improved cost synergies over time.

CALIBRATING THE STRATEGY IN A CHANGING ENVIRONMENT

While factors such as client needs, market conditions, regulatory requirements and competitive landscape will be in permanent flux, the Group believes that the core elements of its long-term strategy continue to offer the potential for sustainable and profitable growth well into the future.

Over the coming years, in order to remain among the most profitable businesses in the sector, the Group's strategy will focus particularly on delivering a best-in-class wealth management experience for clients, strengthening the Group's position as a first-rate wealth management bank in its chosen markets and as a highly attractive employer for top wealth management professionals. This is to be achieved by concentrating on the following elements:

- Further enhancing the Group's market orientation. Investments are therefore channelled into focus markets or complementing growth opportunities. This includes the recent decisions to expand Julius Baer's local presence in Brazil, Mexico, Germany, the UK and Spain, and to enter into strategic cooperation agreements in Thailand and Japan. At the same time, the footprint is recalibrated by scaling back investments in other markets – such as last year's decisions to close the offices in Peru and Panama and to sell the local business in the Netherlands (Amsterdam).
- Further strengthening the Group's organisational structure and processes. This includes refining the well-established management structure of front-office teams, further deepening the Group's knowledge and understanding of its clients and asserting the efficacy of the Group's risk framework. Within an effective segmentation framework, the

Julius Baer Group Ltd.

Board of Directors
Romeo Lacher, Chairman

Chief Executive Officer
Bernhard Hodler[1]

Chief Financial Officer	Chief Operating Officer	Chief Risk Officer	Chief Communications Officer	General Counsel
Dieter A. Enkelmann	Nic Dreckmann	Oliver Bartholet	Larissa Alghisi Rubner	Christoph Hiestand

Executive Board

[1] On 8 July 2019, Julius Baer announced the appointment of Philipp Rickenbacher as new CEO effective 1 September 2019.

overarching aim is to ensure clients are served in a most individual, comprehensive and fully compliant fashion.
- Enhancing Julius Baer's holistic *Your Wealth* offering. This will be achieved through the further and wider roll-out of Julius Baer's advisory models and the strengthening of Julius Baer's investment management capabilities. The objective is to further grow the share of assets under management held in discretionary or advisory mandates, which amounted to 52.5% at the end of June 2019, after 51.0% at the end of 2018.
- Increasing productivity, scalability and efficiency. This will be achieved through segmented offerings, process innovation and by focusing on target clients. In that respect, technology has become an increasingly important strategic enabler, encompassing systems automation, smart digital tools and robotics solutions.
- Further establishing Julius Baer as the global leader in pure wealth management and building on the Group's attractive employee value proposition.

CREATING SHAREHOLDER VALUE

The ambition of Julius Baer's strategy, with its disciplined execution, is to deliver controlled and profitable growth. This is reflected in the Group's medium-term financial targets:

- Growth: Julius Baer's focus on organic growth is reflected in the Group's medium-term target to realise between 4% and 6% net new money expansion per annum.
- Profitable growth: Julius Baer's focus on achieving profitable growth is echoed by its dual targets of realising an adjusted[1] cost/income ratio[2] of lower than 68% and an adjusted pre-tax margin[3] of between 25 and 28 basis points in the medium term.
- Return on capital: To more clearly link profitability, capital efficiency and capital return ambitions, the Group aims to achieve a return on common equity Tier 1 (RoCET1)[4] of higher than 32%.
- Strong balance sheet and lower-risk business profile compared to universal banks: The focus on maintaining these two key competitive advantages partly manifests itself in Julius Baer's aim to maintain its BIS total capital ratio above 15% and its BIS core equity tier 1 ratio above 11%, approximately three percentage points above the regulatory required minimum levels. In setting its floors at these levels, the Group believes it achieves an appropriate balance between preserving a solid capital buffer, maintaining sufficient leeway to steer and develop the business, and continuing to generate attractive returns for its shareholders.
- Shareholder value: The continued successful execution of the long-term strategy is expected to result in a total return to shareholders above the average of the European banking sector, as represented by the STOXX Europe 600 Banks Index (gross return), across the economic cycle. This aim is further supported by the Group's intent to maintain its dividend payout ratio at approximately 40% of adjusted net profit and to return excess capital to shareholders if not required by the Group.
- Pay for performance: The Executive Board's compensation structure, with the cumulative economic profit and relative total shareholder return components of its equity performance plan, is aligned with the Group's focus on sustainable, profitable growth and long-term shareholder value creation.

