

Julius Bär

# ANNUAL REPORT 2016

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JULIUS BAER GROUP LTD.



Front cover:

Basle has been a melting pot ever since the Renaissance and the Age of Enlightenment. Symbolised by the oldest university of the Swiss Confederation, the city's liberal and outward-looking stance greatly fostered its economic rise, with the Rhine's connection to the world an obvious contributor to this development. Yet the term 'city' deeply understates what the trinational Basle metropolitan area represents today. It is home of world-renowned chemical and pharmaceutical companies, hub of major international logistics and transportation companies as well as location of the Bank for International Settlements and the Basel Committee on Banking Supervision. Julius Baer has been present in Basle since the year 2000.

Including integration and restructuring expenses as well as the amortisation of intangible assets related to previous acquisitions or divestitures, the net profit achieved in 2016 amounted to CHF 622 million. Excluding these items, the adjusted net profit for 2016 amounted to CHF 706 million. Further information on this basis can be found in the presentation and the media release on the 2016 financial results and the Business Review 2016.

## KEY FIGURES

	2016	2015	
Return on equity (ROE)	12.1%	2.4%	-
Return on tangible equity (ROTE) <sup>1</sup>	28.2%	10.2%	-
Cost/income ratio <sup>2</sup>	72.2%	73.5%	-
Cost/income ratio <sup>3</sup>	68.9%	67.2%	-
	31.12.2016	31.12.2015	Change %
<b>Consolidated balance sheet</b>			
Total assets (CHF m)	96,207.2	84,115.5	14.4
Total equity (CHF m)	5,353.9	4,942.0	8.3
BIS CET1 capital ratio	16.4%	18.3%	-
BIS total capital ratio	17.5%	19.4%	-
<b>Client assets (CHF bn)</b>			
Assets under management	336.2	299.7	12.2
Total client assets	391.6	363.8	7.7
<b>Personnel</b>			
Number of employees (FTE)	6,026	5,364	12.3
<i>of whom in Switzerland</i>	3,237	3,064	5.7
<i>of whom abroad</i>	2,789	2,300	21.2
Number of relationship managers	1,383	1,217	13.6

<sup>1</sup> Net profit of the shareholders of Julius Baer Group Ltd. less integration and restructuring expenses as well as amortisation of intangible assets/(half-yearly) average shareholders' equity less goodwill and other intangible assets

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

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

### Listing

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

Bloomberg	BAER VX
Reuters	BAER.VX

	2016	2015	Change %
<b>Information per share (CHF)</b>			
Equity (book value, as at 31.12.)	25.0	23.0	8.5
EPS	2.85	0.55	
Share price (as at 31.12.)	45.23	48.66	-7.0
<b>Market capitalisation (CHF m, as at 31.12.)</b>	10,123	10,891	-7.0
<b>Moody's long-term deposit rating Bank Julius Baer &amp; Co. Ltd.</b>	Aa2	Aa2	-
<b>Capital structure (as at 31.12.)</b>			
Number of shares, par value CHF 0.02	223,809,448	223,809,448	-
Weighted average number of shares outstanding	217,404,899	218,613,533	-
Share capital (CHF m)	4.5	4.5	-

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## DEAR READER

With improving growth prospects for the world economy, continuing supply of liquidity by central banks and a rising number of outright political shocks, investor focus shifted from deflation fear to political fear in 2016. These developments were met by volatile but relatively resilient financial markets and gave us ample opportunity to guide and advise our clients. Prevailing uncertainty kept client activity subdued, which continued to weigh on margins.

We took full advantage of the ongoing industry consolidation and competitive dynamics in 2016 by hiring a very substantial number of experienced relationship managers, particularly in Asia. This successful hiring highlights the benefits of our focused business model, high brand recognition and strong standing in our chosen markets. Our much enlarged relationship manager base has already made a noticeable contribution and is expected to further firmly contribute to our Group's growth prospects and support its future profitability. Continued net new money inflows, added investments into our European presence, i.e. in Italy (Kairos) and Luxembourg (Commerzbank International S.A. Luxembourg), as well as positive market performance contributed to record-high assets under management of CHF 336 billion at the end of 2016.

The realignment of our organisation, announced in mid-July of 2016, was successfully implemented and resulted in well-defined regionalisation of our Group. All top management changes were staffed from within the organisation, underlining the Group's strong talent pool. The strengthening of our regional setup is a consistent step following the significant increase of our geographic footprint over the past ten years. Together with the ongoing investments in advisory services, investment management expertise and the Group's technology transformation, the stronger regional orientation will further support us in our aim to deliver a seamless client experience and at the same time allow for further efficiency gains.

Even after taking into account the impact of the aforementioned investments, Julius Baer remains well capitalised. On 5 February 2016, we were able to announce the final settlement with the US Department of Justice in connection with the Group's legacy US cross-border business. Already provisioned for in 2015, it had no impact on the financial result or capital ratios of 2016. In view of the forthcoming Basel III capital requirements, fully effective from the beginning of 2018, we continued to further strengthen Julius Baer Group's capital structure. All of the outstanding Basel III-non-compliant lower tier 2 subordinated unsecured bonds 2011–2021 were redeemed in December 2016. This redemption had been funded by the successful placement of the Group's second SGD-denominated, fully Basel III-compliant Additional Tier 1 securities

in the amount of SGD 325 million. As a result, the Group's BIS total capital ratio at year end 2016 stood at 17.5% and the BIS CET1 capital ratio at 16.4%, well above both the Group's own defined and the required regulatory levels. The Board of Directors intends to propose to the Annual General Meeting on 12 April 2017 an increased dividend of CHF 1.20 per share. The total proposed dividend payout amounts to CHF 269 million, up from CHF 246 million in 2016.

We are convinced that Julius Baer is very well positioned to benefit from a business environment favouring specialisation and a clear, well-executed strategy. In order to further foster our stakeholders' understanding of Julius Baer's overarching business mission, we detailed our strategic framework for long-term value creation in a separate section on page 23f. In conclusion, our client-centric business model solely focused on pure private banking and our innovative range of products and services make us the private banking provider of choice for existing and prospective clients, a rewarding place to work for ambitious employees and an attractive long-term investment for equity and bond investors. We thank all our stakeholders for their trust and continued support.



Daniel J. Sauter  
*Chairman*

Zurich, March 2017



Boris F.J. Collardi  
*Chief Executive Officer*

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





# I. CORPORATE GOVERNANCE

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Corporate governance is a decisive part of business management. Shareholders, clients and staff are usually considered the key stakeholder groups within the context of corporate governance. Moreover, the focus of Julius Baer Group Ltd. (the Company) on achieving sustained success and consistency in the Group's business rests largely on the principle of retaining shareholders, clients and staff for as long as possible and actively nurturing the relationships over time. These stakeholders therefore have a right to know the individuals and internal bodies that determine the development of the Company, who makes the strategic decisions and who bears the responsibility for them. The Company therefore aims to thoroughly satisfy these legitimate information needs in this chapter of the Annual Report.

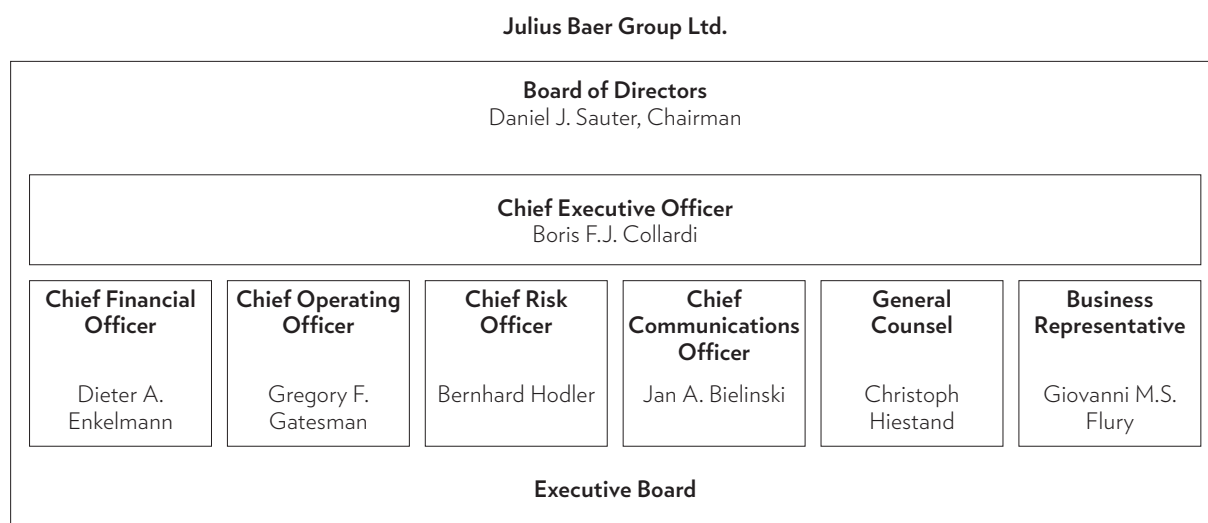
The corporate governance information of the Company is presented in accordance with the Corporate Governance Directive of the SIX Swiss Exchange (revised effective 1 April 2016), with the guidelines and recommendations of the 'Swiss Code of Best Practice for Corporate Governance' of the Swiss business federation *economiesuisse* (in its current version dated 29 February 2016) and the Federal Council's 'Ordinance against excessive compensation in listed companies' (in force effective 1 January 2014).

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

The following information corresponds to the situation as at 31 December 2016 unless indicated otherwise.

## GROUP STRUCTURE AND SHAREHOLDERS

### Operational Group structure of Julius Baer Group Ltd. as at 31 December 2016



The consolidated Group companies are disclosed in Note 26A.

