

# Julius Bär

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## BASEL III PILLAR 3 DISCLOSURES

Julius Baer Group Ltd.

According to FINMA circular 2016/1  
'Disclosure Banks'



BASEL III PILLAR 3  
DISCLOSURES 2018  
JULIUS BAER GROUP LTD.

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## INTRODUCTION

### SCOPE OF PILLAR 3 DISCLOSURES

This report provides Pillar 3 disclosures for Julius Baer Group Ltd. (the Group) on a consolidated basis as at 31 December 2018. The disclosures in the report are based on the FINMA regulatory requirements as prescribed in the circular 2016/1 'Disclosure – banks' which includes the implementation of the revised Pillar 3 disclosure requirements issued by the Basel Committee on Banking Supervisions (BCBS) in March 2017. The Basel III capital adequacy framework consists of three complementary pillars:

- Pillar 1 provides a framework for measuring minimum capital requirements for the credit, market, operational and non-counterparty-related risks faced by banks.
- Pillar 2 addresses the principles of the supervisory review process, emphasizing the need for a qualitative approach to supervising banks.
- Pillar 3 requires banks to publish a range of disclosures, mainly covering risk, capital, leverage and liquidity.

The aim of the Pillar 3 standards is to improve comparability and consistency of disclosures through the introduction of harmonised templates. The Group is subject to the full disclosure requirements in accordance with the FINMA circular 2016/1 'Disclosure – banks'. For Bank Julius Baer & Co. Ltd. (the Bank) a consolidation discount applies, i.e. the Bank is exempted from detailed Pillar 3 disclosures when calculating capital adequacy and liquidity. It must nevertheless disclose its key figures on an annual basis in its Annual Report with reference to

the Group Pillar 3 information published in the Financial Reporting section of the [www.juliusbaer.com](http://www.juliusbaer.com) website.

Information provided in the Annual Report 2018 of the Group or other publications may also serve to address Pillar 3 disclosure requirements. Where this is the case, a reference is provided in this report to the Group's publication where the information is available. The capital information as at 31 December 2018 for the Group is provided in the section 'Management of capital including regulatory capital' of the Annual Report 2018 of the Group, pages 136–139 (published in the Financial Reporting section of the [www.juliusbaer.com](http://www.juliusbaer.com) website).

The Group's Pillar 3 disclosures as at 31 December 2018 and 30 June 2018 are based on fully-applied figures whereas the Pillar 3 disclosures as at 31 December 2017 are based on phase-in rules according to the Basel III framework, as prescribed in the Swiss Capital Adequacy Ordinance issued by the Swiss Federal Council.

### FREQUENCY OF PILLAR 3 DISCLOSURES

This report is produced and published semi-annually, in accordance with FINMA requirements for category 3 banks. FINMA has specified the reporting frequency for each disclosure as either annual or semi-annual. The following table gives an overview of the tables to be disclosed according to the FINMA circular 2016/1. Tables not applicable to the Group are indicated therein.

## INTRODUCTION

## Pillar 3 table overview

Period <sup>1</sup>	Basel framework reference code	Table name
HY	KM1	Key metrics (at consolidated group level)
	KM2	Key metrics – TLAC requirements (at resolution group level) <sup>2</sup>
Y	OVA	Bank risk management approach
HY	OV1	Overview of risk-weighted assets
Y	LI1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories
Y	LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements
Y	LIA	Explanations of differences between accounting and regulatory exposure amounts
Y	PV1	Prudent valuation adjustments (PVA)
Y	CC1	Composition of regulatory capital
Y	CC2	Reconciliation of regulatory capital to balance sheet
HY	CCA	Presentation of material features of regulatory capital instruments <sup>3</sup>
	TLAC1	TLAC composition for G-SIBs (at resolution group level) <sup>2</sup>
	TLAC2	Material subgroup entity – creditor ranking at legal entity level <sup>2</sup>
	TLAC3	Resolution entity – creditor ranking at legal entity level <sup>2</sup>
	GSIB1	Disclosure of G-SIB indicators <sup>2</sup>
Y	CCyB1	Geographical distribution of credit exposures used in the countercyclical buffer
Y	LR1	Summary comparison of accounting assets versus leverage ratio exposure measure
Y	LR2	Leverage ratio common disclosure
Y	LIQA	Management of liquidity risks
HY	LIQ1	Liquidity Coverage Ratio
HY	LIQ2	Net Stable Funding Ratio <sup>4</sup>
Y	CRA	Credit risk: General information
Y	CR1	Credit risk: Credit quality of assets
Y	CR2	Credit risk: Changes in stock of defaulted loans and debt securities
Y	CRB	Credit risk: Additional disclosure related to the credit quality of assets
Y	CRC	Credit risk: Qualitative disclosure requirements related to mitigation techniques
Y	CR3	Credit risk: Overview of mitigation techniques
Y	CR4	Credit risk: Exposure and credit risk mitigation (CRM) effects under the standardised approach
Y	CRD	Credit risk: Qualitative disclosures of banks' use of external credit ratings under the standardised approach
Y	CR5	Credit risk: Exposures by exposure category and risk weights under the standardised approach
	CRE	IRB: Qualitative disclosures related to IRB models <sup>2</sup>
	CR6	IRB: Credit risk exposures by portfolio and PD range <sup>2</sup>
	CR7	IRB: Effect on risk-weighted assets (RWA) of credit derivatives used as CRM techniques <sup>2</sup>
	CR8	IRB: RWA flow statements of credit risk exposures <sup>2</sup>
	CR9	IRB: Backtesting of probability of default (PD) per portfolio <sup>2</sup>
	CR10	IRB: Specialised lending and equities under the simple risk weight method <sup>2</sup>
	CCRA	Counterparty credit risk: Qualitative disclosure

<sup>1</sup> Period of publication according to the FINMA circular 2016/1, annex 1.

<sup>2</sup> Not applicable to the Group.

<sup>3</sup> Details of material features of regulatory capital instruments can be found at [www.juliusbaer.com/cap-instr](http://www.juliusbaer.com/cap-instr).

<sup>4</sup> Legally not yet entered into force therefore no disclosure required.

INTRODUCTION

**Pillar 3 table overview**

Period <sup>1</sup>	Basel framework reference code	Table name
Y	CCR1	Counterparty credit risk: Analysis by approach
Y	CCR2	Counterparty credit risk: Credit valuation adjustment (CVA) capital charge
Y	CCR3	Counterparty credit risk: Standardised approach to CCR exposures by exposure category and risk weights
	CCR4	<i>IRB: CCR exposures by exposure category and PD scale<sup>2</sup></i>
Y	CCR5	Counterparty credit risk: Composition of collateral for CCR exposure
Y	CCR6	Counterparty credit risk: Credit derivatives exposures
	CCR7	<i>Counterparty credit risk: RWA flow statements of CCR exposures under the IMM (EPE model method)<sup>2</sup></i>
Y	CCR8	Counterparty credit risk: Exposures to central counterparties
Y	SECA	Securitisations: Qualitative disclosure requirements related to securitisation exposures
Y	SEC1	Securitisations: Exposures in the banking book
	SEC2	<i>Securitisations: Exposures in the trading book<sup>2</sup></i>
	SEC3	<i>Securitisations: Exposures in the banking book and associated regulatory capital requirements – bank acts as originator or as sponsor<sup>2</sup></i>
Y	SEC4	Securitisation: Exposures in the banking book and associated capital requirements – bank acts as investor
Y	MRA	Market risk: Qualitative disclosure requirements
Y	MR1	Market risk: Minimum capital requirements under standardised approach
Y	MRB	Market risk: Qualitative disclosures for banks using the internal model approach (IMA)
HY	MR2	Market risk: RWA flow statements of market risk exposures under an IMA
HY	MR3	Market risk: IMA values for trading portfolios
HY	MR4	Market risk: Comparison of VaR estimates with gains/losses
Y	IRRBBA	Interest rate risk: IRRBB risk management objective and policies <sup>4</sup>
Y	IRRBBA1	Interest rate risk: Quantitative information <sup>4</sup>
Y	IRRBB1	Interest rate risk: Quantitative information <sup>4</sup>
	REMA	<i>Remuneration: Policy<sup>5</sup></i>
	REM1	<i>Remuneration: Remuneration awarded during the financial year<sup>5</sup></i>
	REM2	<i>Remuneration: Special payments<sup>5</sup></i>
	REM3	<i>Remuneration: Deferred remuneration<sup>5</sup></i>
Y	ORA	Qualitative disclosure requirements related to operational risks

<sup>1</sup> Period of publication according to the FINMA circular 2016/1, annex 1.

<sup>2</sup> Not applicable to the Group.

<sup>3</sup> Details of material features of regulatory capital instruments can be found at [www.juliusbaer.com/cap-instr](http://www.juliusbaer.com/cap-instr).

<sup>4</sup> Legally not yet entered into force therefore no disclosure required.

<sup>5</sup> We refer to the remuneration report under section II of the Annual Report 2018 (published in the Financial Reporting section of the [www.juliusbaer.com](http://www.juliusbaer.com) website)

**INTRODUCTION**

**FORMAT OF PILLAR 3 DISCLOSURES**

As defined in the FINMA disclosure circular, certain Pillar 3 disclosures follow a fixed format, whereas other disclosures are flexible and may be modified to a certain degree to present the most relevant information. Pillar 3 disclosures also include column or row labeling as prescribed in the FINMA disclosure circular. We follow in our Pillar 3 report the naming conventions as defined in the FINMA disclosure circular.

**GOVERNANCE OVER PILLAR 3 DISCLOSURES**

The Board of Directors and senior management are responsible for establishing and maintaining an internal control structure over the disclosure of financial information, including Pillar 3 disclosures. In line with the FINMA requirements, the Group has established a Pillar 3 disclosure governance policy and procedures which include information on the key internal controls designed to govern the preparation, review and sign-off of Pillar 3 disclosures. This Pillar 3 report has been verified and approved in line with this policy.