[1] Adjusted results derived by excluding from the Group's IFRS financial statements the integration and restructuring expenses as well as the amortisation of intangible assets related to previous acquisitions or divestments and the taxes on those respective items.
[2] Calculated using adjusted operating expenses, excluding provisions and losses.
[3] Adjusted profit before taxes/average assets under management in basis points.
[4] Adjusted net profit attributable to shareholders/(half-yearly) average CET1 capital.

CORPORATE SUSTAINABILITY

At Julius Baer, we pursue long-term value creation for our clients, employees, shareholders and society. We do this by managing our organisation and our client offering responsibly, in line with our own and our clients' values. We have embedded environmental, social and governance (ESG) factors into our corporate governance, advisory and investment management functions in response to social and economic change.

We operate in a complex environment and recognise several important social, economic and environmental trends currently affecting us:

- *Social expectations*: There is a mounting focus on companies' role in society. The private sector – particularly the financial sector – is increasingly expected to mobilise resources needed to tackle issues such as climate change and global wealth inequality.
- *Investing for impact*: In addition to sound financial returns, a growing number of investors also want to achieve positive social and environmental impact with their investments. More than 50% of our clients, surveyed in 2018, say they already use or are interested in sustainable investing. For clients aged 34 or younger, this increases to over 60%.
- *New wealth and changing demographics*: In many countries, people live longer – and spend more of their lifetime in retirement. Even so, baby boomers have considerable unspent assets. Over the next twenty years, there will be a significant wealth transfer to younger generations, generally estimated at around USD 30 trillion. At the same time, we see the emergence of new wealth in some of our markets – in Asia, for example, as a result of economic growth.
- *Regulation*: In recent years, significant additional regulation in financial services has been adopted. Much of this regulation is a legacy of the 2007-2008 financial crisis, and as a result is aimed at increasing transparency and strengthening consumer protection. Current regulatory issues include EU market access, new capital rules for banks under Basel IV and an increased need for sustainable finance definitions and guidelines.
- *New digital technologies*: With technology, clients demand quick, seamless service. For banks to continue to attract and retain clients, they will have to offer a more individual, customised and reimagined experience.

OUR CORPORATE SUSTAINABILITY STRATEGY

Our corporate sustainability strategy helps us to respond to trends as well as to changes in clients' and society's expectations. It also ensures the incorporation of sustainable business practices into our daily investment and operational decisions.

The Corporate Sustainability department is responsible for the development and implementation of this strategy. The department is part of the CEO Office. On matters of strategy, the department reports to the Sustainability Board, an Executive Board-level committee created in 2018, as a steering body for corporate sustainability and responsible investment.

Our corporate sustainability strategy has been adopted across all business units and regions. The following sections summarise our sustainability efforts. More details and results can be found in the latest comprehensive annual *Corporate Sustainability Report,* which is published in March every year.

In May 2019, Julius Baer endorsed the United Nations Principles for Responsible Banking, which represent a single framework for the banking industry that aims to embed sustainability across all business areas.

BUSINESS CONDUCT AND INTEGRITY

The highest professional standards are built into our decision-making. These are contained in our Code of Business Conduct (the Code), which covers topics such as tax, conflicts of interest, combating financial crime, confidentiality, human rights, diversity and environmental protection. Via our Integrity Platform, employees can confidentially report suspected Code violations.

Alongside the Code, we have policies to combat financial crime, including a client acceptance policy, a know-your-client (KYC) policy, an anti-money laundering policy, an anti-corruption and anti-bribery policy, and a sanctions and embargoes policy. These policies apply to all Julius Baer employees worldwide. Staff are regularly trained on the content and application of these policies. Some of the policies, including the Code, are also extended to business partners covered by our purchasing policy.

Extensive screening is carried out to make sure our policies are adhered to. The Bank operates a payments filter to ensure compliance with international sanctions and embargoes – as well as a rigorous tax compliance framework. This includes the implementation of international Automatic Exchange of Information standards (such as the OECD Common Reporting Standards or FATCA). As a matter of policy, we will not accept clients who do not fulfil their tax obligations.

Our aim is to assess policy and regulatory proposals at an early stage. This allows us to engage and to shape policymaking in a way that benefits the Bank, our industry and society. Recently, in addition to our existing strong efforts in Switzerland, we have stepped up our engagement with EU policymakers and international industry organisations.