## SIGNIFICANT SHAREHOLDERS/ PARTICIPANTS

Based on notifications received by Julius Baer Group Ltd., each of the following shareholders/participants held 3% or more of the voting rights in Julius Baer Group Ltd. as at 31 December 2016<sup>1</sup>:

Shareholder/participant <sup>3</sup>	Disclosure of purchase positions <sup>2</sup>	Disclosure of sale positions <sup>2</sup>
MFS Investment Management <sup>4</sup>	9.98%	
Harris Associates L.P. <sup>5</sup>	4.95%	
BlackRock Inc. <sup>6</sup>	4.51%	0.04%
Bank of America Corporation <sup>7</sup>	3.76%	
Wellington Management Group LLP <sup>8</sup>	3.06%	
Invesco Ltd. <sup>9</sup>	3.02%	

<sup>1</sup> The percentage holding of voting rights as well as the other terms as used herein have to be defined and read in the context of the relevant and applicable stock exchange rules. Please note that the above figures are based on reports made before respectively after the following events: a) capital increase by way of rights offering completed on 17 October 2012 with the issuance of 20,316,285 newly registered shares of Julius Baer Group Ltd.; b) capital increase out of authorised share capital completed on 24 January 2013 with the issuance of 7,102,407 newly registered shares of Julius Baer Group Ltd.

<sup>2</sup> Equity securities, conversion and share purchase rights (Art. 15 para. 1 a SESTO-FINMA), granted (written) share sale rights (Art. 15 para. 1 b SESTO-FINMA) and financial instruments (Art. 15 para. 1 c and para. 2 SESTO-FINMA).  
Share sale rights (specifically put options) and granted (written) conversion and share purchase rights as well as financial instruments that provide for or permit cash settlement as well as other differential transactions (such as contracts for difference and financial futures).  
The implementing provisions on disclosure law have been integrated into the new FINMA Financial Market Infrastructure Ordinance (FMIO-FINMA), which has entered into force on 1 January 2016. Purchase positions must be disclosed pursuant to art. 14 para. 1 a FMIO-FINMA and sales positions pursuant to art. 14 para. 1 b FMIO-FINMA.

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

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

<sup>5</sup> Harris Associates L.P., Chicago/USA (reported on 30 November 2016)

<sup>6</sup> BlackRock Inc., New York/USA, and its subsidiaries (reported on 22 July 2016)

<sup>7</sup> Bank of America Corporation, Charlotte/USA, and its directly and indirectly held subsidiaries (reported on 16 August 2012)

<sup>8</sup> Wellington Management Group LLP, Boston/USA (reported on 22 November 2016)

<sup>9</sup> Invesco Ltd., Hamilton/Bermuda (reported on 25 January 2016)

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

## CROSS-SHAREHOLDINGS

There are no cross-shareholdings between Julius Baer Group Ltd. and its subsidiaries or third-party companies.

## CAPITAL STRUCTURE

### CAPITAL

The share capital of the Company amounted to CHF 4,476,188.96 as at 31 December 2016. It is fully paid up and divided into 223,809,448 registered shares (shares) with a par value of CHF 0.02 each. The shares (Swiss securities no. 10 248 496; ISIN CH 010 2484968) are listed on the SIX Swiss Exchange and are member of the Swiss Market Index (SMI) and the Swiss Leader Index (SLI).

### CONDITIONAL AND AUTHORISED CAPITAL IN PARTICULAR

There is no authorised capital.

#### Conditional capital

The Company's share capital may be increased by the issue of up to 10,000,000 shares, to be fully paid up and each with a par value of CHF 0.02, in a maximum total amount of CHF 200,000.00 through the exercise of conversion or warrant rights in connection with bonds issued by the Company or its subsidiaries. Existing shareholders are excluded from subscription rights. The acquisition of shares through the exercise of conversion or warrant rights and the subsequent transfer of shares are subject to the entry limitations as set forth in article 4.4ff. of the Articles of Incorporation.

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

Important reasons can be the securing of optimal conditions in issuing the bonds and ensuring equal treatment of shareholders domestically and abroad. In the event that the Board of Directors precludes the priority subscription rights, the following applies:

- a) Conversion rights may be exercised only during a maximum of seven years, and warrant rights only during a maximum of four years from the date of issue of the relevant bond.

- b) The new shares shall be issued according to the applicable conversion or warrant conditions. The convertible and warrant bonds must be issued in conformity to market conditions (including the usual market conditions with regard to protection against dilution). The conversion or option price must be not less than the average of the last prices paid on the SIX Swiss Exchange during the five days preceding the determination of the final issue conditions for the relevant convertible or warrant bonds.

### CHANGES OF CAPITAL

- ➔ The description of the changes of capital in the last two years is disclosed in the consolidated statement of changes in equity in chapter *III. Financial Statements Julius Baer Group* of this Annual Report. For information about changes of capital in periods three or more years back please visit [www.juliusbaer.com/reports](http://www.juliusbaer.com/reports)

### SHARES AND PARTICIPATION CERTIFICATES

#### Shares

	2016	2015
Number of shares with par value of CHF 0.02 as at 31 December	<b>223,809,448</b>	223,809,448
(dividend entitlement, see Note 19)		

There are no preferential rights or similar rights. Each share entitles to one vote.

### PARTICIPATION CERTIFICATES

There are no participation certificates.

### BONUS CERTIFICATES

There are no bonus certificates.

## LIMITATIONS ON TRANSFERABILITY AND NOMINEE REGISTRATIONS (AS AT 31 DECEMBER 2016)

The Company shall keep a share register, in which the owners and usufructuaries of the shares are entered with their name, address and nationality, respectively, place of incorporation in case of legal entities. In relation to the Company, any person entered in the share register shall be deemed to be a shareholder. Nimbus AG, Ziegelbrueckstrasse 82, 8866 Ziegelbruecke, Switzerland, administrates the Company's share register.

The shares are issued as uncertificated securities and registered as intermediated securities. They are included in the SIS clearing system for transferred shares. The Company may withdraw shares registered as intermediated securities from the custodian system. Each shareholder may at any time request from the Company a certification about the shares owned by him/her. The shareholders have no right to request the printing and delivery of certificates for their registered shares. The Company, however, may at any time print and deliver share certificates (individual certificates, certificates or global certificates) or convert uncertificated securities and share certificates into any other form and may cancel issued share certificates once they have been returned to the Company.

Transfers of intermediated securities, including the granting of security interests, are subject to the Swiss Intermediated Securities Act. The transfer of uncertificated shares is effected by a corresponding entry in the books of a bank or depositary institution following an assignment by the selling shareholder and notification of such assignment to the Company by the bank or depositary institution. The transferee must file a share registration form in order to be registered in the Company's share register as a shareholder with voting rights. Failing such registration, the transferee may not vote at or participate in any Meeting of Shareholders but may still receive dividends and other rights with financial value. The uncertificated shares may only be transferred with the assistance of the bank that administers the

book entries of such shares for the account of the transferring shareholder. Further, shares may only be pledged to the bank that administers the book entries of such shares for the account of the pledging shareholder; in such case, the Company needs to be notified.

According to the Articles of Incorporation, a person having acquired shares will be recorded in the Company's share register as a shareholder with voting rights upon request. The Company may refuse to record a person in the share register as a shareholder with voting rights if such person does not expressly state that he/she has acquired the shares in his/her own name and for his/her own account.

Fiduciaries/nominees may be entered as a shareholder in the share register with voting rights for shares up to a maximum of 2% of the share capital. Shares held by a fiduciary/nominee that exceed this limit may be registered in the share register with voting rights if such fiduciary/nominee discloses to the Company the name, address, nationality or registered office and shareholdings of any person or legal entity for whose account it holds 0.5% or more of the share capital. Fiduciaries/nominees who are affiliated with other fiduciaries/nominees by means of ownership structure or voting rights, or who have a common management or are otherwise affiliated, are deemed one fiduciary/nominee as regards the application of such entry limitations.

The Board of Directors may cancel the entry in the share register of a shareholder or fiduciary/nominee with voting rights upon a hearing of such shareholder or fiduciary/nominee, if the entry in the share register is based on false information. The affected shareholder or fiduciary/nominee has to be notified of the cancellation immediately.

## CONVERTIBLE BONDS AND OPTIONS

There are no outstanding convertible or warrant bonds.



## BOARD OF DIRECTORS

All members of the Board of Directors of Julius Baer Group Ltd. are non-executive members. The Board of Directors of the Group's principal operating company, Bank Julius Baer & Co. Ltd., is composed of the same members in identical responsibilities as the Board of Directors of Julius Baer Group Ltd.

### MEMBERS OF THE BOARD OF DIRECTORS

**Daniel J. Sauter** (born 1957), Swiss citizen; Swiss Certified Banking Expert, 1983. Gewerbank, Zurich, Trainee, 1976–1978; Bank Leu, Zurich, Foreign Exchange Trader, 1978–1981; Bank fuer Kredit und Aussenhandel, Zurich, Foreign Exchange and Money Market Trader, 1981–1983; Glencore International, Zug, 1983–1998: Treasurer and Risk Manager, 1983–1988; Chief Financial Officer, 1989–1998; Xstrata AG, Zug, 1994–2001: Development of Xstrata AG into a globally diversified mining group; Chief Executive Officer, 1995–2001; Trinsic AG, Zug, co-founder and Chairman of the Board of Directors, since 2001; Alpine Select AG, Zug, Chairman of the Board of Directors, 2001–2012. Julius Baer Holding Ltd., member of the Board of Directors, 2007–2009; Bank Julius Baer & Co. Ltd., member of the Board of Directors since 2007 and its Chairman since 2012; Julius Baer Group Ltd., member of the Board of Directors since 2009; Chairman of the Board of Directors of Julius Baer Group Ltd. since 2012 (term of office until 2017).