## KEY METRICS

### KM1: Key metrics at consolidated group level

	31.12.2018	30.06.2018	31.12.2017 <sup>1</sup>	
	CHF m	CHF m	CHF m	
<b>No.<sup>2</sup></b>				
<b>Available capital</b>				
1	Common Equity Tier 1 (CET1)	2,731.2	2,676.6	3,260.8
2	Tier 1 capital	3,933.0	3,878.2	4,235.1
3	Total capital	3,991.2	3,934.9	4,298.5
<b>Risk-weighted assets (RWA)</b>				
4	RWA	21,338.4	19,471.0	19,576.0
4a	Minimum capital requirements	1,707.1	1,557.7	1,566.1
<b>Risk-based capital ratios as a percentage of RWA</b>				
5	Common Equity Tier 1 ratio	12.8%	13.7%	16.7%
6	Tier 1 ratio	18.4%	19.9%	21.6%
7	Total capital ratio	18.7%	20.2%	22.0%
<b>Additional CET1 buffer requirements as a percentage of RWA</b>				
8	Capital conservation buffer requirement as per the Basel minimal standards (2.5% from 2019)	1.9%	1.9%	1.3%
9	Countercyclical buffer requirement (art. 44a ERV) as per the Basel minimal standards	0.2%	0.1%	0.1%
10	Bank G-SIB and/or D-SIB additional requirements			
11	Total of bank CET1 specific buffer requirements as per the Basel minimal standards	2.0%	2.0%	1.3%
12	CET1 available after meeting the bank's minimum capital requirements as per the Basel minimal standards	8.3%	9.2%	12.2%
<b>Target capital ratios according to appendix 8 CAO (% of RWA)</b>				
12a	Capital buffer according to appendix 8 CAO	4.0%	4.0%	4.0%
12b	Countercyclical capital buffer (art. 44 and 44a CAO)	0.3%	0.3%	0.3%
12c	CET1 target ratio according to appendix 8 CAO in addition to countercyclical capital buffer according to art. 44 and 44a CAO	8.1%	8.1%	8.1%
12d	T1 target ratio according to appendix 8 CAO in addition to countercyclical capital buffer according to art. 44 and 44a CAO	9.9%	9.9%	9.9%
12e	Total capital target ratio according to appendix 8 CAO in addition to countercyclical capital buffer according to art. 44 and 44a CAO	12.3%	12.3%	12.3%
<b>Basel III leverage ratio</b>				
13	Total Basel III leverage ratio exposure measure	101,678.9	102,407.5	96,949.4
14	Basel III leverage ratio (row 2/row 13)	3.9%	3.8%	4.4%
<b>Liquidity coverage ratio (3-month average)</b>				
15	Total HQLA	20,696.2	15,635.3	13,847.2
16	Total net cash outflow	10,170.1	8,697.5	9,263.8
17	LCR ratio	203.5%	179.8%	149.5%

<sup>1</sup> Phase-in figures are disclosed as at 31 December 2017. In addition a tier 1 instrument of CHF 250 million is included (paid-back in March 2018).

<sup>2</sup> Row numbers according to the sample table enclosed in the FINMA circular 2016/1, annex 2, table KM1.



## RISK MANAGEMENT FRAMEWORK

Risk management constitutes an integral part of the Group's business framework. The table below presents an overview of risk management disclosures separately

provided in the Annual Report 2018 of the Group, which is published in the Financial Reporting section of the [www.juliusbaer.com](http://www.juliusbaer.com) website.

### OVA: Bank risk management approach

<b>Pillar 3 disclosure requirement</b>	<b>Annual Report 2018 section</b>	<b>Disclosure</b>	<b>Annual Report 2018 page numbers</b>
Business model and overall risk profile	Comment on risk and capital management	- Risk management framework and processes	108-110
		- Strategic and business risk	110
Risk governance	Comment on risk and capital management	- Risk management framework and processes	108-110
Channels to communicate, present and enforce the risk culture	Comment on risk and capital management	- Risk management framework and processes	108-110
Scope and main features of risk measurement systems	Comment on risk and capital management	- Credit risk	113-114
		- Market risk (trading book)	124
		- Financing, liquidity and interest rate risk in the banking book	127
		- Operational risk	133-134
Process of risk information reporting	Comment on risk and capital management	- Risk management framework and processes	108-110
		- Credit risk	113
		- Market risk (trading book)	123
		- Financing, liquidity and interest rate risk in the banking book	127
		- Operational risk	133-134
Qualitative information on stress testing	Comment on risk and capital management	- Credit risk	113
		- Market risk (trading book)	124-126
		- Financing, liquidity and interest rate risk in the banking book	127
Strategies and processes to manage, capture and mitigate risks	Comment on risk and capital management	- Risk management framework and processes	108-110
		- Credit risk	111-112
		- Market risk (trading book)	124-125
		- Financing, liquidity and interest rate risk in the banking book	127-129
		- Operational risk	133-135
		- Reputational risk	136
- Management of capital including regulatory capital	136		

## APPROACH TO MEASURING RISK-WEIGHTED ASSETS

The Group's risk-weighted assets for deriving the regulatory capital requirement are calculated according to the BIS Basel III framework, as implemented by the Swiss Capital Adequacy Ordinance (CAO) issued by the Swiss Federal Council.

Overview of the approaches used for the main risk categories to derive the required capital:

- Credit risk (means the risk of default): For calculating the required capital for credit risk, the Group uses the standardised approach SABIS. In addition the following subsidiary approaches are used: Collateral is handled according to the comprehensive approach, which means that the credit position is netted against the collateral provided; the regulatory standard haircuts are used for collateral eligible according to the comprehensive approach.
- Non-counterparty-related risk (means loss in value on bank premises or equipment): The Group applies prescribed regulatory risk weights of 100% to calculate the required capital.
- Counterparty credit risk (means the default of a counterparty before the final settlement of a derivative or securities financing transaction): For calculating the required capital for counterparty credit risk, the Group calculates the credit equivalents for derivatives using the mark-to-market method; the standard approach is used to quantify the risk of a loss due to credit value adjustments (CVAs) of derivatives based on counterparty credit risks; for securities financing transactions the Group applies the comprehensive approach.
- Securitisation risk (means the risk arising from securitisations held in the banking book): The Group calculates the capital requirements for securitisations based on the external ratings-based approach.
- Market risk (means losses that could arise from trading positions): The Group calculates the capital requirements for market risks according to the model-based approach as approved by FINMA. For hedge funds held in the trading book the required capital is calculated according to the credit risk standardised approach. For the fixed income trading positions the required capital is calculated according to the market risk standard method.
- Operational risk (loss resulting from process, legal and compliance risks): The Group applies the standard approach calculating the required capital for operational risk.

## OVERVIEW OF RISK-WEIGHTED ASSETS

The following table provides an overview of risk-weighted assets (RWA) and the related minimum capital requirement by risk type. Capital requirements presented in the tables in this report are calculated based on 8% of RWA as at 31 December 2018.

**OV1: Overview of risk-weighted assets**

No.	31.12.2018		
	a	b	c
	RWA CHF m T <sup>1</sup>	RWA CHF m T-1 <sup>1</sup>	Minimum capital requirements CHF m T
1	13,833.1	12,718.7	1,106.6
2	13,833.1	12,718.7	1,106.6
3			
4			
5			
6	628.1	655.5	50.2
7			
7a			
7b	476.1	505.9	38.1
8			
9	152.0	149.6	12.2
10	195.1	195.7	15.6
11			
12			
13			
14			
14a			
15	19.5	178.0	1.6
16	79.8	74.8	6.4
17			
18	79.8	74.8	6.4
19			
20	1,245.1	451.1	99.6
21	258.1	291.4	20.7
22	987.0	159.7	79.0
23			
24	5,212.8	5,125.4	417.0
25	125.0	71.7	10.0
26			
<b>27 Total</b>	<b>21,338.4</b>	<b>19,471.0</b>	<b>1,707.1</b>

<sup>1</sup> Explanations on movements between reporting periods (31.12.2018 [T] and 30.06.2018 [T-1]): Higher volume of financial assets measured at FVOCI results in higher RWA under credit risk (no.2), lower volume of overdue delivery positions results in lower RWA under settlement risk (no. 15) and significantly higher market risk IMA (no. 22) because of higher market volatility.

<sup>2</sup> Includes RWA of non-counterparty-related risk.

<sup>3</sup> Calculated in accordance with the current exposure method (CEM) until SA-CCR is implemented at the latest by 01.01.2020.

<sup>4</sup> New regulation for the calculation of RWA for investments in funds is implemented at the latest by 01.01.2020.

## LINKAGE BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

This section provides information about the linkage between the carrying values presented in the financial statements and the regulatory exposures of the Group.

The scope of consolidation for the purpose of calculating Group regulatory capital is the same as the consolidation scope according to IFRS. The following table provides a breakdown of the IFRS balance sheet into the risk frameworks used to calculate our regulatory capital requirements.

### L11: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	a	b	c	d	e	f	31.12.2018 g
	Carrying values under the scope of accounting consolidation	Carrying values under the scope of regulatory consolidation				Carrying value of items	
	CHF m	CHF m	Subject to credit risk framework CHF m	Subject to counterparty credit risk framework CHF m	Subject to securitisation framework CHF m	Subject to market risk framework CHF m	Not subject to capital requirements or subject to deduction from capital CHF m
<b>Assets</b>							
Cash	15,835.5	15,835.5	15,835.5				
Due from banks	9,228.8	9,015.6	8,757.3	258.3 <sup>2</sup>			
Cash collateral on securities borrowed		213.2		213.2			
Loans <sup>1</sup>	45,323.2	45,323.2	45,304.3	18.9 <sup>2</sup>			
Trading assets	8,415.6	8,415.6	113.2 <sup>3</sup>			8,302.3	
Derivative financial instruments	2,128.5	2,128.5		2,128.5			
Financial assets designated at fair value	298.8	298.8	298.8				
Financial assets measured at fair value through other comprehensive income (FVOCI)	14,587.6	14,587.6	13,822.8		764.8		
Investments in associates	48.1	48.1	48.1				
Property and equipment	352.8	352.8	352.8				
Goodwill and other intangible assets	2,932.2	2,932.2					2,932.2
Accrued income and prepaid expenses	392.4	392.4	392.4				
Deferred tax assets	15.9	15.9	15.9				
Other assets	3,339.0	3,339.0	1,476.4			1,862.6	
<b>Total assets</b>	<b>102,898.3</b>	<b>102,898.3</b>	<b>86,417.5</b>	<b>2,618.9</b>	<b>764.8</b>	<b>10,164.9</b>	<b>2,932.2</b>

<sup>1</sup> Includes the balance sheet positions lombard loans and mortgages.

<sup>2</sup> Margin accounts.

<sup>3</sup> Includes trading portfolio in the banking book.