Taken together, these measures ensure full compliance with industry regulations, awareness of potential threats and risks to our business, and application of the highest possible standards of business conduct.

CLIENT EXPERIENCE

Given the personal nature of our business, it is important that we offer clients an outstanding service experience. To do so, Julius Baer needs to respond quickly to changing client expectations as well as new demographic and technological trends.

When advising clients, Julius Baer takes a personal and holistic approach, tailoring advice to clients' needs at every stage of their life across wealth planning, wealth management and wealth financing. With this approach, we map out 'client journeys' and recommend products and services best suited to our clients' requirements. Getting to know our clients' situation and personal values also gives us an opportunity to introduce responsible investment options.

At the same time, we are expanding our online banking platform to build on the development of new digital technologies.

With rising cyber threats, there is increased risk of fraud, identity theft and system downtimes. To oversee and combat this, we have a formal security roadmap overseen by the Group's dedicated Security Committee. In 2018, we continued to invest in state-of-the-art data defence measures and successfully implemented workflow and tools to comply with the EU's General Data Protection Regulation (GDPR).

RESPONSIBLE INVESTMENT

As part of its approach to responsible investment (RI), Julius Baer includes financial material ESG risks in its overall investment process. This ensures that both financial and ESG risks are captured and it continues to create long-term value for our clients. We work to enrich our RI offering and raise awareness among both our clients and client-facing staff. In our approach, the aim is not to exclude specific investments, but to ensure we provide more effective investment advice to our clients, based on knowledge of possible risks. RI is one of the key topics overseen by the Sustainability Board.

Beyond ESG integration, RI offers many other investment opportunities. This is where Julius Baer best supports the UN's Sustainable Development Goals (SDGs) in working with clients to create a more sustainable approach to investment. Our RI offering currently covers four main areas:

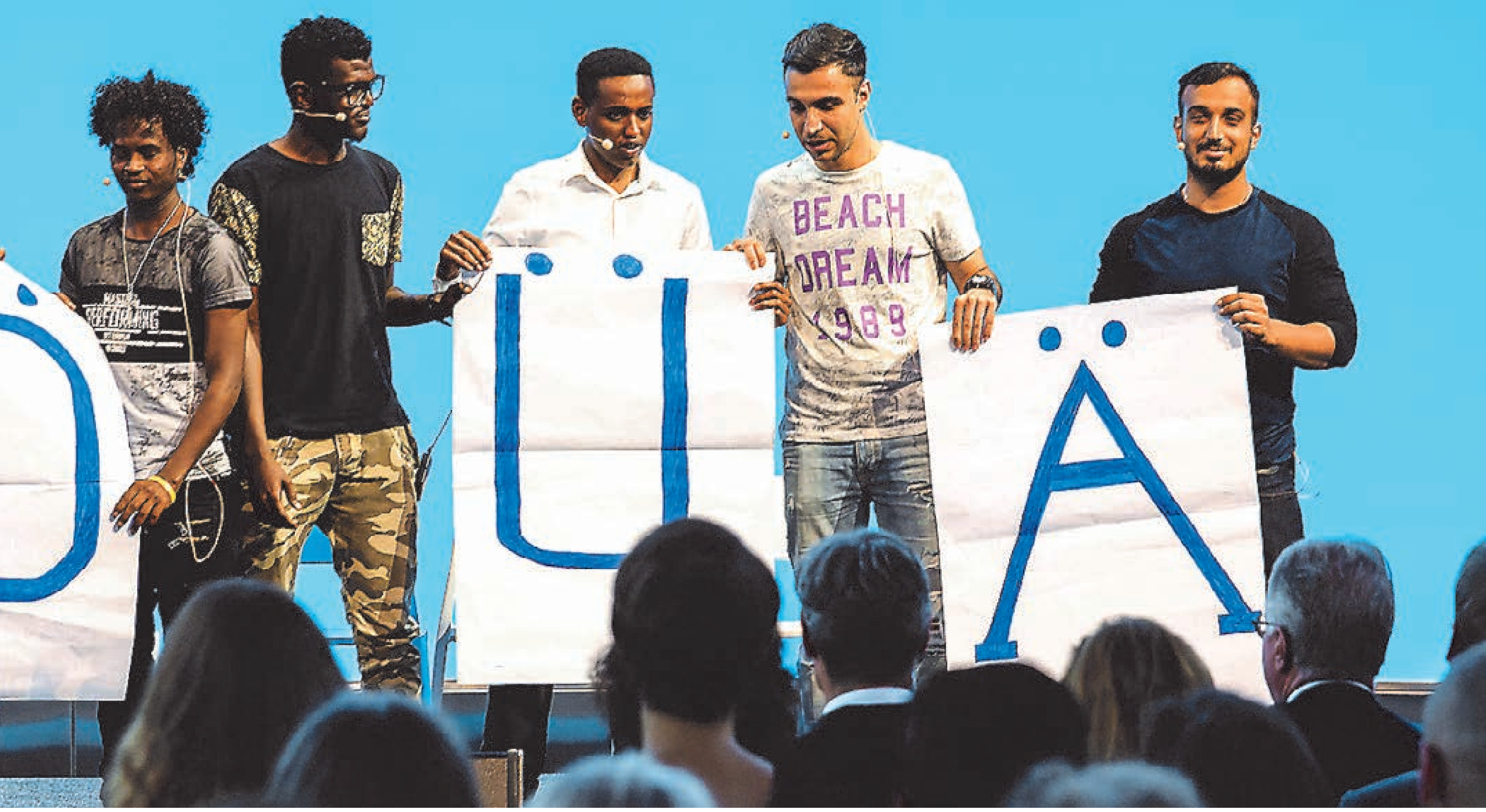
- *Sustainability Mandate*: Launched in 2006, it offers clients the possibility of investing in forward-thinking, responsible and innovative companies around the world. Themes addressed include energy efficiency, education, mobility, biodiversity and water.
- *Recommended third-party impact investment offering*: Impact investment funds deliver social and/or environmental benefits as well as financial returns. At Julius Baer, our offering currently includes green bond funds (that finance sustainable projects) and microfinance funds (that provide small-scale support most often to companies in developing countries).
- *Recommended third-party sustainable investment offering*: These funds take a thematic and/or a best-in-class sustainability approach and may also apply exclusion screens.
- *Next Generation investment approach*: A thematic approach where the objective is to deliver superior investment returns by focusing on companies that have a competitive advantage within structurally growing markets. This approach taps into key global trends: Arising Asia, Digital Disruption, Energy Transition, Feeding the World, and Shifting Lifestyles.