**Gilbert Achermann** (born 1964), Swiss citizen; Bachelor of Business Administration, University of Applied Sciences (HWR), St. Gallen, 1988; Executive MBA, IMD Lausanne, 2000. UBS Investment Banking, 1988–1998: Graduate trainee programme Trading & Sales, 1988–1989; Associate Corporate Finance / Capital Markets; Assistant to Regional Head North America, 1990–1994; Director Corporate Finance Advisory, 1995–1998; Straumann Group since 1998: Chief Financial Officer and Deputy CEO, 1998–2001; Chief Executive Officer, 2002–2010; Chairman of the Board of Directors since 2010; Board member of the ITI Association and ITI Foundation since 2002. Vitra Group, 2012–2015: Chairman of the Board of Directors from July 2013 until December 2015; Co-CEO from July 2014 until December 2015. Member of

the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 2012 (2017).

**Ann Almeida** (born 1956), British and Irish citizen; Master of Arts in Economics, Cambridge University, UK, 1979; Master of Business Administration, Imperial College, London, UK, 1989. Price Waterhouse, London, Trainee Chartered Accountant, 1979–1982; Qubus, Consultant, technology multinationals, 1983–1988; Merrill Lynch Europe, Reward Manager, 1990–1992; HSBC Holdings, 1992–2015: James Capel, Head of Reward, 1992–1995; James Capel, Head of Human Resources, 1995–1996; Director Human Resources, Corporate, Investment Banking & Markets, Private Banking, Asset Management, Islamic Banking, Transaction Banking, 1996–2007; Group Head of Human Resources, 2007–2010; Group Managing Director of Human Resources & Corporate Sustainability and Member of the Group Executive Board, 2008–2015. Member of the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 1 June 2016 (2017).

**Andreas Amschwand** (born 1960), Swiss citizen; Bachelor of Business Administration, University of Applied Sciences (HWR), 1986. Credit Suisse Group, apprenticeship and subsequent further education in Lausanne, 1976–1981; UBS AG, 1986–2011: Balance Sheet Management, 1986–1991; Money Market, 1992–2000; Forex and Money Market, Investment Bank, Global Head Forex and Money Market, Head Investment Banking Switzerland, member of the Investment Bank Executive Committee, 2001–2008; Investment Products and Services Wealth Management and Swiss Bank, Global Head Investment Products and Services, member of the Wealth Management Executive Committee, 2010–2011. Member of the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 2012 (2017).

**Heinrich Baumann** (born 1951), Swiss citizen; PhD in Management, Technology and Economics, Swiss Federal Institute of Technology (ETH), Zurich, 1985. UBS AG, 1975–1998: COO Singapore Branch and Deputy Branch Manager, 1985–1987; Chief of Staff International Division and Section Head Management Support, 1987–1990; member of the Regional Management Committee (New York),

Chief Operating Officer Region North America, 1990–1994; Department Head Finance and Controlling on Group level, 1994–1998; independent Management Consultant, 1998–1999; HSBC Guyerzeller Bank Ltd., 1999–2009: Chief Operating Officer, 1999–2002; Vice-President of the Executive Committee/Chief Operating Officer, 2003–2005; Chief Executive Officer, 2006–2009; independent Management Consultant since 2009. Member of the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 2011 (2017).

**Paul Man Yiu Chow** (born 1946), Chinese (Hong Kong SAR) citizen; University of Hong Kong: Bachelor of Science in Mechanical Engineering, 1970, Diploma in Management Studies, 1979, Master of Business Administration, 1982; Diploma in finance, Chinese University of Hong Kong, 1987; Doctor h.c. of Social Science, the Open University of Hong Kong, 2010. Hong Kong Government, Executive Officer II, 1970–1971; IBM World Trade Corporation, Hong Kong, Associate Systems engineer, 1971–1973; Sun Hung Kai Group, Hong Kong, 1973–1988: Sun Hung Kai Securities Limited, Executive Director, 1982–1983; Sun Hung Kai Bank Limited, Executive Director, Deputy General Manager and Chief Financial Officer, 1983–1985, Sun Hung Kai & Co. Ltd., Chief Administration & Financial Officer, and Sun Hung Kai Securities Limited, Executive Director, 1985–1988; Chinese University of Hong Kong, lecturer in finance, 1988–1989; The Stock Exchange of Hong Kong Limited, 1989–1997: Director of Operations and Technology, 1989–1990; Hong Kong Securities Clearing Company Ltd., Chief Executive Officer, 1990–1991; Chief Executive, 1991–1997; HSBC Asset Management, Asia Pacific (ex Japan) Region, Chief Executive Officer; HSBC Asset Management Group, member of the Global Management Committee; HSBC Insurance Company Limited, Hong Kong, Non-executive Director, 1997–2003; Hong Kong Exchanges & Clearing Limited, Chief Executive Officer and Executive Director, 2003–2010. Member of the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 2015 (2017).

**Claire Giraut** (born 1956), French citizen; Master in Biotech Engineering, Institut National Agronomique, Paris, 1978. Sanders Group, Paris, various positions, 1978–1985; Serete Group, Paris, various positions in finance and accounting, 1985–1996; Association of French Lawyers, Financial Controller, 1996–1997; Coflexip Stena Offshore, Paris, Chief Financial Officer and Group Head of Communications, member of the Executive Committee, 1997–2001; Technip Group, Paris, Chief Financial Officer of the offshore division and member of the Executive Board, 2002; Ipsen Group, Paris, Chief Financial Officer and member of the Executive Committee, 2003–2011; Europcar Groupe S.A., Guyancourt, France, Chief Financial Officer, 2011–2012; bioMérieux, Marcy l'Etoile, France, Corporate Vice-President Purchasing and Information Systems since September 2013, Chief Financial Officer since January 2014. Member of the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 2010 (2017).

**Gareth Penny** (born 1962), dual South African and British citizen; Master of Arts in Philosophy, Politics and Economics, Oxford University (Rhodes Scholar), UK, 1985. Anglo American Corporation, Johannesburg, Head of Anglo American & De Beers Small Business Initiative, 1988–1991; De Beers Group, 1991–2010: Teemane Manufacturing Company, Botswana, Project Manager, 1991–1993; Diamond Trading Company De Beers, various functions, 1993–2006, incl. Managing Director, 2004–2006; De Beers SA, Luxembourg, member of the Board of Directors, 2003–2010; De Beers SA, Luxembourg, Group Managing Director, 2006–2010; AMG Advanced Metallurgical Group N.V., London, Chief Executive mining business, 2011–2012; New World Resources Plc, London, Executive Chairman of the Board of Directors, 2012–2016; Norilsk Nickel, Moscow, Non-executive Chairman of the Board of Directors since April 2013; Pangolin Diamonds Corp., Toronto, Canada, Non-executive Chairman of the Board of Directors since August 2016. Member of the Board of Directors of Julius Baer Holding Ltd., 2007–2009; member of the Board of Directors of Bank Julius Baer & Co. Ltd. since 2007; member of the Board of Directors of Julius Baer Group Ltd. since 2009 (2017).



**Charles G. T. Stonehill** (born 1958), dual British and American citizen; Master of Arts in Modern History, Oxford University, UK, 1978. J. P. Morgan & Co., Corporate and Investment Banking, 1978–1984; Morgan Stanley & Co., Managing Director and Head of Equity Division Europe, 1984–1997; Credit Suisse First Boston, Head of Investment Banking for the Americas and member of the Operating Committee, 1997–2002; Lazard Frères, Global Head of Capital Markets and member of the Executive Committee, 2002–2004; Gulfsands Petroleum, Non-executive Director, 2005–2006; Panmure Gordon Plc., Chairman of the Board of Directors, 2006–2008; The London Metal Exchange Ltd., Independent Director from 2005 until August 2009; Better Place, Palo Alto, USA, Chief Finance Officer, 2009–2011; Green & Blue Advisors LLC, New York, co-founder and partner since 2011; RSR Partners, New York, Managing Director, 2012–2013; TGG Group, New York, Advisor, 2014–2015. Member of the Board of Directors of Julius Baer Holding Ltd., 2006–2009; member of the Board of Directors of Bank Julius Baer & Co. Ltd. since 2006; member of the Board of Directors of Julius Baer Group Ltd. since 2009 (2017).

## HONORARY CHAIRMAN

The Honorary Chairman has no active function in the Board of Directors.

**Raymond J. Baer** (born 1959), Swiss citizen; Law Degree, University of St. Gallen, 1984; Master of Law LL.M., Columbia Law School, New York, USA, 1985. Salomon Bros. Inc., New York and London, 1985–1988. Entry into Bank Julius Baer & Co. Ltd., 1988: Head of the Swiss Capital Market Group, Zurich, 1988; New York branch, Deputy Branch Manager, 1990–1993; Zurich Head Office, member of the Management Committee, 1993–1996; Julius Baer Holding Ltd., 1996–2009: member of the Group Executive Board and Head of the Private Banking business line as of 1996; Vice President of the Group Executive Board from 2001 until 13 May 2003; Co-Head of the Private Banking business line from January 2003 until 13 May 2003; Chairman of the Board of Directors, 2003–2009. Chairman of

the Board of Directors of Bank Julius Baer & Co. Ltd., 2003–2012; Chairman of the Board of Directors of Julius Baer Group Ltd., 2009–2012. Alpine Select AG, Zug, Chairman of the Board of Directors since April 2013. Honorary Chairman of Bank Julius Baer & Co. Ltd. and Julius Baer Group Ltd. since 2012.

## Elections and re-elections at the Annual General Meeting 2016/Changes in the Board of Directors

At the Annual General Meeting of Julius Baer Group Ltd. on 13 April 2016, Daniel J. Sauter, Gilbert Achermann, Andreas Amschwand, Heinrich Baumann, Paul Man Yiu Chow, Claire Giraut, Gareth Penny and Charles G. T. Stonehill were re-elected to the Board of Directors for another term of one year.

Ann Almeida was elected as new member of the Board of Directors for the term from 1 June 2016 until the Annual General Meeting 2017.

Daniel J. Sauter was re-elected as Chairman of the Board of Directors for a one-year term.