BASEL III PILLAR 3 DISCLOSURES 2018 JULIUS BAER GROUP LTD.  
LINKAGE BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

	<b>31.12.2018</b>						
	a	b	c	d	e	f	g
	Carrying values under the scope of accounting consolidation	Carrying values under the scope of regulatory consolidation					Carrying value of items
	CHF m	CHF m	Subject to credit risk framework CHF m	Subject to counterparty credit risk framework CHF m	Subject to securitisation framework CHF m	Subject to market risk framework CHF m	Not subject to capital requirements or subject to deduction from capital CHF m
<b>Liabilities</b>							
Due to banks	6,892.2	6,454.0					6,454.0
Cash collateral on securities lent		438.2		438.2			
Due to customers	71,506.4	71,506.4					71,506.4
Trading liabilities	132.5	132.5				132.5	
Derivative financial instruments	1,719.3	1,719.3		1,719.3			
Financial liabilities designated at fair value	13,703.6	13,703.6					13,703.6
Debt issued	1,503.3	1,503.3					1,503.3
Accrued expenses and deferred income	767.4	767.4					767.4
Current tax liabilities	201.1	201.1					201.1
Deferred tax liabilities	74.9	74.9					74.9
Provisions	24.6	24.6					24.6
Other liabilities	331.2	331.2					331.2
<b>Total liabilities</b>	<b>96,856.4</b>	<b>96,856.4</b>		<b>2,157.5</b>		<b>132.5</b>	<b>94,566.5</b>

The following table illustrates the key differences between regulatory exposure amounts and accounting carrying values under the regulatory scope of consolidation. In addition to the accounting carrying values, the regulatory exposure amount includes

- off-balance sheet amounts (no. 4)
- Differences in netting and collateral mitigation on derivatives; in addition, exposures on credit valuation adjustments (CVA) (no. 5)
- SFTs and differences in netting and collateral mitigation on SFT's through the comprehensive measurement approach; in addition, exposures on settlement risk (no. 6)
- effect of collateral mitigation in the banking book; in addition, exposures that are only subject to market risk (no. 7)

**LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements**

No.	31.12.2018				
	a	b	c	d	e
	Total	Positions subject to:			
	CHF m	Credit risk framework CHF m	Counter- party credit risk framework CHF m	Securiti- sation framework CHF m	Market risk framework CHF m
1	99,966.1	86,417.5 <sup>1</sup>	2,618.9	764.8	10,164.9
2	-2,157.5		-2,157.5		
3	97,808.7	86,417.5	461.4	764.8	10,164.9
4	498.9	498.9			
5	1,792.4		1,792.4		
6	419.4		419.4		
7	-47,882.3	-37,717.3			-10,164.9
8	<b>52,637.1</b>	<b>49,199.1<sup>2</sup></b>	<b>2,673.2<sup>3</sup></b>	<b>764.8</b>	<b>-</b>

<sup>1</sup> Includes non-counterparty credit risk related positions.

<sup>2</sup> Amount is equal to the total sum of EAD post CRM of credit risk CR5 plus EAD amount from the threshold calculation of CHF 50 million.

<sup>3</sup> Amount is equal to the total sum of EAD post CRM of the counterparty credit risk tables CCR1, CCR2, CCR8 and EAD from settlement risk of CHF 3.4 million.

The table (disclosure requirements according to table LIA, FINMA circular 2016/1, annex 2) below presents an overview of disclosures regarding the measurement of fair value separately provided in the Annual Report 2018 of the Group published in the Financial Reporting section of the [www.juliusbaer.com](http://www.juliusbaer.com) website.

<b>Pillar 3 disclosure requirement</b>	<b>Annual Report 2018 section</b>	<b>Disclosure</b>	<b>Annual Report 2018 page numbers</b>
Valuation methodologies applied	Comment on risk and capital management	- Market risk (trading book)	124-125
Valuation adjustments	Additional information	- Fair Value Measurement	176-178

#### **Independent price verification process**

The Group's fair value measurement and model governance framework includes numerous controls and other procedural safeguards that are intended to maximize the quality of fair value measurements reported in the financial statements. New products and valuation techniques must be reviewed and approved by key stakeholders. Fair value estimates are validated by risk and finance functions, which are independent of the business divisions. Independent price verification is performed by the Market Risk & Product Control department through benchmarking

fair value estimates with observable market prices and other independent sources. For instruments where valuation models are used to determine fair value an independent valuation and model control group within Market Risk & Product Control evaluates models on a regular basis, including valuation and model input parameters as well as pricing.

#### **Prudent valuation adjustments**

There are no prudent valuation adjustments as at 31 December 2018.

## CAPITAL COMPONENTS

### COMPOSITION OF CAPITAL

The table below provides the composition of capital as defined by the FINMA disclosure circular. Reference is made to items reconciling to the balance sheet as disclosed in the section 'Balance sheet reconciliation'.

#### CC1: Composition of regulatory capital

No. <sup>1</sup>	31.12.2018 Fully-applied amounts CHF m	References
<b>Common Equity Tier 1 capital (CET1)</b>		
1	4.5	1
2	6,474.7	2
3	-130.3	3
5	-	
6	<b>6,348.9</b>	
<b>Regulatory adjustments to CET1</b>		
8	-2,092.9	4
9	-809.5	5
10	-14.0	6
14	-1.4	
16	-258.7	
	-335.7	
26	-105.5	
28	<b>-3,617.7</b>	
29	<b>2,731.2</b>	

<sup>1</sup> Row numbers according to the sample table enclosed in the FINMA circular 2016/1, annex 2, table CC1.

<sup>2</sup> Before deduction of treasury shares of CHF 308.9 million.

<sup>3</sup> Reference 5: Minus CHF 809.5 million is equal to minus CHF 839.3 million other intangible assets plus CHF 29.9 million deferred tax liabilities.



BASEL III PILLAR 3 DISCLOSURES 2018 JULIUS BAER GROUP LTD.  
CAPITAL COMPONENTS

No. <sup>1</sup>	31.12.2018 Fully-applied amounts CHF m	References
<b>Additional Tier 1 capital (AT1)</b>		
30	1,204.9	
32	1,204.9	
33	-	
36	<b>1,204.9</b>	
<b>Regulatory adjustments to AT1</b>		
37	-3.2	
43	<b>-3.2</b>	
44	<b>1,201.8</b>	7
45	<b>3,933.0</b>	
<b>Tier 2 capital (T2)</b>		
47	-	
51	-	
<b>Regulatory adjustments to T2</b>		
52	-	
56	58.2	
57	<b>58.2</b>	
58	<b>58.2</b>	
59	<b>3,991.2</b>	
<b>Risk-weighted assets (RWA)</b>		
60	<b>21,338.4</b>	

<sup>1</sup> Row numbers according to the sample table enclosed in the FINMA circular 2016/1, annex 2, table CC1.

BASEL III PILLAR 3 DISCLOSURES 2018 JULIUS BAER GROUP LTD.  
CAPITAL COMPONENTS

No. <sup>1</sup>	31.12.2018 Fully-applied amounts CHF m	References	
<b>Capital ratios</b>			
61	CET1 ratio (no. 29, as a percentage of risk-weighted assets)	12.8%	
62	T1 ratio (no. 45, as a percentage of risk-weighted assets)	18.4%	
63	Regulatory capital ratio (no. 59, as a percentage of risk-weighted assets)	18.7%	
64	CET1 requirements in accordance with Basel minimal standards (capital buffer + countercyclical buffer), as a percentage of risk-weighted assets	2.0%	
65	<i>of which capital conservation buffer</i>	1.9%	
66	<i>of which countercyclical buffer</i>	0.2%	
68	CET1 available to meet buffer requirements as per the Basel minimal standards, after deduction of CET1 to cover the minimum requirements, as a percentage of risk-weighted assets	8.3%	
68a	CET1 total requirement target in accordance with annex 8 of the CAO plus the countercyclical buffer (as a percentage of risk-weighted assets)	8.1%	
68b	<i>of which countercyclical buffers as per art. 44 and art. 44a CAO (as a percentage of risk-weighted assets)</i>	0.3%	
68c	CET1 available (as a percentage of risk-weighted assets)	12.8%	
68d	T1 total requirement in accordance with annex 8 of the CAO plus the countercyclical buffer (as a percentage of risk-weighted assets)	9.9%	
68e	T1 available (as a percentage of risk-weighted assets)	16.3%	
68f	Total requirement for regulatory capital in accordance with annex 8 of the CAO plus the countercyclical buffer (as a percentage of risk-weighted assets)	12.3%	
68g	Regulatory capital available (as a percentage of risk-weighted assets)	18.7%	
<b>Amounts below the thresholds for deduction (before risk-weighting)</b>			
72	Non-qualified participations in the financial sector	122.1	
73	Other qualified participations in the financial sector	48.1	
75	Other deferred tax assets	1.9	8
<b>Applicable cap on the inclusion of provisions in T2</b>			
76	Loss allowance eligible in T2 in the context of the SABIS approach	10.7	
77	Cap on inclusion of valuation adjustments in T2 in the context of SABIS approach	181.6	

<sup>1</sup> Row numbers according to the sample table enclosed in the FINMA circular 2016/1, annex 2, table CC1.

## BALANCE SHEET RECONCILIATION

In 2018, the scope of consolidation used for the calculation of capital adequacy is identical to the one applied for accounting purposes. Note 27A in the Annual Report of the Group (available in the Financial Reporting section of the [www.juliusbaer.com](http://www.juliusbaer.com) website) provides an overview of the Group's

consolidated companies. Therefore the balance sheet according to the regulatory scope of consolidation is identical to the IFRS balance sheet. In the table below the line items of the balance sheet are expanded and referenced where relevant to display all components that are disclosed in the table as shown in the section 'Composition of capital'.

### CC2: Reconciliation of regulatory capital to balance sheet

Consolidated balance sheet <sup>1</sup>	31.12.2018 According to the financial statements CHF m	References <sup>2</sup>
<b>Assets</b>		
Cash	15,835.5	
Due from banks	9,015.6	
Cash collateral on securities borrowed	213.2	
Lombard loans	35,902.4	
Mortgages	9,420.8	
Trading assets	8,415.6	
Derivative financial instruments	2,128.5	
Financial assets designated at fair value	298.8	
Financial assets measured at FVOCI	14,587.6	
Investments in associates	48.1	
Property and equipment	352.8	
Goodwill and other intangible assets	2,932.2	
<i>of which goodwill</i>	2,092.9	4
<i>of which other intangible assets</i>	839.3	5
Accrued income and prepaid expenses	392.4	
Deferred tax assets	15.9	
<i>of which deferred tax assets on loss carried-forwards</i>	14.0	6
<i>of which deferred tax assets on temporary differences</i>	1.9	8
Other assets	3,339.0	
<b>Total assets</b>	<b>102,898.3</b>	

<sup>1</sup> The balance sheet positions are presented in accordance with the sample table as shown in the FINMA circular 2016/1, annex 2, table CC2.

<sup>2</sup> For the reconciliation of individual balance sheet amounts the listed reference numbers in this table set a link to corresponding reference numbers in the table CC1.