In 2018, a portfolio management team was created to manage Julius Baer's new Next Generation Fund.

KEY RESPONSIBLE INVESTMENT INDICATORS

	2018	2017	*Change in %*
Assets with ESG integration (CHF m)[1]	43,537	45,881	-5.1
As percentage of total assets under management (%)	*11.4*	*11.8*	-
Discretionary sustainability mandates (CHF m)[2]	973	736	32.2
Recommended sustainable and impact investment funds (CHF m)[3]	435	215	102.3

[1] Based on assets under management in central mandates (only front regions, excluding intermediaries).
[2] Including various asset classes and currencies.
[3] Total assets under management invested through Julius Baer in recommended Sustainable Investment and Impact Investment funds on the open product platform.



JULIUS BAER FOUNDATION: SIGNIFICANT QUANTITATIVE AND QUALITATIVE PROGRESS

What are the success factors of non-profit grant foundations like the Julius Baer Foundation? The obvious measure is the amount granted. On that score, the Julius Baer Foundation excelled last year and was able to nearly double the donations to its project partners, to almost CHF 2.5 million. This enabled the Foundation to support existing projects and initiate a number of new ones (see next section) in the core areas of *Vocational Training, Recycling PLUS* and *Wealth Inequality.*

This financial success is the result of the reinvigorated efforts to promote the Foundation within the Bank and among its clients. The growing support the Foundation finds among Julius Baer employees as compassionate and engaged donors is evidence of that.

More information about the Julius Baer Foundation, including the Annual Report 2018, is available at juliusbaer.com/foundation

EXAMPLE OF A JULIUS BAER FOUNDATION PROJECT: FIGHT AGAINST YOUTH UNEMPLOYMENT IN GERMANY

The Julius Baer Foundation has supported the *JOBLINGE* programme in Hamburg since 2018. As a collaboration of the private, public and volunteer sectors, *JOBLINGE* helps disadvantaged, unemployed young people enter the job market via solid vocational training. Through apprenticeships, real job opportunities and promoting personal responsibility, *JOBLINGE* creates tangible perspectives for young people. Independence and fostering self-help are at the heart of the concept.