Gilbert Achermann, Heinrich Baumann and Gareth Penny were re-elected as members of the Compensation Committee for a one-year term. Ann Almeida was elected as new member of the Compensation Committee as of 1 June 2016.

## OTHER ACTIVITIES AND INTEREST TIES

In applying the Corporate Governance Directive and the corresponding commentary of the SIX Swiss Exchange as well as the 'Ordinance against excessive compensation in listed companies', the Company fundamentally discloses all mandates and interest ties of its Board members outside of the Julius Baer Group according to the applicable paragraphs of article 13 (Mandates outside the Group) of the Articles of Incorporation:

No member of the Board of Directors may hold more than ten additional mandates of which no more than four mandates in listed companies.

The following mandates are not subject to the aforementioned limitations:

- a) mandates in companies which are controlled by the Company or which control the Company;
- b) mandates held at the request of the Company or companies controlled by it. No member of the Board of Directors may hold more than five such mandates;
- c) mandates in associations, charitable organisations, foundations, trusts and employee welfare foundations. No member of the Board of Directors may hold more than ten such mandates.

Mandates shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Mandates in different legal entities that are under joint control are deemed one mandate.

Mandates in exchange-listed companies:

**Daniel J. Sauter:**

- Member of the Board of Directors of Sika Ltd, Baar, Switzerland.

**Gilbert Achermann:**

- Chairman of the Board of Directors of Straumann Group, Basle, Switzerland.

**Ann Almeida:**

- Independent Non-executive Director, Axiata Group Berhad, Kuala Lumpur, Malaysia.

**Claire Giraut:**

- Member of the Board of Directors of DBV Technologies, Montrouge, France.

**Paul Man Yiu Chow:**

- Independent Non-executive Director, Chairman of the Nomination Committee as well as member of the Audit Committee and of the Remuneration Committee, China Mobile Limited, Hong Kong;
- Independent Non-executive Director and member of the Remuneration Committee, CITIC Limited, Hong Kong.

**Gareth Penny:**

- Non-executive Chairman of the Board of Directors of Norilsk Nickel, Moscow, Russia;
- Non-executive Chairman of the Board of Directors of Pangolin Diamonds Corp., Toronto, Canada.

Mandates in non-listed companies:

**Daniel J. Sauter:**

- Chairman of the Board of Directors of Trinsic AG, Zug, Switzerland;
- Chairman of the Board of Directors of Hadimec AG, Maegenwil, Switzerland;
- Chairman of the Board of Directors of Tabulum AG, Zug, Switzerland;
- Member of the Board of Directors of ARAS Holding AG, Lenzburg, Switzerland (holding company, including AS Print AG and richnerstutz AG, both Villmergen, Switzerland).

**Ann Almeida:**

- Adviser, Chairperson of the HR/Remuneration Committee, Fajr Capital Ltd., Dubai, United Arab Emirates;
- Adviser, Chairperson of the Nomination & Remuneration Committee, Jadwa Investment, Riyadh, Saudi Arabia.

**Andreas Amschwand:**

- Chairman of the Board of Directors, EMFA Holding AG, Kerns, Switzerland;
- Chairman of the Board of Directors of Agricola Tirgu Frumos SA, Razboieni, Romania;
- Administrator of SC AA Agriculture Farm SRL, Razboieni, Romania;
- Administrator of SC Agro Verd Cozmesti SRL, Razboieni, Romania;
- Administrator of SC Agro Verd SRL, Butea, Romania;
- Administrator of SC Vicsani Farm SRL, Razboieni, Romania;
- Chairman of the Board of Directors of Alois Amschwand AG, Kerns, Switzerland.

**Heinrich Baumann:**

- Vice President of the Board of Directors of Atlis AG, Biberist, Switzerland;
- Vice President of the Board of Directors of Completo AG, Biberist, Switzerland.

**Gareth Penny:**

- Non-executive Chairman of the Board of Directors of Edcon Ltd., Johannesburg, South Africa (effective 7 February 2017).

**Charles G. T. Stonehill:**

- Member of the Advisory Board of Rubicon Technology Partners L.P., Menlo Park, CA, USA;
- Non-executive member of the Board of Directors of CommonBond, Inc., New York, USA;
- Member of the Board of Directors of PlayMagnus A/S, Oslo, Norway.

Other mandates:

**Daniel J. Sauter:**

- Member of the Foundation Board of Avenir Suisse, Zurich, Switzerland.

**Gilbert Achermann:**

- Member of the Board of Directors of the ITI Association and ITI Foundation, Basle, Switzerland;
- Member of the Executive Committee of Groove Now! Basel, Basle, Switzerland.

**Ann Almeida:**

- Member of the Board of Trustees of 88 Foundation, London, UK.

**Andreas Amschwand:**

- Chairman of Verein Standortpromotion Kanton Obwalden, Sarnen, Switzerland.

**Heinrich Baumann:**

- Member of the Foundation Board of the International Foundation for Research in Paraplegia, Chêne-Bourg, Switzerland.

**Paul Man Yiu Chow:**

- Member of the Advisory Committee on Innovation and Technology, The Government of the Hong Kong Special Administrative Region;
- Member of the Asian Advisory Council, AustralianSuper, Melbourne, Australia (until 28 February 2017).

**Charles G. T. Stonehill:**

- Governor, Harrow School, Harrow on the Hill, London, UK;

- Member of the Foundation Board of the Fondation Georg Solti Accademia, Geneva, Switzerland.

## ELECTIONS AND TERMS OF OFFICE

The members of the Board of Directors are elected on an individual basis by the Annual General Meeting for a one-year term both in the case of re-elections or new elections. The period between two Annual General Meetings is deemed to be one year. Members whose term of office has expired are immediately eligible for re-election. Except for the election of the Chairman of the Board of Directors and the members of the Compensation Committee by the Annual General Meeting, the Board of Directors constitutes itself. The maximum (cumulative) term of office for the members of the Board of Directors is generally twelve years. Members who have reached their 75th year of age generally do not seek re-election at the end of their current term.

## INTERNAL ORGANISATIONAL STRUCTURE

The Board of Directors consists of five or more members. It meets as often as business requires, but at least once per quarter. The presence of a majority of its members is necessary for resolutions to be passed, with the exception of the ascertainment resolution and the resolution concerning the amendment of the Articles of Incorporation as well as the capital increase report in the case of capital increases. Resolutions are passed by an absolute majority of votes of members present. The members of the Board of Directors may also be present by phone or electronic means. Resolutions for urgent or routine businesses of the Board of Directors may also be passed by way of written consent (letter, fax) or by way of an electronic data transfer provided that no member requests oral deliberation. In such cases, the text of written resolutions must be sent to all members and approved by all members of the Board of Directors to be valid.

In the case of a tie vote at meetings, the Chairman shall have the casting vote. For resolutions passed by the Board of Directors with regard to agenda

items that have been subject to prior resolution by a Committee of the Board of Directors (pre-resolving Committee) and if the members of such pre-resolving Committee (taking into consideration the casting vote of the Chairman) would represent a majority of votes in the Board of Directors, the casting vote shall not be with the Chairman of the Board but with the Chairperson of the Audit Committee, unless the Chairperson of the Audit Committee is also a member of such pre-resolving Committee, in which case the casting vote shall be with the member of the Board of Directors who is not a member of such pre-resolving Committee and who has served the longest total term of office on the Board of Directors. The members of the Executive Board of Julius Baer Group Ltd. participate as guests in the meetings of the complete Board of Directors. These meetings generally take up at least half a day.

In order to gauge the effectiveness of its activities, the Board of Directors as a whole as well as the respective committees carry out an annual self-assessment. The aim is to review and assess what has been achieved relative to the objectives formulated at the beginning of the year. The results of the committees are brought to the attention of the complete Board of Directors.

The Board of Directors normally meets for one strategy seminar a year. The purpose of this seminar is to analyse the positioning of the Julius Baer Group as well as to review and if necessary redefine its strategic direction in light of the prevailing macro-economic and company-specific circumstances.

In 2016, the complete Board of Directors of Julius Baer Group Ltd. held eight meetings (of which two in the form of a conference call), including a two-day strategy seminar.

#### Attendance of the members of the Board of Directors at the respective meetings

	January I	January II <sup>1</sup>	April	June
<b>First half of 2016</b>				
Daniel J. Sauter, Chairperson	x	x	x	x
Gilbert Achermann	x	x	x	x
Ann Almeida <sup>2</sup>	-	-	-	x
Andreas Amschwand	x	x	x	x
Heinrich Baumann	x	x	x	x
Paul Man Yiu Chow	x	x	x	x
Claire Giraut	x	x	x	x
Gareth Penny	x	x	x	x
Charles G. T. Stonehill	x	x	x	x

<sup>1</sup> Meeting by teleconference

<sup>2</sup> Joined the Board of Directors on 1 June 2016

	September	October	November <sup>1</sup>	December
<b>Second half of 2016</b>				
Daniel J. Sauter, Chairperson	E	x	x	x
Gilbert Achermann	x	x	x	x
Ann Almeida	x	x	x	x
Andreas Amschwand	x	x	x	x
Heinrich Baumann	x	x	x	x
Paul Man Yiu Chow	x	x	x	x
Claire Giraut	x	x	x	x
Gareth Penny	x	x	x	x
Charles G. T. Stonehill	x	x	x	x

<sup>1</sup> Meeting by teleconference

E = excused

Except for the election of the Chairman of the Board of Directors and the members of the Compensation Committee by the Annual General Meeting, the Board of Directors elects the members of the committees of the Board of Directors from among its members. The Chairpersons of the committees are responsible for seeking advice from external specialists as well as from members of the Executive Board as needed.