BASEL III PILLAR 3 DISCLOSURES 2018 JULIUS BAER GROUP LTD.  
CAPITAL COMPONENTS

**Consolidated balance sheet<sup>1</sup>**

**31.12.2018**  
According to the  
financial statements  
CHF m                      References<sup>2</sup>

<b>Liabilities and equity</b>		
Due to banks	6,454.0	
Cash collateral on securities lent	438.2	
Due to customers	71,506.4	
Trading liabilities	132.5	
Derivative financial instruments	1,719.3	
Financial liabilities designated at fair value	13,703.6	
Debt issued	1,503.3	
<i>of which tier 1 bond issued 2014 (Basel III-compliant capital instrument)<sup>3</sup></i>	345.5	7
<i>of which tier 1 bond issued 2015 (Basel III-compliant capital instrument)<sup>3</sup></i>	328.7	7
<i>of which tier 1 bond issued 2016 (Basel III-compliant capital instrument)<sup>3</sup></i>	234.2	7
<i>of which tier 1 bond issued 2017 (Basel III-compliant capital instrument)<sup>3</sup></i>	293.4	7
Accrued expenses and deferred income	767.4	
Current tax liabilities	201.1	
Deferred tax liabilities	74.9	
<i>of which deferred tax liabilities on goodwill</i>	-	
<i>of which deferred tax liabilities on other intangible assets</i>	29.9	5
Provisions	24.6	
Other liabilities	331.2	
<b>Total liabilities</b>	<b>96,856.4</b>	
Share capital	4.5	1
Retained earnings	6,474.7	2
Other components of equity	-130.3	3
Treasury shares	-308.9	
Equity attributable to shareholders of Julius Baer Group Ltd.	6,039.9	
Non-controlling interests	1.9	
<b>Total equity</b>	<b>6,041.9</b>	
<b>Total liabilities and equity</b>	<b>102,898.3</b>	

<sup>1</sup> The balance sheet positions are presented in accordance with the sample table as shown in the FINMA circular 2016/1, annex 2, table CC2.

<sup>2</sup> For the reconciliation of individual balance sheet amounts the listed reference numbers in this table set a link to corresponding reference numbers in the table CC1.

<sup>3</sup> Further details regarding tier 1 instruments can be found at [www.juliusbaer.com/cap-instr](http://www.juliusbaer.com/cap-instr).

GEOGRAPHICAL DISTRIBUTION OF  
 CREDIT EXPOSURES USED IN THE  
 COUNTERCYCLICAL BUFFER

In the table below the countercyclical buffer requirements are shown based on the jurisdictions in which the Group has private sector credit exposures subject to a countercyclical buffer requirement compliant with the Basel III standards.

**CCyB1: Geographical distribution of credit exposures used in the countercyclical buffer**

	a	c	d	31.12.2018 e
Geographical breakdown	Countercyclical capital buffer rate	Risk-weighted assets used in the computation of the countercyclical buffer	Bank specific countercyclical capital buffer rate	Countercyclical buffer amount
	%	CHF m	%	CHF m
Sweden	2.00	63.30		
Hong Kong	1.88	212.80		
United Kingdom	1.00	572.00		
Sum		848.10		
Total		6,904.70	0.16	34.30

## LEVERAGE RATIO

### INTRODUCTION

In addition to the existing requirement for banks to hold eligible capital proportionate to their risk-weighted assets, the leverage ratio is a non-risk-based metric, defined as the ratio between eligible (tier 1) core capital and total exposure. The total exposure encompasses all balance-sheet and off-balance sheet positions, and the 'Leverage Ratio' circular defines how these are to be calculated. The minimum ratio requirement is three percent.

### COMPONENTS

The tier 1 leverage ratio was 3.9% at the end of December 2018. The difference of the total exposures of CHF 101,679 million (no. 8 in the following table) to the total on-balance sheet exposures of CHF 102,898 million (no. 1) was minus CHF 1,219 million. The difference is the total of the single amounts of the numbers 2 to 7 in the following table.

#### LR1: Summary comparison of accounting assets versus leverage ratio exposure measure

		<b>31.12.2018</b>
		<i>CHF m</i>
<b>No.</b>		
1	Total assets as per published financial statements	102,898.3
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation (margin nos. 6-7 FINMA circular 15/3), as well as adjustment for assets deducted from Tier 1 capital (margin nos. 16-17 FINMA circular 15/3)	-3,021.8
3	Adjustment for fiduciary assets recognised on the balance sheet for accounting purposes, but excluded from the leverage ratio exposure measure (margin no. 15 FINMA circular 15/3)	-
4	Adjustment for derivative financial instruments (margin nos. 21-51 FINMA circular 15/3)	268.5
5	Adjustment for securities financing transactions (SFTs) (margin nos. 52-73 FINMA circular 15/3)	143.2
6	Adjustment for off-balance-sheet items (i.e. conversion to credit equivalent amounts of off-balance-sheet exposures) (margin nos. 74-76 FINMA circular 15/3)	1,390.8
7	Other adjustments	-
<b>8</b>	<b>Leverage ratio exposure</b>	<b>101,678.9</b>

**LR2: Leverage ratio common disclosure**

		<b>31.12.2018</b>
		<i>CHF m</i>
<b>No.</b>		
<b>On-balance sheet exposures</b>		
1	On-balance sheet items excluding derivatives and SFTs, but including collateral (margin nos. 14-15 FINMA circular 15/3)	100,556.6
2	Assets that must be deducted in determining the eligible tier 1 capital (margin nos. 7 and 16-17 FINMA circular 15/3)	-3,021.8
<b>3</b>	<b>Total on-balance sheet exposures, excluding derivatives and SFTs</b>	<b>97,534.8</b>
<b>Derivative exposures</b>		
4	Replacement values associated with all derivatives transactions, including those with CCPs, taking into account the margin payments received and netting agreements in accordance with margin nos. 22-23 and 34-35 FINMA circular 15/3	1,265.8
5	Add-on amounts for PFE associated with all derivatives transactions (margin nos. 22 and 25 FINMA circular 15/3)	1,544.9
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework (margin no. 27 FINMA circular 15/3)	-
7	Deduction of receivables assets for cash variation margin provided in derivatives transactions, in accordance with margin no. 36 FINMA circular 15/3.	-411.1
8	Deduction relating to exposures to QCCPs if there is no obligation to reimburse the client in the event of the QCCP defaulting (margin no. 39 FINMA circular 15/3)	-298.3
9	Adjusted effective notional amount of written credit derivatives, after deduction of negative replacement values (margin no. 43 FINMA circular 15/3)	300.3
10	Adjusted effective notional offsets of bought/written credit derivatives (margin nos. 44-50 FINMA circular 15/3) and add-on deductions for written credit derivatives (margin no. 51 FINMA circular 15/3)	-4.7
<b>11</b>	<b>Total</b>	<b>2,396.9</b>
<b>Securities financing transaction exposures</b>		
12	Gross SFT assets with no recognition of netting (except in the case of novation with a QCCP as per margin no. 57 FINMA circular 15/3) including sale accounting transactions (margin no. 69 FINMA circular 15/3), less the items specified in margin no. 58 FINMA circular 15/3	213.2
13	Netted amounts of cash payables and cash receivables relating to SFT counterparties (margin nos. 59-62 FINMA circular 15/3)	-
14	CCR exposure for SFT assets (margin nos. 63-68 FINMA circular 15/3)	143.2
15	Agent transaction exposures (margin nos. 70-73 FINMA circular 15/3)	-
<b>16</b>	<b>Total</b>	<b>356.4</b>
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposure at gross notional amounts before application of credit conversion factors	2,014.2
18	Adjustments for conversion to credit equivalent amounts (margin nos. 75-76 FINMA circular 15/3)	-623.4
<b>19</b>	<b>Total</b>	<b>1,390.8</b>
<b>Core capital and total exposure</b>		
20	Core capital (tier 1 capital, margin no. 5 FINMA circular 15/3)	3,933.0
21	Total exposure	101,678.9
<b>22</b>	<b>Leverage ratio (margin nos. 3-4 FINMA circular 15/3)</b>	<b>3.9%</b>

## LIQUIDITY COVERAGE RATIO

### INTRODUCTION

The LCR provides banks with a metric to assist them in ensuring that they hold a sufficient quantity of highly liquid assets to enable them to withstand a short-term (30-day) company-specific stress

situation which coincides with a period of general market stress. The management of the liquidity risks is described in the Annual Report 2018 of the Group in the section 'Management of liquidity and financing risks' (page 127).

### LIQA: Management of liquidity risks

Pillar 3 disclosure requirement	Annual Report 2018 section	Disclosure	Annual Report 2018 page numbers
Governance of liquidity risk management, including: risk tolerance; structure and responsibilities for liquidity risk management; internal liquidity reporting; and communication of liquidity risk strategy.	Comment on risk and capital management	– Financing, liquidity and interest rate risk in the banking book	127-128
Funding strategy, including policies on diversification in the sources and tenor of funding, and whether the funding strategy is centralised or decentralised	Comment on risk and capital management	– Financing, liquidity and interest rate risk in the banking book	127-128
Liquidity risk mitigation techniques	Comment on risk and capital management	– Financing, liquidity and interest rate risk in the banking book	127-128
An explanation of how stress testing is used	Comment on risk and capital management	– Financing, liquidity and interest rate risk in the banking book	127
An outline of the contingency funding plans	Comment on risk and capital management	– Financing, liquidity and interest rate risk in the banking book	128

### COMPONENTS

In the following table the LCR figures are disclosed as 3-month average value per quarter. The total of the high-quality liquid assets (no. 1 in the following table) increased in the fourth quarter compared to the previous quarter value. Simultaneously the total

of net cash outflows (no. 22) increased in the fourth quarter. The changes resulted in a slightly higher liquidity coverage ratio, significantly above the regulatory required minimum ratio of 90% valid as at 31 December 2018 (100% is required from 2019 onwards).



**LIQ1: Liquidity coverage ratio**

No.	Q3 2018		Q4 2018	
	3-month average		3-month average	
	Unweighted value CHF m	Weighted value CHF m	Unweighted value CHF m	Weighted value CHF m
<b>A. High-quality liquid assets</b>				
	Cash and balances with central banks		14,243.1	15,691.0
	Securities category 1 and category 2		4,950.2	5,005.3
<b>1</b>	<b>Total</b>		<b>19,193.2</b>	<b>20,696.2</b>
<b>B. Cash outflows</b>				
2	Retail deposits and deposits		38,451.5	5,399.8
3	<i>of which stable deposits</i>		3,202.8	160.1
4	<i>of which less stable deposits</i>		35,248.7	5,239.6
5	Unsecured wholesale funding		35,800.1	23,395.0
6	<i>of which operational deposits (all counterparties)</i>		-	-
7	<i>of which non-operational deposits (all counterparties)</i>		31,128.6	18,723.5
8	<i>of which unsecured debt</i>		4,671.5	4,671.5
9	Secured wholesale funding		763.6	635.7
10	Additional cash outflows		3,904.1	3,406.8
11	<i>of which outflows related to derivatives and other transactions</i>		3,230.2	3,230.2
12	<i>of which outflows related to loss of funding on debt products</i>		-	-
13	<i>of which committed credit and liquidity facilities</i>		673.9	176.6
14	Other contractual funding obligations		1,762.2	1,743.7
15	Other contingent funding obligations		10,251.2	164.5
<b>16</b>	<b>Total</b>		<b>34,873.4</b>	<b>36,945.4</b>
<b>C. Cash inflows</b>				
17	Secured lending (e.g. reverse repurchase transactions)		591.8	590.3
18	Income from fully performing exposures		32,620.2	19,275.8
19	Other cash inflows		5,362.4	5,362.4
<b>20</b>	<b>Total<sup>1</sup></b>		<b>38,574.4</b>	<b>25,228.4</b>
<b>Liquidity coverage ratio</b>				
21	Total of high-quality liquid assets		19,193.2	20,696.2
22	Total net cash outflows		9,645.0	10,170.1
<b>23</b>	<b>Liquidity coverage ratio (in %)</b>		<b>199.0%</b>	<b>203.5%</b>

<sup>1</sup> After applying the cap on cash inflows at max. 75% of total cash outflows, calculated on a monthly basis.