The programme encourages participants, creates perspectives for them and integrates them into society. With a particular focus on young refugees, the separate *JOBLINGE Kompass* programme targets young people between 18 and 25 years of age with low to medium qualifications and a high likelihood of being granted a visa.

Pictured above: Participants of *JOBLINGE Kompass* at the of programme's inauguration ceremony. The play they wrote, directed and staged themselves earned the six participants from Syria, Iran, Iraq and Eritrea a standing ovation lasting several minutes.

OUR EMPLOYEES

At Julius Baer, our goal is to be the employer of choice in wealth management by attracting, developing and retaining highly qualified and engaged professionals.

To ensure access to both technical and soft skills, we invest in training and development. The Julius Baer Academy takes the lead in the creation of training programmes, including classroom sessions and e-learning. To meet individual needs, our training covers leadership competencies, professional skills and dedicated programmes for young talent.

A more diverse and inclusive workforce leads to better decision-making, fosters innovation and increases employee engagement. Consequently, we have made diversity an integral part of our efforts to become an employer of choice in wealth management. A number of programmes were tested in pilot schemes in 2018, including reverse mentoring, unconscious-bias workshops and a career management tool that allows employees to design their own development roadmap. Aiming at gender equality at all levels, we agreed to work towards a target of at least 30% women in senior management positions by 2021.

KEY HUMAN CAPITAL INDICATORS

	2018	2017	*Change in %*
Our people			
Total headcount (total workforce excl. externals)[1]	6,985	6,586	6.1
Of which regular staff	*6,738*	*6,394*	*5.4*
Number of employees (FTE) (total workforce excl. externals)[1]	6,692.5	6,291.8	6.4
Of whom in Switzerland (%)	*52.8*	*54.4*	-
Of whom in rest of Europe (%)	*17.4*	*16.8*	-
Of whom in Asia-Pacific (%)	*21.4*	*21.4*	-
Of whom in Latin America (%)	*5.5*	*4.7*	-
Of whom in Middle East and Africa (%)	*2.8*	*2.7*	-
Total net employee turnover (%)[2]	8.8	8.9	-
People and diversity			
Ratio of women (% of total regular staff headcount)	41.9	41.2	-
Women in senior management (% of total senior management headcount)[3]	27.1	26.3	-

[1] Total workforce includes regular staff (employees with an ordinary open-ended Julius Baer contract on a full or part-time basis), temporary staff, trainees, apprentices and graduates.

[2] Fluctuation rate / net turnover of regular staff in %, including resignations and terminations.

[3] Julius Baer defines senior management as all employees with the rank of Director to Managing Director.

CORPORATE CITIZENSHIP

We act as a responsible corporate citizen. This means supporting the communities we work in through engagement, donations or sponsorships.

The *Julius Baer Foundation* was established in 1965. Last year, the Foundation made grants of almost CHF 2.5 million. Most of this money went to projects in the Foundation's core areas: *Vocational Training*, *Recycling PLUS* and *Wealth Inequality*.

Alongside the Foundation, *Julius Baer Cares,* an employee-driven community, organises philanthropic activities such as fundraising and volunteering. We build programmes to support our company volunteering guidelines, which grant Julius Baer employees two days a year to work on local charity projects. Our goal by 2021 is to have a global volunteering programme, with customisable offerings through a centralised platform.

Julius Baer has supported Swiss contemporary art for more than 35 years, displaying many of the collection's more than 5,000 pieces in the Bank's offices for the benefit of clients and employees.

ENVIRONMENTAL MANAGEMENT

As a financial institution, Julius Baer does not have a large carbon footprint compared to many companies in other industries. We believe it is important, however, to manage our environmental impact responsibly. We have set clear targets for 2020: to reduce our energy consumption by 10% and to switch to renewable energy where possible. Also by then, water use will be reduced by 5%. We have also offset all our CO_2 emissions since 2015, making us carbon neutral. So far, we are on course to meet our environmental targets.