According to the Articles of Incorporation of Julius Baer Group Ltd., the Board of Directors has the following non-transferable and irrevocable duties:

- a) to supervise the Company and issue the necessary instructions;
- b) to determine the organisation of the Company;
- c) to arrange the accounting, financial control and financial planning inasmuch as they are necessary for the management of the Company;
- d) to appoint and remove the persons entrusted with the Company's management;
- e) to control those persons entrusted with the management of the Company, also in relation to compliance with laws, statutes, regulations and instructions;
- f) to draw up the business report, the remuneration report and to prepare the General Meetings of Shareholders and implementation of its resolutions;
- g) to inform the judge in the event of insolvency.

The Board of Directors may assign the preparation and carrying-out of its resolutions or the supervision of business transactions to committees or individual members. It must make sure its members are suitably informed.

Within the Board of Directors, responsibilities are divided up in accordance with the definition of the areas of responsibility in the section 'Definition of areas of responsibility' below.

#### **The responsibilities and composition of the currently existing committees of the Board of Directors**

The members of the Board of Directors discuss specific topics in the Board's committees. Each of these committees is chaired by an independent director. Each committee Chairperson provides the

complete Board of Directors with regular updates on the current activities of the respective committee and on important committee issues. In addition, the minutes of the committee meetings are made available to the complete Board of Directors.

#### *Chairman's & Risk Committee*

The Chairman's & Risk Committee consists of the Chairman of the Board of Directors and at least two other members who are specifically skilled and experienced in areas of finance, corporate governance and risk control. It is presided over by the Chairman of the Board of Directors. The Chairman's & Risk Committee is responsible for developing and upholding principles of corporate governance for the Julius Baer Group and for authorising market, credit and financial risks (as set out in the appendix of the Organisational and Management Regulations), including, in particular, loans granted to members of the Board of Directors and of the Executive Board and/or affiliated entities and related parties ('Organ-kredite') as defined by the relevant Swiss accounting standards. The Chairman's & Risk Committee monitors compliance with rules governing large concentrations of risk ('Klumpenrisiken') and is responsible for the standards and methodologies for risk control with regard to risks other than operational risk (including legal and regulatory risk), which are employed to comply with the principles and risk profile adopted by the Board of Directors or other relevant supervisory or managing bodies.

The Chairman's & Risk Committee determines, coordinates and reviews the risk limits in the context of the overall risk policy. It reviews the policies with regard to risks other than operational risk (including legal and regulatory risk) and determines the guidelines for financial reporting. The Chairman's & Risk Committee bases its risk-related work on the Risk Landscape, as approved by the Audit Committee of the Board of Directors at a joint meeting with the Chairman's & Risk Committee, once a year. The Chairman's & Risk Committee furthermore approves the issuance of guarantees, letters of comfort and similar items relative to Julius Baer Group Ltd. and the principal operating subsidiaries. It approves the entry into, the dissolution and the modification of joint ventures of strategic importance by the principal operating subsidiaries, and approves the issue and amendment of Organisa-

tional and Management Regulations of the principal operating subsidiaries, including the allocation of responsibilities. The Chairman's & Risk Committee furthermore approves the formation, the change in capital or ownership structure, the change of legal form or licences, and the liquidation or closure of all subsidiaries. The Chairman's & Risk Committee decides on requests from members of the Board of Directors and of the Executive Board to serve on outside boards of directors or advisory boards, boards of trustees or foundation boards and gives its consent to such members to serve in public office or government.

The Chairman's & Risk Committee generally convenes monthly. In 2016, the Committee met ten times for approximately four hours each. The Chief Executive Officer and the Chief Financial Officer are permanent guests and the other members of the Executive Board of the Company participate for specific reporting sessions in the meetings of the Chairman's & Risk Committee.

**Members** Daniel J. Sauter (Chairperson), Andreas Amschwand and Charles G. T. Stonehill

#### Attendance of the members of the Chairman's & Risk Committee at the respective meetings

	January	February	April	May	June
<b>First half of 2016</b>					
Daniel J. Sauter, Chairperson	x	x	x	x	x
Andreas Amschwand	x	x	x	x	x
Charles G. T. Stonehill	x	x	x	x	x
	August	September	October	November	December
<b>Second half of 2016</b>					
Daniel J. Sauter, Chairperson	x	x	x	x	x
Andreas Amschwand	x	x	x	x	x
Charles G. T. Stonehill	x	x	x	x	x

#### Audit Committee

The Audit Committee is responsible for the integrity of controls for financial reporting and the review of the Company's and the Group's financial statements, including the interim management statements but in particular the consolidated statement of the Group and the annual and semi-annual financial statements before they are presented to the complete Board of Directors for approval. It also reviews the internal and external communication regarding the financial data and accounting statements and related information. The Audit Committee monitors compliance by the Company with its respective legal and regulatory obligations and ensures the receipt of regular information as to compliance by its subsidiaries with such obligations as well as with regard to the existence of an adequate and effective internal control as regards financial reporting.

The Audit Committee is responsible for the standards and methodologies for risk control with regard to operational risk (including legal and regulatory risk) which are employed to comply with the principles and risk profile of the Group adopted by the Board of Directors or other relevant supervisory or managing bodies.

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

The Committee ensures contact with the external auditors at the level of the Board of Directors and monitors their performance and independence as

well as their cooperation with the internal auditors. The Committee is also responsible for assessing the performance of the external auditor on an annual basis. It reviews their reports about the rendering of the accounts and the management letter and provides a recommendation to the complete Board of Directors regarding election of the external auditor at the Annual General Meeting.

The members of the Audit Committee are independent. The Audit Committee has its own charter and performs an in-depth annual self-assessment with regard to its own performance.

The Audit Committee convenes at least four times a year for about four hours on average. The members of the Executive Board of Julius Baer Group Ltd. participate as guests in the meetings of the Audit Committee. The Head of Group Internal Audit and representatives of the external auditor participate in every meeting. During the year under review, the Audit Committee held nine meetings including three conference calls.

**Members** Heinrich Baumann (Chairperson), Paul Man Yiu Chow, Claire Giraut and Charles G. T. Stonehill

#### Attendance of the members of the Audit Committee at the respective meetings

	January	April	May <sup>1</sup>	June
<b>First half of 2016</b>				
Heinrich Baumann, Chairperson	x	x	x	x
Paul Man Yiu Chow	x	x	x	x
Claire Giraut	x	x	x	x
Charles G. T. Stonehill	x	x	x	x
Daniel J. Sauter	G	G	G	G
Andreas Amschwand	-	-	-	G

<sup>1</sup> Meeting by teleconference  
G = attended meeting as guest

	July <sup>1</sup>	September	October	November <sup>1</sup>	December
<b>Second half of 2016</b>					
Heinrich Baumann, Chairperson	x	x	x	x	x
Paul Man Yiu Chow	x	x	x	x	x
Claire Giraut	x	x	x	x	x
Charles G. T. Stonehill	x	x	x	x	x
Daniel J. Sauter	G	-	G	G	G

<sup>1</sup> Meeting by teleconference  
G = attended meeting as guest

#### Compensation Committee

The Compensation Committee shall carry out the Board's overall responsibility for drawing up the remuneration principles, remuneration strategy and policies covering the Chairman of the Board of Directors, the further non-executive members of the

Board of Directors, the Chief Executive Officer (CEO) and the further members of the Executive Board within the Julius Baer Group. This includes reviewing any compensation principles (changes thereof have to be submitted for approval to the Board of Directors), reviewing and approving compensation



policies relating to the Company as a whole as well as any compensation policies within the Group which are linked to the shares of the Company.

The Compensation Committee, with the support of external advisors if needed, undertakes to advise the full Board of Directors, whether the current compensation for the Chairman, the Board of Directors, the CEO and the Executive Board is in line with market practices.

The Compensation Committee annually reviews the compensation elements and the share ownership programmes by considering possible impacts of new regulatory developments and feedback received from stakeholders.

The Compensation Committee is responsible for reviewing and approving the Company's principles on total compensation and benefits (Remuneration Policy). It annually reviews that the principles are operated as intended and that the policy is compliant with national and international regulations and standards.

The Compensation Committee determines the compensation of the Chairman and of the Executive Board and submits the respective proposals for the other members of the Board of Directors and the CEO to the Board of Directors for approval. The compensation proposals for the Chairman, the

Board of Directors, the CEO and in aggregate form for the Executive Board are subsequently submitted to the Annual General Meeting for approval by the shareholders.

Finally, the Compensation Committee on an annual basis prepares and proposes to the Board of Directors and subsequently to the attention of the shareholders a Remuneration Report as well as other reports as required by law or regulations.

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

The Compensation Committee consists of at least three members who are elected by the Annual General Meeting. With respect to decisions of specialised nature, the Compensation Committee may seek advice from additional members of the Board of Directors. The Compensation Committee convenes as often as required, however, not less than three times a year. During the year under review, the Compensation Committee held five meetings for three hours on average.

**Members** Gareth Penny (Chairperson), Gilbert Achermann, Ann Almeida and Heinrich Baumann

#### Attendance of the members of the Compensation Committee at the respective meetings

	January	April	June	September	November
Gareth Penny, Chairperson	x	x	x	x	x
Gilbert Achermann	x	x	x	x	x
Ann Almeida <sup>1</sup>	-	-	x	x	x
Heinrich Baumann	x	x	x	x	x
Daniel J. Sauter	G	G	G	-	G
Charles G. T. Stonehill	-	-	-	G	-

<sup>1</sup> Joined the Committee on 1 June 2016

G = attended meeting as guest except portions of meetings where a conflict of interest might have arisen

#### *Nomination Committee (ad hoc)*

In general, the role of the Nomination Committee is to assist the Board of Directors in the effective discharge of its responsibilities, ensuring that the Board of Directors comprises individuals who are best able to discharge the responsibilities of directors, in accordance with applicable laws and regulations as well as principles of sound corporate governance. The Nomination Committee is responsible for the long-term succession planning at the level of the Board of Directors. It assesses candidates as possible new members of the Board of Directors of the Company and prepares respective nominations for approval by the complete Board of Directors as well as for final consideration by the Annual General Meeting.