## CREDIT RISK

This section includes items subject to the Basel credit risk framework. Information on counterparty credit risk arising from derivatives (OTC and ETD), securities financing transactions and long settlement transactions are shown in the section 'Counterparty credit risk', page 31ff. Disclosures related to traditional securitisations held in the Group's banking book and regulatory capital on these exposures can be found in the section 'Securitisation', page 35f.

The tables in this section provide details on the exposures used to determine the credit risk-related regulatory capital requirement of the Group. The exposure information presented in this section may differ from our internal management view disclosed in the 'Comment on risk and capital management' sections of the Annual Report of the Group (available in the financial reporting section of the [www.juliusbaer.com](http://www.juliusbaer.com) website).

The section 'Credit risk' is structured into the four sub-sections

- Credit risk management: This sub-section includes a reference to disclosures on the Group's risk management objectives and risk management process, organisational structure and risk governance.
- Credit quality of assets: This sub-section includes information on the Group's credit risk exposures and credit quality of assets.
- Credit risk mitigation: This sub-section provides a reference to disclosures on collateral evaluation and management, the use of netting and credit risk mitigation instruments. The sub-section also discloses information on credit risk mitigation (CRM) techniques used to reduce credit risk for loans and debt securities.
- Credit risk under the standardised approach: This sub-section includes information on the use of external credit assessment institutions (ECAI) to determine risk weightings applied to rated counterparties. In addition, the sub-section provides quantitative information on credit risk exposures and the effect of CRM under the standardised approach.

## CREDIT RISK MANAGEMENT

The table below presents an overview of credit risk disclosures separately provided in the Annual Report 2018 of the Group, which is published in the Financial Reporting section of the [www.juliusbaer.com](http://www.juliusbaer.com) website.

### CRA: Credit risk: General information

Pillar 3 disclosure requirement	Annual Report 2018 section	Disclosure	Annual Report 2018 page numbers
Impact of business model on the components of the bank's credit risk profile	Comment on risk and capital management	- Credit risk	111-113
Criteria and approach used for defining credit risk management policy and for setting credit risk limits	Comment on risk and capital management	- Risk governance - Credit risk	108-110 111-113
Structure and organisation of the credit risk management and control function	Comment on risk and capital management	- Risk governance - Credit risk	108-110 111-113
Relationships between the credit risk management, risk control, compliance and internal audit functions	Comment on risk and capital management	- Risk governance - Credit risk	108-110 111-113
Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors	Comment on risk and capital management	- Risk governance - Credit risk	108-110 111-113

The table below provides a breakdown of defaulted and non-defaulted loans, debt securities and off-balance sheet exposures.

### CR1: Credit risk: Credit quality of assets

No.					31.12.2018	
		a		b	c	d
		Defaulted exposures CHF m	Non-defaulted exposures CHF m	Gross carrying values	Value adjustments/ impairments	Net values (a+b-c)
			CHF m	CHF m		
1	Loans (excluding debt securities)	93.2	70,109.7	31.6	70,171.3 <sup>1</sup>	
2	Debt securities	-	13,677.4	-	13,677.4 <sup>2</sup>	
3	Off-balance sheet exposures	-	2,014.2	-	2,014.2	
4	<b>Total</b>	<b>93.2</b>	<b>85,801.4</b>	<b>31.6</b>	<b>85,863.0</b>	

<sup>1</sup> Net values of loans include cash (after deduction of coins and notes of CHF 24.5 million), due from banks, lombard loans, mortgages as well as financial assets designated at fair value of the credit risk framework disclosed in table LI1 in the column subject to credit risk framework.

<sup>2</sup> Net values of debt securities include financial assets measured at FVOCI minus securitisation positions, equity and investment funds of total CHF 910.1 million.

With regard to table CR2: The changes in stock of impaired loans is provided in the Annual Report 2018 of the Group, pages 117-118 (published in the Financial Reporting section of the [www.juliusbaer.com](http://www.juliusbaer.com) website).

## CREDIT QUALITY OF ASSETS

The table below presents an overview of disclosures regarding the credit quality of assets separately provided in the Annual Report 2018 of the Group, which is published in the Financial Reporting section of the [www.juliusbaer.com](http://www.juliusbaer.com) website.

### CRB: Credit risk: Additional disclosure related to the credit quality of assets

Pillar 3 disclosure requirement	Annual Report 2018 section	Disclosure	Annual Report 2018 page numbers
The scope and definitions of 'past due' and 'impaired' exposures used for accounting purposes and any differences with respect to 'past due' and 'defaulted' for regulatory purposes	Summary of significant accounting policies	– Accounting policies	99-100 <sup>1</sup>
	Comment on risk and capital management	– Credit risk	113-114
The extent of past due exposures (more than 90 days) that are not considered to be impaired and the reasons for this	Comment on risk and capital management	– Credit risk	- <sup>2</sup>
Description of methods used for determining impairments	Summary of significant accounting policies	– Accounting policies	99-100, 103
	Comment on risk and capital management	– Credit risk	114-115
Ageing analysis of accounting past due exposures	Comment on risk and capital management	– Credit risk	- <sup>2</sup>

<sup>1</sup> No different treatment under accounting and regulatory approach.

<sup>2</sup> Past due exposures are considered as impaired exposures.

### Additional quantitative disclosures related to the credit quality of assets

According to the description to table 'CRB' in the FINMA circular 2016/1 'Disclosure – banks', annex 2, additional quantitative tables as breakdowns of exposures by geographical area and sectors are disclosed in the Annual Report 2018 of the Group (pages 121-122), which is published in the Financial Reporting section of the [www.juliusbaer.com](http://www.juliusbaer.com) website. The carrying values per selected balance sheet positions of the banking book are shown including credit risk, counterparty credit risk and securitisations positions.

### Impaired loans

Impaired loans are disclosed in the Annual Report 2018 of the Group (page 117), which is published in the Financial Reporting section of the [www.juliusbaer.com](http://www.juliusbaer.com) website.

### Restructured exposures

Any credit case requiring restructuring is assessed on an individual basis and individual provisions are booked if required. The main goal of such restructuring actions is to avoid the client's default and minimize the loss potential for the Group. Typical terms and conditions offered in case of restructuring may be postponed payments of interest or principal, adjusted interest rates or the modification of the repayment schedule or even an increase of the credit exposure to limit the client's liquidity shortage.

Any case which is in a restructuring process remains classified as impaired and provisions are built or maintained to cover foregone interest and potential losses. Special conditions granted to clients without the need to preserve clients from default are not considered as restructuring measures. As at 31 December 2018 the Group had no restructured exposures outstanding.

## CREDIT RISK MITIGATION

The table below presents an overview of Pillar 3 disclosures separately provided in the Annual Report 2018 of the Group (published in the Financial Reporting section of the [www.juliusbaer.com](http://www.juliusbaer.com) website).

### **CRC: Credit risk: Qualitative disclosure requirements related to mitigation techniques**

<b>Pillar 3 disclosure requirement</b>	<b>Annual Report 2018 section</b>	<b>Disclosure</b>	<b>Annual Report 2018 page numbers</b>
Core features of policies and processes for on- and off-balance-sheet netting, and an indication of the extent to which the bank makes use of such netting	Comment on risk and capital management	- Credit risk	111
	Note Financial instruments	- Financial instruments - Offsetting	182
Core features of policies and processes for collateral evaluation and management	Comment on risk and capital management	- Credit risk	111-116
Information about market or credit risk concentrations under the credit risk mitigation instruments used (i.e. by guarantor type, collateral and credit derivative protection providers)	Comment on risk and capital management	- Credit risk	111

## MITIGATION CREDIT RISK UNDER THE STANDARDISED APPROACH

### **Approaches used for calculating required capital for credit risk**

For calculating the required capital for credit risk, the Group uses the BIS standardised approach (SABIS) according to the Swiss Capital Adequacy Ordinance (CAO). In the CAO and the circulars referred to therein, the calculation procedures are described in detail. In addition, the following subsidiary approaches are used to calculate the required capital for credit risk:

- Collateral is handled under the comprehensive approach, which means that the credit position is netted against the collateral provided. This takes into account add-ons or haircuts on the receivable and the collateral to reflect possible changes in value based on market developments. The resulting net unsecured position remains in the original position category and is risk weighted according to the criteria applicable to this category.
- Lombard loans are also handled under the comprehensive approach described above.
- The regulatory standard haircuts are used for collateral eligible under the comprehensive approach.

The table below provides a breakdown of unsecured and partially or fully secured exposures, including security type, for the categories loans and debt securities.

**CR3: Credit risk: Overview of mitigation techniques<sup>1</sup>**

						31.12.2018	
		a	b1	b	d	f	
		Exposures unsecured/ carrying amount CHF m	Exposures to be secured CHF m	Exposures secured by collateral CHF m	Exposures secured by financial guarantees CHF m	Exposures secured by credit derivatives CHF m	
<b>No.</b>							
1	Loans excluding debt securities <sup>1</sup>	20,290.2	49,881.1	45,540.5	102.7	-	
2	Debt securities <sup>1</sup>	13,269.5	407.9	21.2	386.7	-	
3	<b>Total assets</b>	<b>33,559.7</b>	<b>50,289.0</b>	<b>45,561.7</b>	<b>489.3</b>	<b>-</b>	

<sup>1</sup> The total amounts of loan and debt exposures of columns a and b1 are in line with the amounts of exposure on table CR1 in column d, rows 1 and 2.

The table below illustrates the effect of credit risk mitigation on the calculation of capital requirements under the standardised approach.