KEY ENVIRONMENTAL INDICATORS[1,2]

	2018	2017	*Change in %*
Greenhouse gas emissions (tCO_2e)[3]	18,397	18,153	1.3
Of which business travel (tCO_2e)[4]	*12,917*	*12,418*	*4.0*
Water consumption (m^3)	120,323	122,994	-2.2

[1] Unless stated otherwise, the numbers in this table are based on information from Julius Baer's main business locations. These are Zurich, Geneva, Lugano, Basle and Berne in Switzerland, as well as our locations in Germany, the United Kingdom, Guernsey, Hong Kong, Singapore, India and Uruguay. These locations cover approximately 80% of our total employees.

[2] 2017 data was restated to include additional business locations and updated emission factors.

[3] Greenhouse gas emissions were calculated according to the WRI/WBCSD Greenhouse Gas Protocol. This figure includes scopes 1, 2 and 3 emissions.

[4] Business travel figures are a sum of emissions from air, rental car and train travel data provided by our central Global and Hong Kong Travel Offices (covering all employees globally), as well as emissions from company cars used at sites.

IMPORTANT DATES

Publication of Interim Management Statement: 19 November 2019
Publication of 2019 annual results: 3 February 2020
Publication of Annual Report 2019: 23 March 2020
Annual General Meeting: 16 April 2020

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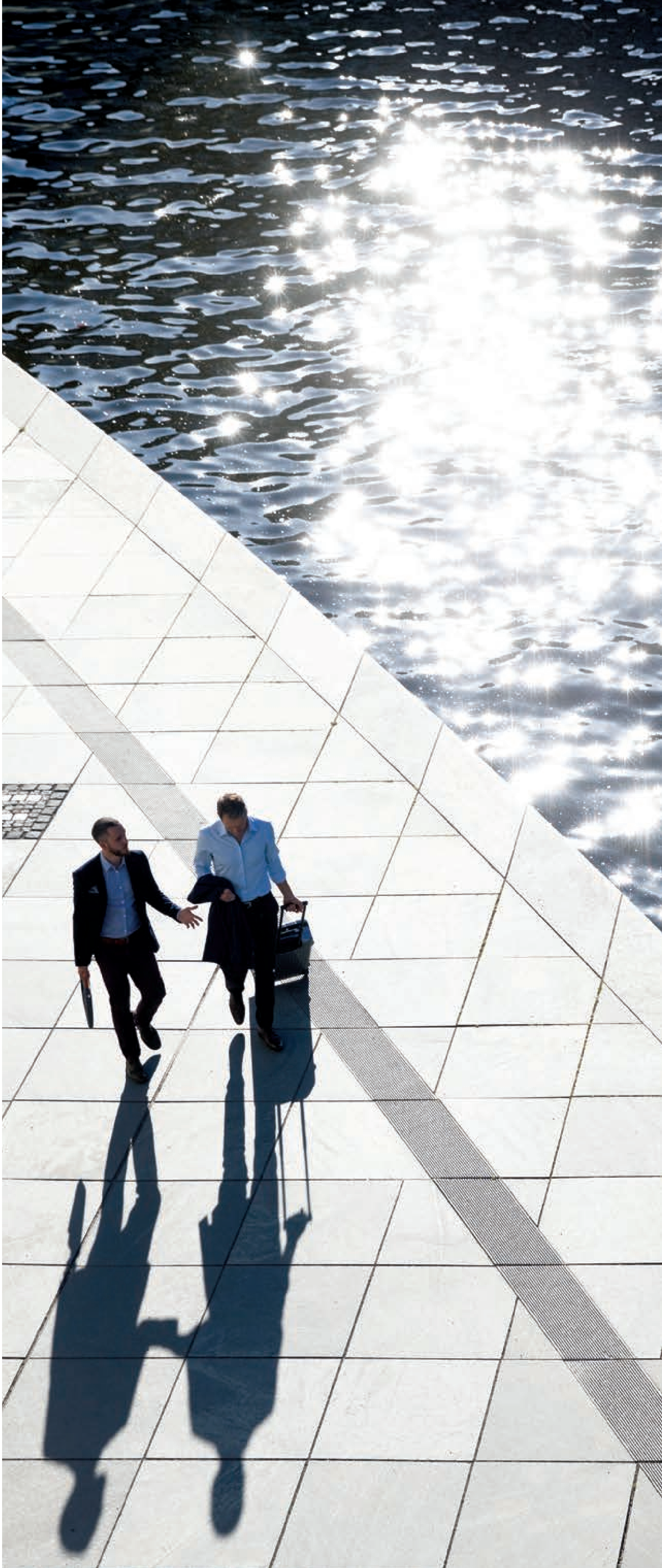

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