The Nomination Committee is also responsible for the long-term succession planning of the Chief Executive Officer (CEO) and the other members of the Executive Board of the Company and in this function assesses potential candidates and prepares respective nominations for approval by the Board of Directors. In particular, the Nomination Committee has the following powers, duties and responsibilities:

- a) establishment of profiles describing necessary and desirable competencies and skills of members of the Board of Directors and of the CEO;
- b) search for and identification of suitably qualified candidates for appointment to the Board of Directors;
- c) conduct of exploratory talks and application talks with possible candidates;
- d) submission of proposals to the Board of Directors with regard to the election of members of the Board of Directors and nomination of the CEO;
- e) establishment of a Board of Directors, CEO and other Executive Board members succession plan.

The Nomination Committee convenes as needed and consists of a minimum of three members of the Board of Directors, who are appointed by the Board of Directors. The Nomination Committee met four times in 2016 for an average duration of one hour each.

**Members** Charles G. T. Stonehill (Chairperson), Gilbert Achermann, Claire Giraut and Daniel J. Sauter

#### **Attendance of the members of the Nomination Committee (ad hoc) at the respective meetings**

	January	June	October	December
Charles G. T. Stonehill, Chairperson	x	x	x	x
Gilbert Achermann	x	x	x	x
Claire Giraut	x	x	x	x
Daniel J. Sauter	x	x	x	x
Ann Almeida	-	-	-	G

G = attended meeting as guest

## DEFINITION OF AREAS OF RESPONSIBILITY

### **Julius Baer's strategic framework for long-term value creation**

Since the launch of the new Julius Baer Group in 2009, the company has consistently executed the long-term strategy outlined at the time. At the core of this strategy is the focus on pure private banking and on realising profitable organic and inorganic growth by leveraging the Group's regional strengths and client-centric service model, with the aim to create long-term sustainable value for clients and investors.

#### *Applying a client-centric business model*

Julius Baer focuses on pure private banking, targeting private clients and family offices as well as external asset managers. The Group's unique position of strength as the leading Swiss private banking group is further reinforced by an unmatched focus on client-centric (as opposed to product-led) service excellence, supported by Julius Baer's open product platform, and a corresponding client-centric management culture, all of which are driven by a committed management team with deep experience in private banking.

#### *Generating sustainable growth by leveraging Julius Baer's regional strengths and client-centric service model*

Since 2009, Julius Baer's strategy has aimed at delivering profitable growth both organically as well as inorganically through acquisitions.

Organic growth is achieved by generating steady net new money throughout the business cycle through the continued focus on onboarding new clients, increasing the share of wallet of existing clients as well as carefully hiring experienced relationship managers. In this process, the Group's pure private banking focus, its distinctive corporate culture, its conservatively managed balance sheet

and its comparatively low-risk business profile are all key elements in making Julius Baer the employer of choice for top private bankers and the bank of choice for its clients. Through careful and selective consideration of acquisitions to support the Group's growth strategy, Julius Baer aims to preserve these key advantages.

Julius Baer's balanced growth strategy is supported by a diversified global footprint, ensuring overall profitable and sustainable growth and making it possible to neutralise slower economic development in any one region. In the geographic allocation of its investments in growth, the Group has always aimed to strike an equilibrium over the cycle between investments into Julius Baer's original target markets of Switzerland and Europe (~50% of assets under management) and into its presence in the key wealth management growth markets around the world – Asia, Latin America, the Middle East, Israel and Africa, as well as Central and Eastern Europe, including Russia (~50% of assets under management).

#### *Calibrating the strategy in a changing environment*

In 2016, as in other years, Julius Baer's Board of Directors extensively reviewed the Group's long-term strategy with the Group's management, both in terms of its ongoing stand-alone validity and against potential alternative strategies. The two bodies jointly concluded that while the external environment (encompassing client needs, market conditions, regulatory requirements and competitive behaviour) will continue to change and evolve, the core elements of the Group's long-term strategy as outlined in 2009 remain valid.

Notwithstanding the continued commitment to the long-term core strategic focus, the Board and management reacted to the shorter-term market and competitive developments in 2016 and hence fine-tuned the Group's strategy for the medium term.

To lay the foundation for continued success, over the next few years the Group's strategy will focus particularly on delivering a best-in-class wealth management experience for clients, on strengthening the Group's position as employer of choice for top private banking professionals and as bank of choice for its clients, and on continuing to be among the most profitable businesses in the sector. This is to be achieved by concentrating on the following elements:

- Enhancing the Group's market focus and regionalisation while realigning the organisation to the evolving market-specific client needs.
- Strengthening the client-facing management structure and the client knowledge framework, encompassing all existing and anticipated future regulatory requirements.
- Enhancing Julius Baer's holistic *Your Wealth* offering through the further and wider roll-out of Julius Baer's advisory model and the strengthening of Julius Baer's investment management (discretionary mandates) capabilities.
- Increasing the productivity and efficiency through investing in the Group's technology platform and processes and strengthening the emphasis on its target clients.
- Further establishing Julius Baer as the global leader in private banking and building on the Group's attractive employee value proposition.

#### *Creating shareholder value*

Key elements of Julius Baer's strategic focus are reflected in its financial targets and driven by its aim to balance growth and profitability:

- Growth: Julius Baer's focus on organic growth is reflected in the Group's medium-term target to realise between 4% and 6% net new money expansion per annum.
- Profitable growth: Julius Baer's focus on achieving profitable growth is echoed by its dual targets of realising an adjusted<sup>1</sup> cost/income ratio<sup>2</sup> of between 64% and 68% and an adjusted pre-tax margin<sup>3</sup> of over 30 basis points in the medium term.
- Strong balance sheet, comparatively low-risk business profile: The focus on maintaining these two key competitive advantages partly manifests itself in Julius Baer's aim to maintain its (phase-in) BIS total capital ratio above 15% and its (phase-in) BIS core equity tier 1 ratio above 11%, three percentage points above the regulatory required minimum levels. In setting its floors at these levels, the Group believes it achieves an appropriate balance between on the one hand maintaining a solid capital buffer and on the other hand continuing to generate attractive returns for its shareholders.
- Shareholder value: The continued successful execution of the long-term strategy is expected to result in a prolonged above-market return to shareholders. This aim is further supported by the Group's intent to grow its dividend pay-out ratio to approximately 40% of adjusted net profit.
- Pay for performance: The Group's focus on sustainable profitable growth and long-term shareholder value creation is reflected in the Executive Board's compensation structure, in particular via the cumulative economic profit and relative total shareholder return components of the equity performance plan.

<sup>1</sup> Adjusted results derived by excluding from the audited IFRS financial statements the integration and restructuring expenses as well as the amortisation of intangible assets related to previous acquisitions or divestments.

<sup>2</sup> Calculated using adjusted operating expenses, excluding valuation allowances, provisions and losses.

<sup>3</sup> Adjusted profit before taxes divided by average assets under management in basis points.

### **Fundamentals**

The governing bodies are responsible for the strategic direction of the Julius Baer Group and the Company as well as for determining and implementing the principles of organisation, management and monitoring. They are accountable for providing the means necessary to achieve the targeted objectives and bear ultimate responsibility for the overall results. They supervise the maintenance of the Julius Baer Group as a whole and coordinate and oversee all activities carried out by and in the name of the Company. The Board of Directors has a clear strategy-setting responsibility and supervises and monitors the business, whereas the Executive Board, led by the Chief Executive Officer (CEO), has executive management responsibility. Julius Baer operates under a strict dual board structure, as mandated by Swiss banking law. The functions of Chairman of the Board and CEO are assigned to two different individuals, thus ensuring a separation of powers. This structure establishes checks and balances and preserves the institutional independence of the Board of Directors from the day-to-day management of the Company, for which responsibility is delegated to the Executive Board under the leadership of the CEO.

- ➔ The individual responsibilities and powers of the governing bodies arise from the Organisational and Management Regulations (OGR). All relevant information contained in the OGR is substantially disclosed in the respective sections of this *Corporate Governance* chapter.

The decisions of the governing bodies are implemented by the Group companies in compliance with the respective applicable legal and supervisory regulations.

### *Board of Directors*

The Board of Directors is responsible for the ultimate direction, supervision and control of the Company, which it fulfils within the scope of the duties stipulated in article 716a of the Swiss Code of Obligations and through calling on its various committees. The complete Board of Directors is especially responsible for preparing all topics which fall within the competence of the Meetings of Shareholders (Annual General Meeting and Extraordinary [if any] Meetings) and receives support and advice from the Audit Committee in particular in matters of financial reporting and other capital management questions. Based on the proposal of the Audit Committee, the complete Board of Directors decides on the external auditors to be recommended for appointment at the Annual General Meeting. Entry into, dissolution and modification of joint ventures of strategic importance by the Company also falls within the competence of the complete Board of Directors. Moreover, the complete Board of Directors appoints the Chief Executive Officer and the other members of the Executive Board and, based on the proposal of the Audit Committee, decides on the appointment and dismissal of the Head of Group Internal Audit. Furthermore, the complete Board of Directors decides on the appointment and dismissal of the Chairman of the Board of Directors, of members of the Board of Directors and of advisory board members (if any) of the principal operating subsidiaries. The complete Board of Directors is responsible for determining the overall risk policy of the organisation as well as for the design of accounting, financial controlling and strategic financial planning. It also decides on capital market transactions involving shares of Julius Baer Group Ltd., on such resulting in the issue of bonds of the Company as well as on the issue of bonds by subsidiaries based on a graduated competence schedule regarding the capital and time commitment involved.

#### *Executive Board*

The Executive Board is responsible for the implementation of the Company's and the Group's overall strategy, within the respective parameters established by the Board of Directors, and is accountable for all operational and organisational matters as well as for the operating results. Except where delegated by the Board of Directors to another supervisory or managing body, the Executive Board is ultimately responsible for all of the day-to-day activities of the Company, including such activities which have been assigned or delegated by the Executive Board.