**CR4: Credit risk: Exposure and credit risk mitigation (CRM) effects under the standardised approach**

						31.12.2018	
		a	b	c	d	e	f
		Exposures before CCF <sup>1</sup> and CRM		Exposures post CCF <sup>1</sup> and CRM			
Exposure classes		On-balance sheet amount CHF m	Off-balance sheet amount CHF m	On-balance sheet amount CHF m	Off-balance sheet amount CHF m	RWA CHF m	RWA density in %
<b>No.</b>							
1	Central governments and central banks	21,145.2	-	21,534.7	-	117.7	0.5
2	Banks and securities firms	14,778.8	18.6	9,580.1	215.1	3,211.7	32.8
3	Other public sector entities and multilateral development banks	1,096.5	55.2	755.5	27.6	174.7	22.3
4	Corporates	6,519.7	424.7	4,306.3	52.0	2,251.5	51.7
5	Retail	42,254.1	1,456.4	11,988.6	136.1	7,552.4	62.3
6	Equity	244.1	59.2	105.8	68.1	171.4	98.6
7	Other exposures <sup>2</sup>	379.2		379.2	-	353.8	93.3
8	<b>Total</b>	<b>86,417.5</b>	<b>2,014.2</b>	<b>48,650.2</b>	<b>498.9</b>	<b>13,833.1</b>	<b>28.1</b>

<sup>1</sup> Credit conversion factors (CCF).

<sup>2</sup> Of which non-counterparty credit risk position of CHF 352.8 million.

**Use of external ratings**

The standardised approach requires banks to use, where possible, risk assessments prepared by ECAI or export credit agencies to determine the risk weightings applied to rated counterparties. We use FINMA-recognised ECAI risk assessments to determine the risk weight for certain counterparties according to the BIS defined exposure segments.

The Group uses three FINMA-recognised ECAI for this purpose: Moody's Investors Service, Standard &

Poor's and Fitch Ratings. The mapping of external ratings to the standardised approach risk weights is determined by FINMA and published on its website.

The Group risk-weights debt instruments in accordance with the specific issue ratings available. In case there is no specific issue rating published by the ECAI, the issuer rating is applied to the senior unsecured claims of that issuer subject to the conditions prescribed by FINMA.

**CRD: Credit risk: Qualitative disclosures of banks' use of external credit ratings under the standardised approach**

		<b>31.12.2018</b>		
		External credit rating equivalent		
<b>No.</b>		Moody's Investors Service	Standard & Poor's	Fitch
1	Central governments and central banks	X	X	X
2	Banks and securities firms	X	X	X
3	Other public sector entities and multilateral development banks	X	X	X
4	Corporates	X	X	X
5	Retail			
6	Equity			
7	Other exposures			

**CR5: Credit risk: Exposures by exposure category and risk weights under the standardised approach**

										31.12.2018	
	a	b	c	d	e	f	g	h	i	j	
Risk weights	0%	10%	20%	35%	50%	75%	100%	150%	Other	Total credit exposures amount (post CCF and CRM)	
	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	
<b>No.</b>											
<b>Asset classes</b>											
1	Central governments and central banks	21,004.7	-	491.1	-	38.9	-	-	-	-	21,534.7
2	Banks and securities firms	-	-	5,767.2	-	3,908.0	-	120.1	-	-	9,795.2
3	Other public sector entities and multilateral development banks	235.5	-	346.1	-	192.2	-	9.4	-	-	783.1
4	Corporates	-	-	1,653.8	118.2	1,417.8	3.0	1,160.0	5.5	-	4,358.3
5	Retail	-	-	-	6,816.0	-	632.5	4,675.3	0.9	-	12,124.7
6	Equity	-	-	68.1	-	-	-	1.9	103.9	-	173.9
7	Other exposures	24.5	-	-	-	-	-	354.7	-	-	379.2
8	<b>Total</b>	<b>21,264.7</b>	<b>-</b>	<b>8,326.3</b>	<b>6,934.2</b>	<b>5,556.9</b>	<b>635.5</b>	<b>6,321.4</b>	<b>110.3</b>	<b>-</b>	<b>49,149.1<sup>1</sup></b>
9	<i>of which covered by mortgages</i>	-	-	-	6,884.2	-	161.1	1,129.3	-	-	8,174.7

<sup>1</sup> The total credit exposures amount (post CCF and CRM) is equal to the sum of the credit exposure amounts in table CR4 row 8 columns c and d.



## COUNTERPARTY CREDIT RISK

Counterparty credit risk (CCR) includes over-the-counter (OTC) and exchange-traded derivatives (ETDs), securities financing transactions (SFTs) and long settlement transactions. The Group applies the current exposure method (CEM) based on the replacement value of derivatives in combination

with a regulatory prescribed add-on. For the securities financing transactions (securities borrowing, securities lending, repurchase agreements and reverse repurchase agreements), the Group determines the regulatory credit exposure using the standard approach.

### COUNTERPARTY CREDIT RISK MANAGEMENT

The table below presents an overview of counterparty credit risk disclosures separately provided in the Annual Report 2018 of the Group, which is published in the Financial Reporting section of the [www.juliusbaer.com](http://www.juliusbaer.com) website.

#### CCRA: Counterparty credit risk: Qualitative disclosure

Pillar 3 disclosure requirement	Comment on risk and capital management	Disclosure	Annual Report 2018 page numbers
The method used to assign the operating limits defined in terms of internal capital for counterparty credit exposures and for CCP exposures	Comment on risk and capital management	– Credit risk	111-113
Policies relating to guarantees and other risk mitigants and assessments concerning counterparty risk, including exposures towards CCPs	Comment on risk and capital management	– Credit risk	111-113
Policies with respect to wrong-way risk exposures	Comment on risk and capital management	– Credit risk	111
The impact in terms of the amount of collateral that the bank would be required to provide given a credit rating downgrade	Comment on risk and capital management	– Credit risk	111

#### Approaches used for calculating required capital for counterparty credit risk

For calculating the required capital for credit risk, the Group uses the standardised approach SABIS according to the Swiss Capital Adequacy Ordinance (CAO). In the CAO and the circulars referred to therein, the calculation procedures are described in detail. Particularly to mention are the following subsidiary approaches used to calculate the required capital for counterparty credit risk:

- Credit equivalents for derivatives are calculated using the mark-to-market method. The credit equivalent corresponds to the sum of the current replacement value and the add-on which is

calculated on the basis of the notional amount of the contract. Netting agreements in this context have to fulfill the conditions as defined by the regulator.

- Securities lending, repo and repo-style transactions are handled in accordance with the comprehensive approach, under which capital is required to cover the difference between the margin provided less a haircut and the securities position plus a risk premium.
- The standard approach is used to quantify the risk of a loss due to credit value adjustments (CVAs) of derivatives based on counterparty credit risks.

**CCR1: Counterparty credit risk: Analysis by approach**

No.		31.12.2018					
		a	b	c	d	e	f
		Replacement cost CHF m	Potential future exposure CHF m	EEPE CHF m	Alpha used for computing regulatory EAD CHF m	EAD post CRM CHF m	RWA CHF m
1	SA-CCR (for derivatives) <sup>1</sup>	1,206.1	1,368.8			870.8	453.6
2	IMM (for derivatives and SFTs)						
3	Simple approach for risk mitigation (for SFTs)						
4	Comprehensive approach for risk mitigation (for SFTs)					416.0	152.0
5	VaR for SFTs						
6	<b>Total</b>						<b>605.5</b>

<sup>1</sup> Calculated in accordance with the CEM, until SA-CCR is implemented at the latest by 1 January 2020.

In addition to the default risk capital requirements for counterparty credit risk determined based on standardised approach, we are required to add a capital charge to derivatives to cover the risk of mark-to-market losses associated with the deterioration of counterparty credit quality,

referred to as the CVA. The standardised CVA approach has been used to calculate the CVA. Further detail on our portfolios subject to the CVA capital charge as at 31 December 2018 is provided in the table below.

**CCR2: Counterparty credit risk: Credit valuation adjustment (CVA) capital charge**

No.		31.12.2018	
		a	b
		EAD post CRM CHF m	RWA CHF m
	Total portfolios subject to the advanced CVA capital charge		
1	VaR component (including the 3 × multiplier)		
2	SVaR component (including the 3 × multiplier)		
3	All portfolios subject to the standardised CVA capital charge	779.4	195.1
4	<b>Total subject to the CVA capital charge</b>	<b>779.4</b>	<b>195.1</b>

**CCR3: Counterparty credit risk: Standardised approach to CCR exposures by exposure category and risk weights**

										31.12.2018
		a	b	c	d	e	f	g	h	i
Risk weight		0%	10%	20%	50%	75%	100%	150%	Other	Total
		CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	credit
No.										
1	Central governments and central banks	-	-	-	-	-	-	-	-	-
2	Banks and securities firms	-	-	541.7	257.6	-	37.2	-	-	836.5
3	Other public sector entities and multilateral development banks	-	-	-	-	-	1.7	-	-	1.7
4	Corporates	-	-	2.9	0.1	-	112.4	-	-	115.4
5	Retail	-	-	-	-	20.5	152.2	-	-	172.7
6	Equity	-	-	118.4	33.8	0.2	8.1	-	-	160.5
7	Other exposures	-	-	-	-	-	-	-	-	-
8	<b>Total</b>	-	-	<b>663.0</b>	<b>291.5</b>	<b>20.7</b>	<b>311.6</b>	-	-	<b>1,286.8</b>

**CCR5: Counterparty credit risk: Composition of collateral for CCR exposure**

						31.12.2018				
		a		b		c		d	e	f
		Collateral used in derivative transactions				Collateral used in SFTs				
		Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received		Fair value of posted collateral		
		Segregated	Unsegregated	Segregated	Unsegregated	CHF m		CHF m		
		CHF m	CHF m	CHF m	CHF m					
	Cash – CHF	-	167.8	-	63.0	151.0		-		-
	Cash – other currencies	-	115.8	-	214.2	287.9		213.2		
	Swiss Confederation sovereign debt	-	-	37.0	-	47.3		11.0		
	Other sovereign debt	-	-	429.5	-	907.6		1,095.9		
	Government and agency debt	-	-	44.3	-	52.7		12.7		
	Corporate bonds	-	-	226.8	-	318.8		418.5		
	Equity securities	-	-	-	-	284.8		651.3		
	Other collateral	-	-	-	-	95.3		175.5		
	<b>Total</b>	-	<b>283.6</b>	<b>737.6</b>	<b>277.2</b>	<b>2,145.3</b>		<b>2,578.1</b>		

**CCR6: Counterparty credit risk: Credit derivatives exposures<sup>1</sup>**

	<b>31.12.2018</b>	
	a	b
	Protection bought CHF m	Protection sold CHF m
<b>Notionals</b>		
Single-name CDSs	184.9	115.4
Index CDSs	-	-
Total return swaps	24.5	37.4
Credit options	-	-
<b>Total notionals</b>	<b>209.4</b>	<b>152.9</b>
<b>Fair values</b>		
Positive replacement value (asset)	1.6	2.0
Negative replacement value (liability)	2.9	3.8

<sup>1</sup> Held for trading

**CCR8: Counterparty credit risk: Exposures to central counterparties**

	<b>31.12.2018</b>	
	a	b
	EAD post CRM CHF m	RWA CHF m
<b>No.</b>		
1 Exposures to QCCPs (total)		22.5
2 Exposures for trades at QCCPs (excluding initial margin and default fund contributions)	293.6	5.9
3 <i>of which OTC derivatives</i>		
4 <i>of which exchange-traded derivatives</i>	293.6	5.9
5 <i>of which SFTs</i>		
6 <i>of which netting sets where cross-product netting has been approved</i>		
7 Segregated initial margin	280.3	
8 Non-segregated initial margin		
9 Pre-funded default fund contributions	29.6	16.7
10 Unfunded default fund contributions		
11 Exposures to non-QCCPs (total)		
12 Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions)		
13 <i>of which OTC derivatives</i>		
14 <i>of which exchange-traded derivatives</i>		
15 <i>of which SFTs</i>		
16 <i>of which netting sets where cross-product netting has been approved</i>		
17 Segregated initial margin		
18 Non-segregated initial margin		
19 Pre-funded default fund contributions		
20 Unfunded default fund contributions		

## SECURITISATIONS

### EXTERNAL RATINGS-BASED APPROACH

The following disclosures refer to traditional securitisations held in our banking book and regulatory capital on these exposures calculated according to the Basel framework for securitisations. The Group invests in securitisation-related products created by third parties holding securitisation instruments in the banking book referencing different types of underlying assets including retail real estate loans.