The Executive Board is responsible for ensuring the consistent development of the Julius Baer Group in accordance with established business policies, for establishing the organisation of the Executive Board itself, and for representing the Executive Board in its relationship with the Board of Directors and third parties.

The Executive Board has the right to issue binding policies to and require reporting or consultation from Group companies before a decision is taken. It proposes the formation, the change in capital or ownership structure, the change of legal form or licenses, and the liquidation or closure of principal operating companies and other subsidiaries to the Chairman's & Risk Committee for final approval. The Executive Board grants permission to employees (other than the members of the Executive Board) to serve on outside boards of directors or advisory boards, boards of trustees or foundation boards and gives its consent to serve in public office and government.

In addition, the Executive Board may form committees for specific tasks and regulate their activities. Their composition and areas of responsibility must be approved in advance by the Chairman's & Risk Committee of the Board of Directors.

The Executive Board is responsible for general corporate administration, in particular the registration of shareholders in and the maintenance of the share register. The Executive Board coordinates press contacts, press conferences and press releases and is responsible for investor relations and corporate identity (including corporate design and trademarks) of the Company. It also monitors and evaluates financial and other risks as well as compliance with rules governing equity capital, risk distribution and liquidity maintenance. Additionally, the Executive Board coordinates the contacts with the regulatory authorities. The Executive Board is empowered to issue binding instructions, which may be of general application or related to specific business matters, and may require the submission of reports or consultation with the Executive Board prior to making decisions.

The Executive Board is presided over by the Chief Executive Officer (the President of the Executive Board). The Chief Executive Officer is responsible, in particular, for ensuring the consistent management development of the Company in accordance with established business policies and strategies, representing the Executive Board in its relationship with the Board of Directors and third parties and establishing the organisation of the Executive Board itself within the framework as provided by the Articles of Incorporation as well as the Organisational and Management Regulations of Julius Baer Group Ltd. and the Julius Baer Group.

## INFORMATION AND CONTROL INSTRUMENTS VIS-À-VIS THE EXECUTIVE BOARD

In order to control the business activity of the Julius Baer Group, the Board of Directors has formed the committees listed in the section 'Internal organisational structure' above. Each committee Chairperson provides the complete Board of Directors with regular updates on the current activities of the respective committee and on important committee issues. In addition, the minutes of the committee meetings are made available to the complete Board of Directors.

The different committees are regularly kept informed by means of relevant reports from within the Group. Moreover, these reports are discussed in depth during regular meetings with the relevant bodies.

At the meetings of the Board of Directors, the Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and the other Executive Board members regularly update the Board on important issues. At such meetings, the Board members may request from Board or Executive Board members any information about any matters concerning the Julius Baer Group that they require to fulfil their duties.

The Executive Board or its individual members submit the following major reports to the Board of Directors and its committees:

- Written report by the CEO (quarterly to complete Board of Directors)
- Written or oral reporting by the CEO (usually monthly to Chairman's & Risk Committee)
- Written report by the General Counsel (quarterly to complete Board of Directors)
- Written or oral reporting by the members of the Executive Board (usually quarterly to complete Board of Directors and monthly to Chairman's & Risk Committee)
- Financial reporting by the CFO (Monthly Financial Report to complete Board of Directors and Chairman's & Risk Committee; enlarged written and oral reporting on a quarterly basis to

complete Board of Directors; written and oral reporting monthly to Chairman's & Risk Committee)

- Financial statements by the CFO (half-year results as well as Interim Management Statements to Audit Committee, full-year results to Audit Committee and complete Board of Directors)
- Forecast by the CFO (quarterly to complete Board of Directors)
- Pension Fund update by the CFO (annually to complete Board of Directors)
- Treasury/Asset & Liability Management update by the CFO or the Head Treasury (annually to complete Board of Directors and usually oral information monthly to Chairman's & Risk Committee)
- Budget, Capital Management and Scenario Planning by the CEO/CFO (annually to complete Board of Directors)
- List of 'Organkredite' by the Chief Risk Officer (quarterly to Chairman's & Risk Committee)
- Regulatory reporting of 'Klumpenrisiken' by the Chief Risk Officer (quarterly to Chairman's & Risk Committee)
- Group Risk reporting by the Chief Risk Officer (quarterly to Chairman's & Risk Committee as well as to Audit Committee, annually to complete Board of Directors)
- Risk Landscape by the Chief Risk Officer (annually to Chairman's & Risk Committee and Audit Committee)

In addition, the Board of Directors has an independent Group Internal Audit unit at its disposal. The obligations and rights of Group Internal Audit are set forth in a separate code of responsibilities. Group Internal Audit has an unlimited right to information and access to documents with respect to all companies and elements of the Group. Furthermore, in consultation with the Chairman of the Board of Directors, the Executive Board may ask Group Internal Audit to carry out special investigations outside of the planned auditing activities. The Head of Group Internal Audit is appointed by the Board of Directors. The Head of Group Internal Audit submits a report to the complete Board of Directors on a yearly basis and to the Audit Committee usually on a quarterly basis, respectively.



## EXECUTIVE BOARD

### MEMBERS OF THE EXECUTIVE BOARD

**Boris F.J. Collardi** (born 1974), dual Swiss and Italian citizen; Executive Programme IMD Lausanne, 1999. Credit Suisse, 1993–2005: Career Starter Programme Credit Suisse, Geneva, 1993–1994; Front Office Support functions incl. Head of Front Office Support Asia-Pacific Credit Suisse Private Banking, Geneva, Zurich, Singapore, 1995–1999; Executive Assistant to the CEO Credit Suisse Private Banking, Zurich, 2000; Project Director ‘Global Private Banking Center’ Credit Suisse Private Banking, Singapore, 2000–2002; Head of Business Development, member of the Executive Committee Credit Suisse Private Banking Europe, Zurich, 2002–2003; Chief Financial Officer and Head of Corporate Center; member of the Executive Board Credit Suisse Private Banking, Zurich, 2003–2004; Chief Operating Officer; member of the Private Banking Europe Management Committee Credit Suisse Private Banking EMEA, Zurich, 2004–2005. Entry into Bank Julius Baer & Co. Ltd., 2006: Member of the Executive Board since 2006; Chief Operating Officer, 2006–2009, and in addition CEO Investment Solutions Group, 2008–2009 (part of the Bank’s former Investment Products division). Chairman of the Julius Baer Foundation from 1 January 2015 to 31 December 2015. Chief Executive Officer of Bank Julius Baer & Co. Ltd. since 1 May 2009; member of the Executive Board and Chief Executive Officer of Julius Baer Group Ltd. since 1 October 2009.

**Jan A. Bielinski** (born 1954), Swiss citizen; PhD in Law, University of Zurich, 1983; Advanced Management Program, Wharton School, University of Pennsylvania, Philadelphia, USA, 1989. Entry into Bank Julius Baer & Co. Ltd., 1983: Development of PR/Marketing activities, 1983–1986; Head of Corporate and Marketing Communications, 1987–1995; Julius Baer Holding Ltd., 1996–2009: Chief Communications Officer and Head of Investor Relations from 1996 until 30 September 2009 (Head of Investor Relations until 2008); member of the Extended Group Executive Board from 2002 until December 2005; member of the Corporate Centre Management from December 2005 until November 2007; Bank Julius Baer & Co. Ltd. since 2010: member of the Extended Executive Board from 1 January 2010 until 29 February 2012;

Chief Communications Officer since 1 January 2010; additionally Head Marketing from 1 November 2011 until 31 March 2015; member of the Executive Board and Chief Communications Officer of Julius Baer Group Ltd. since 1 October 2009.

**Dieter A. Enkelmann** (born 1959), Swiss citizen; Law Degree, University of Zurich, 1985. Credit Suisse Group, various functions in Investment Banking in Switzerland and abroad, 1985–1997; Swiss Re 1997–2003: Head Corporate Financial Management and Investor Relations, 1997–2000; Chief Financial Officer of the business unit Financial Services, 2001–2003; Barry Callebaut, Chief Financial Officer, 2003–2006. Entry into the Julius Baer Group on 11 December 2006 as member of the Group Executive Board and Group Chief Financial Officer; Chief Financial Officer and Member of the Management Committee of Bank Julius Baer & Co. Ltd., 2006–2007; member of the Executive Board and Group CFO since 15 November 2007; administrative and organisational manager of the Executive Board of Julius Baer Holding Ltd. from 1 September 2008 until 30 September 2009; member of the Executive Board and Chief Financial Officer of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 1 October 2009.

**Giovanni M.S. Flury** (born 1953), Swiss citizen; Degree in Economics (lic. oec. HEC), University of Lausanne, 1978; Senior Executive Programme, Harvard Business School, Cambridge, Massachusetts, USA, 1999. École Professionnelle Commerciale de Lausanne, Switzerland, Teacher of Economics and Law, 1978–1980; Nestlé Switzerland, Canada and Malaysia, Product Manager, 1981–1985; UBS AG, 1986–1998: Trainee Corporate Banking, Lugano, 1986; Branch Manager of Cassarate, 1987–1991; Head of Corporate Clients and Loans & Mortgages, Lugano, 1992–1995; Project Head Reengineering Corporate Banking Switzerland, Zurich, 1996; Head of Corporate Clients and Loans & Mortgages Ticino and Italy, Lugano, 1997–1998; Credit Suisse, Lugano, Head of Large Corporate Clients Ticino and Italy, 1998–1999; BDL Banco di Lugano, Lugano, Member of the Executive Board and Head of Private Banking, 2000–2005. Entry into the Julius Baer Group 2006: Banca Julius Baer (Lugano) SA, Member of the Executive Board and Head of Private

Banking, 2006–2007; Bank Julius Baer & Co. Ltd. from 2007 to 31 December 2015: Deputy Head Ticino and Italy, 2007–2009; CEO Ticino and Italy and Member of the Executive Board, 2010 until June 2011; CEO Italy and Member of the Executive Board, July 2011 until December 2012; Head Switzerland and Member of the Executive Board, January 2013 until September 2015; member of the Executive Board and Business Representative of Julius Baer Group Ltd. from 1 January 2016 until 31 December 2016.