The Group has in place a comprehensive risk management process whereby the front office and risk management work together to monitor positions, portfolio structure, and trading activity

and calculate a set of risk measures on a daily basis considering interest rate risk and credit spread risk sensitivities. We have also put in place a set of key risk limits for the purpose of managing the Group's risk appetite framework in relation to securitisation.

The Group holds only traditional securitisation exposures in the banking book at the end of December 2018. We apply the external ratings-based approach using ratings from Moody's Investors Service, Standard & Poor's and Fitch Ratings for all securitisation exposures.

The securitisation positions in the banking book are measured at fair value, reflecting market price.

### SEC1: Securitisations: Exposures in the banking book

		31.12.2018					
		a/e	b/f	c/g	i	j	k
		Bank acts as originator and/or sponsor			Bank acts as investor		
No.		Traditional CHF m	Synthetic CHF m	Sub-Total CHF m	Traditional CHF m	Synthetic CHF m	Sub-Total CHF m
1	Retail (total)				335.5		335.5
2	<i>of which residential mortgages</i>				137.0		137.0
3	<i>of which credit card</i>				45.9		45.9
4	<i>of which other retail exposures</i>				152.5		152.5
5	<i>of which re-securitisation</i>						
6	Wholesale (total)				429.3		429.3
7	<i>of which loans to corporates</i>				429.3		429.3
8	<i>of which commercial mortgages</i>						
9	<i>of which lease and receivables</i>						
10	<i>of which other wholesale</i>						
11	Re-securitisation						
12	<b>Total exposure</b>				<b>764.8</b>		<b>764.8</b>

**SEC4: Securitisations: Exposures in the banking book and associated capital requirements – bank acts as investor**

														<b>31.12.2018</b>	
	a	b	c	d	e	g <sup>1</sup>	h	i	k <sup>1</sup>	l	m	o <sup>1</sup>	p	q	
	Exposure values (by RWA bands)				Exposure values (by regulatory approach)			RWA (by regulatory approach)			Capital charge after cap				
	<=20%	>20% to 50%	>50% to 100%	>100% to <1250%	1250%	SEC- ERBA <sup>2</sup>	SEC- SA	1250%	SEC- ERBA <sup>2</sup>	SEC- SA	1250%	SEC- ERBA <sup>2</sup>	SEC- SA	1250%	
<b>No.</b>	<i>CHF m</i>														
1	Total exposure	755.9	6.0	2.9		764.8			79.8				6.4		
2	Traditional securitisation	755.9	6.0	2.9		764.8			79.8				6.4		
3	of which securitisation	755.9	6.0	2.9		764.8			79.8				6.4		
4	of which retail underlying	326.6	6.0	2.9		335.5			36.9				2.9		
5	of which wholesale	429.3				429.3			42.9				3.4		
6	of which re-securitisation														
7	of which senior														
8	of which non-senior														
9	Synthetic securitisation														
10	of which securitisation														
11	of which retail underlying														
12	of which wholesale														
13	of which re-securitisation														
14	of which senior														
15	of which non-senior														

<sup>1</sup> Not shown above are the columns f, j and n which have to be used for the SEC-IRBA approach.

<sup>2</sup> The SEC-ERBA column includes figures of the internal assessment approach (IAA), if applied.

## MARKET RISK

### OVERVIEW OF APPLIED METHODS AND MANAGEMENT OF MARKET RISK

The amount of capital required to underpin market risk in the regulatory trading book is calculated using a variety of methods approved by FINMA. The components of market risk RWA are value at risk (VaR) and stressed VaR (SVaR). For hedge funds held in the trading book the required capital is calculated according to the credit risk standardised approach. Given the limited materiality of the

positions concerned, the required capital of the Group's fixed income trading positions is calculated according to the market risk standardised approach. Therefore, the incremental risk charge (IRC) is not applicable. The comprehensive risk measure (CRM) capital charge requirements are also not applicable, as the Group does not engage in trading of securitisation positions or nth-to-default credit derivatives. More information on each of these applicable components is detailed in the following pages.

The table below presents an overview of Pillar 3 disclosures including the management of market risk separately provided in the Annual Report 2018 of the Group, which is published in the Financial Reporting section of the [www.juliusbaer.com](http://www.juliusbaer.com) website.

#### MRA: Market risk: Qualitative disclosure requirements

Pillar 3 disclosure requirement	Annual Report 2018 section	Disclosure	Annual Report 2018 page numbers
Strategies and processes of the bank for market risk	Comment on risk and capital management	- Risk governance - Market risk (trading book)	108 123-126
Structure and organisation of the market risk management function	Comment on risk and capital management	- Market risk (trading book)	123
Scope and nature of reporting and/or measurement systems	Comment on risk and capital management	- Market risk (trading book)	123-124

The table below illustrates the required capital for the fixed income and the hedge fund trading positions.

#### MR1: Market risk: Minimum capital requirements under standardised approach

No.		31.12.2018 <sup>a</sup>
		RWA CHF m
<b>Outright products</b>		
1	Interest rate risk (specific)	162.2
2	Equity risk (general and specific)	96.0
3	Foreign exchange risk	
4	Commodity risk	
<b>Options</b>		
5	Simplified approach	
6	Delta-plus method	
7	Scenario approach	
8	Securitisation	
9	<b>Total</b>	258.1

The table below presents an overview of Pillar 3 disclosures regarding the use of the internal model approach separately provided in the Annual Report 2018 of the Group, which is published in the Financial Reporting section of the [www.juliusbaer.com](http://www.juliusbaer.com) website.

**MRB: Market risk: Qualitative disclosures for banks using the internal model approach (IMA)**

Pillar 3 disclosure requirement	Annual Report 2018 section	Disclosure	Annual Report 2018 page numbers
Description of activities and risks covered by the VaR models and stressed VaR models	Comment on risk and capital management	- Market risk (trading book)	124-126
General description of VaR and stressed VaR models	Comment on risk and capital management	- Market risk (trading book)	124-126
Description of stress testing applied to modelling parameters	Comment on risk and capital management	- Market risk (trading book)	124-126
Description of backtesting approach	Comment on risk and capital management	- Market risk (trading book)	124-126

<sup>1</sup> See also descriptions to VaR and stressed VaR on the following pages.

The following table shows the VaR and SVaR flow statements of the market risk Basel III RWA. An increase of risk levels in all traded asset classes has taken place. For the SVaR the change of the stress period as required by the Group's governance framework has led to higher risk levels.

**MR2: Market risk: RWA flow statements of market risk exposures under an IMA<sup>1</sup>**

No.		31.12.2018					Total RWA CHF m
		a VaR CHF m	b SVaR CHF m	c IRC CHF m	d CRM CHF m	e Other CHF m	
1	RWA at 30.06.2019	94.7	65.1				159.7
2	Movement in risk levels <sup>1</sup>	465.8	409.6				875.4
3	Model updates/changes						
4	Methodology and policy						
5	Acquisitions and disposals						
6	Foreign exchange movements						
7	Other	-48.1					-48.1
8	RWA at end of reporting period	512.3	474.6				987.0

<sup>1</sup> The increase of RWA was largely due to an increase in risk levels. Note that due to a conservative setting of the risk measurement model, the increase of RWA was disproportionately high compared to the increase of trading positions (prudent setting). A recent methodology improvement will remove this effect for the future.



The following table shows minimum, maximum, average and period-end regulatory VaR and SVaR, using a 10-day holding period and a confidence interval of 99 %. The incremental risk charge (IRC) and the comprehensive risk measure (CRM) capital charge are not applicable.

**MR3: Market risk: IMA values for trading portfolios**

		<b>31.12.2018</b>
		<sup>a</sup>
		<i>CHF m</i>
<b>No.</b>		
	<b>VaR (10-day 99%)</b>	
1	Maximum value	29.5
2	Average value	7.2
3	Minimum value	-0.7
4	Period end	2.3
	<b>Stressed VaR (10-day 99%)</b>	
5	Maximum value	19.2
6	Average value	5.9
7	Minimum value	-0.1
8	Period end	3.7
	<b>Incremental risk charge (99.9%)</b>	
9	Maximum value	
10	Average value	
11	Minimum value	
12	Period end	
	<b>Comprehensive risk capital charge (99.9%)</b>	
13	Maximum value	
14	Average value	
15	Minimum value	
16	Period end	
17	Floor (standardised measurement method)	

**VALUE AT RISK**

**VaR definition**

VaR 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. VaR is calculated on a daily basis, using a historical simulation approach, taking into account a 300-days historic period of time with equally weighted observations. For all days within the historic period of time, the changes of all relevant valuation parameters (risk factors) are observed. These risk factor changes are applied to the parameters currently used for valuation. A re-pricing of the current positions using the newly obtained parameters leads to a set of profit-and-loss scenario results.

Whenever possible, the profit-and-loss scenario results are obtained by a full re-pricing of the financial instruments. If no suitable model for the financial instrument is available, the re-pricing is based on the current instrument's price plus a price shift calculated by using the instrument's sensitivities to changes of the risk factors. After ordering the profit-and-loss scenario results by value and given the chosen confidence level, the VaR figure is the scenario result that corresponds to the confidence level.

The market risks are being calculated using statistics of the risk factors that mainly influence the price of the positions. Wherever possible, the Group refrains from making simplifying mappings on general market risk factors, such as, but not limited to, equity indices. Instead the Group makes every

**MARKET RISK**

effort to measure all risks based on risk factors that best model the individual positions. For derivative positions historical changes of implied volatilities derived from their respective volatility surfaces are used. If not available, historical relative changes of the underlying instrument prices are used to derive time series of changes in their historical volatility. These changes are applied to the current implied volatilities. The risk from the issuer-specific valuation component of credit risk bearing fixed-income positions is modelled by a so-called 'structural' model. The price of a position is being partitioned into a general yield curve component and a fixed-income-specific component. The risk from the general yield curve component is modelled in the usual way (the risk factors being the observable vertices of the yield curve). The specific risk component is modelled by assuming that the bond specific price component represents the present value of expected loss due to defaults of the bond. The expected loss is a function of the quantity loss-given-default and the cumulative probability of default. The model further assumes that a default event occurs when the asset value of the firm falls below a certain threshold. As a result from applying the historical simulation approach, correlation is taken into account implicitly, without having to draw on calculations and assumptions based on a correlation matrix.

A single VaR model for both internal management purposes and determining market risk regulatory capital requirements is used, although different

confidence intervals and time horizons are considered. For internal management purposes, risk limits and exposure measures are established using VaR at the 95% confidence interval with a one-day holding period, aligned to the way risks associated with the trading activities are considered. The regulatory measure of market risk used to underpin the market risk capital requirement according to Basel III requires a measure equivalent to a 99% confidence level using a 10-day holding period.

Additionally, the population of the portfolio within management and regulatory VaR is slightly different. The population within regulatory VaR meets minimum regulatory requirements. Management VaR includes a broader population of positions, for example portfolios with hedge fund exposures which are treated according to banking book rules for regulatory reporting.

SVaR is also used for the calculation of regulatory capital. SVaR adopts broadly the same methodology as regulatory VaR and is calculated using the same population, holding period (10-day) and confidence level (99%). However, unlike regulatory VaR, the historical data set for SVaR is not limited to the recent 300 days, but a time period of 300 days is chosen out of the recent six years of history, which has a significant stress impact for the current portfolio.

All entities of the Group apply the same methodologies to measure market risks in trading books.

**Derivation of VaR and SVaR based RWA**

The following table shows the VaR and SVaR components of the market risk Basel III RWA:

**Calculation of VaR and SVaR based RWA**

	Period-end VaR (A)	60-day average VaR (B)	VaR multiplier (C)	Max (A, B x C) (D)	Risk weight factor (E)	<b>31.12.2018</b> Basel III RWA (D x E) (F)
<i>CHF m</i>						
VaR (10-day 99%)	2.3	12.8	3.2	41.0	1250%	512.3
SVaR (10-day 99%)	3.7	11.9	3.2	38.0	1250%	474.6

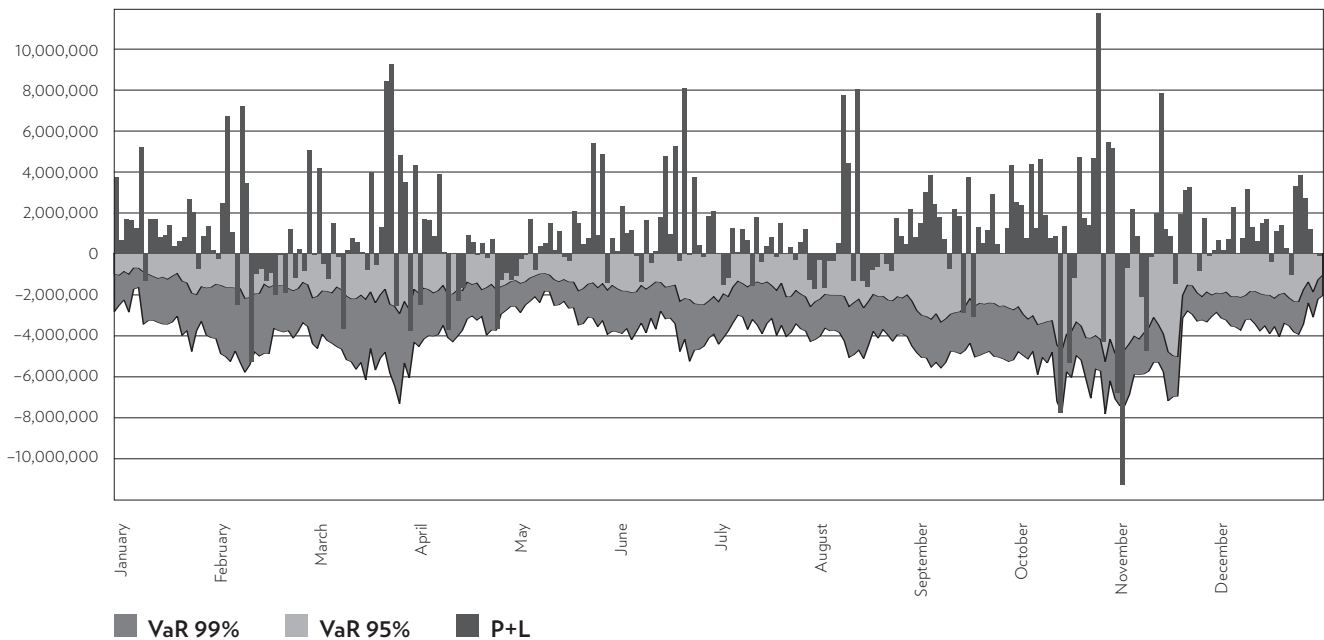
This calculation takes the maximum of the respective period-end VaR measure and the average VaR measure for the 60 trading days immediately preceding the period end, multiplied by a VaR multiplier set by FINMA. The VaR multiplier, which was 3.2 as at 31 December 2018, is dependent upon the number of VaR back-testing exceptions within a 250 business day window. When the number of exceptions is greater than four, the multiplier increases gradually from three to a maximum of four, if ten or more back-testing exceptions occur. This is then multiplied by a risk weight factor of 1,250% to determine RWA.

### COMPARISON OF VaR ESTIMATES WITH GAINS/LOSSES

The adequacy of the VaR calculation, which is based on historical market movements, is monitored through regular back-testing. This involves the comparison of the VaR values calculated each day with the hypothetical gains or losses which would have occurred if the end-of-day positions had been left unchanged on the next trading day. The following chart shows the daily calculations of VaR in 2018 (at confidence intervals of 95% and 99% and for a one-day holding period) compared with these hypothetical gains or losses. A back-testing exception 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 the Group's trading book positions in 2018 (CHF)

MR4: Market risk: Comparison of VaR estimates with gains/losses



At the beginning of 2018, the preceding 12-month period contained two back-testing violations. The first, in April 2017, was caused by increased market volatility attributable to the French presidential elections. The second, in August 2017, was the result of a one-day rally in share prices of between 1% and 1.7%. Both violations fell out of the observation period during the course of 2018. By end of October

a new back-testing violation occurred, caused by increase of market volatility. At the end of 2018 the total number of back-testing violations stands at one. Therefore, the statistical allowed number of back-testing violations was not exceeded and the capital multiplier applied to the Group remained constant for the whole year 2018.

## INTEREST RATE RISK IN THE BANKING BOOK

### INTRODUCTION

Interest rate risk in the banking book arises from balance sheet positions such as due to customers, debt issued, lombard loans, mortgages, financial assets measured at FVOCI, certain financial assets and liabilities designated at fair value which are

sensitive to changes in interest rates. The new approach measuring the interest rate risk in the banking book (IRRBB) is implemented as at 1 January 2019. The first time disclosure according to the tables IRRBBA, IRRBBA1 and IRRBB1 (annex 2 of the disclosure circular 16/01) is due at 30 June 2019.

The table below presents an overview of Pillar 3 disclosures separately provided in the Annual Report 2018 of the Group, which is published in the Financial Reporting section of the [www.juliusbaer.com](http://www.juliusbaer.com) website.

#### Interest rate risk in the banking book

<b>Pillar 3 disclosure requirement</b>	<b>Annual Report 2018 section</b>	<b>Disclosure</b>	<b>Annual Report 2018 page numbers</b>
The nature of the interest-rate risks and key assumptions applied	Comment on risk and capital management	– Financing, liquidity and interest rate risk in the banking book	127-129
Management's method for measuring interest-rate risk	Comment on risk and capital management	– Financing, liquidity and interest rate risk in the banking book	127-129
Concept for hedging or mitigating the interest-rate risk	Comment on risk and capital management	– Financing, liquidity and interest rate risk in the banking book	129

## INTEREST RATE RISK SENSITIVITY TO PARALLEL SHIFTS IN YIELD CURVES

The interest rate risk associated with products which do not have a contractual maturity, referred to as non-maturing products, is estimated using the methodology of replicating portfolios: Based on the historical behaviour of volumes of these products it assigns the position balance associated with a non-maturing banking product to time bands that are presumed to reflect their empirical maturities. The structure and parameters of the replicating portfolios are reviewed periodically to ensure continued relevance of the portfolios in light of changing market conditions and client behaviour.

The interest rate risk sensitivity figures presented in the following table represent the effect of  $\pm 100$  and  $\pm 200$  basis points (bp) parallel moves in yield curves on present values of future cash flows, irrespective of accounting treatment. In the prevailing negative interest rate environment for the Swiss franc in particular, and to a lesser extent for the euro and for Japanese yen, for the purposes of this disclosure table, downward moves of 100/200 bp are floored to ensure that the resulting shocked interest rates do not turn negative. The flooring results in non-linear sensitivity behaviour.

### Interest rate sensitivity – banking book

CHF Mio	<b>31.12.2018</b>			
	-200 bp	-100 bp	+100 bp	+200 bp
CHF	-78.1	-39.2	39.3	78.6
EUR	-122.8	-60.1	57.8	113.3
GBP	-31.5	-15.3	14.5	28.2
USD	-83.3	-40.6	38.6	75.2
Other	-37.9	-18.6	17.8	35.0
<b>Total effect on fair value of interest rate sensitive banking book positions</b>	<b>-353.5</b>	<b>-173.8</b>	<b>167.9</b>	<b>330.1</b>

Interest rate risk in the banking book is not underpinned for capital purposes, but is subject to a regulatory threshold. As at 31 December 2018, the economic-value effect of an adverse parallel shift

in interest rates of  $\pm 200$  bp on the Group's banking book interest rate risk exposures is significantly below the threshold of 20% of eligible capital recommended by regulators.

## OPERATIONAL RISK

The table below presents an overview of Pillar 3 disclosures separately provided in our Annual Report 2018 of the Group, which is published in the Financial Reporting section of the [www.juliusbaer.com](http://www.juliusbaer.com)

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

### **ORA: Qualitative disclosure requirements related to operational risks**

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<b>Pillar 3 disclosure requirement</b>	<b>Annual Report 2018 section</b>	<b>Disclosure</b>	<b>Annual Report 2018 page numbers</b>
Strategy, processes and organisational structure for managing operational risks	Comment on risk and capital management	– Operational risk	133-135

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