**Gregory F. Gatesman** (born 1975), US citizen; The College of New Jersey, Trenton State College, Bachelor of Science in Business Administration, 1997; Financial executive education, Wharton School, University of Pennsylvania, Philadelphia, USA, 2004; Executive MBA, Smeal School of Business, Pennsylvania State University, USA, 2004; Chartered Financial Analyst (CFA), 2007. Merrill Lynch, 1997–2009: different positions, 1997–2002; Vice-President Advisory Division Administration, 2002–2004; Director of Private Banking Platform, 2004–2005; Managing Director / Co-Head and COO Merrill Lynch Trust Company, 2005–2008; Managing Director / Chief Operating Officer US Wealth Management, 2008–2009; Bank of America Corporation, Managing Director / Transition Leadership Executive, 2009; Merrill Lynch Global Wealth Management, Managing Director / Chief Operating Officer International Wealth Management, 2010–2013. Member of the Executive Board and Chief Operating Officer of Bank Julius Baer & Co. Ltd. from 1 February 2013 until 1 August 2016; member of the Executive Board and Chief Operating Officer of Julius Baer Group Ltd. from 1 February 2013 until 31 December 2016.

**Christoph Hiestand** (born 1969), Swiss citizen; Law Degree, University of St. Gallen (HSG), 1994; admission to the bar in Switzerland, 1997; Master of Law LL.M., Cornell University, Ithaca, USA, 2000. Beiten Burkhardt Mittl & Wegener, attorneys-at-law, Frankfurt am Main and Duesseldorf (Germany), 1997–1998; attorney-at-law with BBLP Meyer Lustenberger, Zurich, 1999–2001. Entry into Bank Julius Baer & Co. Ltd., 2001: Legal Counsel 2001–2003; General Counsel, Corporate Centre, 2004–2005; Julius Baer Holding Ltd., Deputy Group General Counsel, 2006 until 30 September

2009; member of the Executive Board and General Counsel of Julius Baer Group Ltd. since 1 October 2009.

**Bernhard Hodler** (born 1960), Swiss citizen; Bachelor of Business Administration, University of Applied Sciences (HWV), Berne, 1987; Staff IT School SIB, Zurich, 1988–1989; Financial Risk Manager, GARP, 1997; Advanced Executive Program, Swiss Banking School, 1999–2000; Advanced Management Program, Wharton School, University of Pennsylvania, Philadelphia, USA, 2004. Head of Global Market & Credit Risk and Global Controlling Trading & Sales, Credit Suisse, 1994–1996; Head of European Risk Management, Credit Suisse First Boston, 1997–1998. Entry into Bank Julius Baer & Co. Ltd. in 1998 as Head of Global Risk Management, 1998–2001; Chief Risk Officer, 2001–2009; President of the Management Committee from 2001 until 2 December 2005; Julius Baer Holding Ltd.: member of the Extended Group Executive Board and Chief Risk Officer from 2001 until 2 December 2005; Chief Risk Officer and Head of the Corporate Centre from 3 December 2005 until 14 November 2007; member of the Executive Board from 15 November 2007 until 30 September 2009; Bank Julius Baer & Co. Ltd., member of the Executive Board since 15 November 2007: Chief Risk Officer from 15 November 2007 until 2009; Head Risk, Legal & Compliance from 2009 until 31 March 2011; Chief Operating Officer (COO) from 1 April 2011 to 31 December 2012, COO a.i. from 1 to 31 January 2013; Chief Risk Officer since 1 February 2013. Chief Operating Officer (COO) a.i. of Julius Baer Group Ltd. from 1 to 31 January 2013; member of the Executive Board and Chief Risk Officer of Julius Baer Group Ltd. since 1 October 2009.

#### Changes in the Executive Board

Giovanni M.S. Flury joined the Executive Board on 1 January 2016 as Business Representative of Julius Baer Group Ltd. and retired on grounds of age at the end of 2016.

Nic Dreckmann joined the Executive Board on 1 January 2017 as Chief Operating Officer of Julius Baer Group Ltd., replacing Gregory F. Gatesman who left the Group at the end of 2016.

## OTHER ACTIVITIES AND INTEREST TIES

In applying the Corporate Governance Directive and the corresponding commentary of the SIX Swiss Exchange as well as the 'Ordinance against excessive compensation in listed companies', the Company fundamentally discloses all mandates and interest ties outside of the Julius Baer Group according to the applicable paragraphs of article 13 (Mandates outside the Group) of the Articles of Incorporation:

No member of the Executive Board may hold more than five additional mandates of which no more than one mandate in listed companies.

The following mandates are not subject to the aforementioned limitations:

- a) mandates in companies which are controlled by the Company or which control the Company;
- b) mandates held at the request of the Company or companies controlled by it. No member of the Executive Board may hold more than five such mandates;
- c) mandates in associations, charitable organisations, foundations, trusts and employee welfare foundations. No member of the Executive Board may hold more than ten such mandates.

Mandates shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Mandates in different legal entities that are under joint control are deemed one mandate.

Mandates in exchange-listed companies:

### **Dieter A. Enkelmann:**

- Member of the Board of Directors of Cosmo Pharmaceuticals S.p.A., Lainate, Italy, including Head of the Audit Committee and member of the Nomination Committee.

Mandates in non-listed companies:

### **Boris F.J. Collardi:**

- Member of the Board of Directors of BlueOrchard Ltd., Geneva, Switzerland.

### **Bernhard Hodler:**

- Member of the Board of Directors of Ifb AG, Cologne, Germany.

Other mandates:

### **Boris F.J. Collardi:**

- Member of the Board and the Committee of the Governing Board of the Board of Directors of the Swiss Bankers Association, Basle, Switzerland;
- President of the Association of Swiss Asset and Wealth Management Banks, Zurich, Switzerland;
- Member of the Foundation Board of the Swiss Finance Institute, Zurich, Switzerland;
- Member of the Foundation Board of Fondation du Festival et Académie de Verbier, Verbier, Switzerland;
- Member of the Advisory Board of the Lee Kong Chian School of Business – Singapore Management University, Singapore;
- Member of the Foundation Board of IMD, International Institute for Management Development, Lausanne, Switzerland;
- Initial council, Masayoshi Son Foundations for Scholarship, Tokyo, Japan.

### **Dieter A. Enkelmann:**

- Chairman of the Foundation Board of Stiftung für angewandte Krebsforschung, Zurich, Switzerland.

## MANAGEMENT CONTRACTS

There are no management contracts between Julius Baer Group Ltd. and companies (or individuals) outside of the Group.

## SHAREHOLDERS' PARTICIPATION RIGHTS (AS AT 31 DECEMBER 2016)

### VOTING-RIGHTS RESTRICTIONS AND REPRESENTATION

In relation to the Company, any person entered in the share register shall be deemed to be a shareholder. The shareholder shall exercise its rights in the affairs of the Company at the General Meeting of Shareholders. It may represent itself or be represented by the independent voting rights representative or a third party at the General Meeting of Shareholders.

The General Meeting of Shareholders shall elect the independent voting rights representative for a term of office expiring after completion of the next Ordinary General Meeting of Shareholders. Re-election is possible.

The independent voting rights representative shall inform the Company of the amount, kind, nominal value and category of shares represented by it. The Chairman shall convey this information to the General Meeting of Shareholders.

The Group's shareholders are given the possibility to vote their shares through an electronic voting tool. Such votes will be delegated to the independent voting rights representative.

There are no voting rights restrictions; each share entitles to one vote.

### STATUTORY QUORUMS

Except where otherwise required by mandatory law and/or by article 8.14 of the Articles of Incorporation, all resolutions of the General Meetings of Shareholders are passed by an absolute majority of the votes cast, excluding blank or invalid ballots.

### CONVOCACTION OF THE GENERAL MEETINGS OF SHAREHOLDERS

The convocation of the General Meetings of Shareholders complies with the applicable legal regulations. The convocation of a General Meeting may also be requested by one or more shareholders who together represent at least 10% of the share capital. The Board of Directors must convene the requested General Meeting within six weeks of receiving the request.

### AGENDA

Shareholders who represent shares of a nominal value of CHF 100,000 may demand that matters be put on the agenda. This request must be submitted to the Company at least six weeks before the date of the General Meeting of Shareholders. The request to convene a meeting and to put a matter on the agenda must be done in writing including the matters to be handled and the proposals.

### REGISTRATIONS IN THE SHARE REGISTER

In the invitation to the Annual General Meeting of Shareholders, the Board of Directors states the applicable record date by which shareholders must be registered in the share register to be eligible to participate and vote at the meeting.

## CHANGES OF CONTROL AND DEFENCE MEASURES

### DUTY TO MAKE AN OFFER

The Articles of Incorporation do not deviate from the standards set by the law (no opting-out or opting-up rules).

retirement benefits under the pension plan, etc.) which are generally available to other Julius Baer employees. The Executive Board members, however, are not entitled to other severance pay or special termination benefits under the pension plans compared to the general staff population.

### CLAUSES ON CHANGES OF CONTROL

Executive Board members are not entitled to specific payments upon a change of control or upon termination of employment related to a change of control; however, they are eligible to receive such benefits (e.g. accrued holiday pay, death/disability/

Special change-of-control provisions may be available under the Equity Performance Plan. All provisions remain subject to the prevailing legislation in each of the applicable jurisdictions at the time of the change of control. More details can be found in chapter *II. Remuneration Report* of this Annual Report.

## AUDIT

Audit is an integral part of corporate governance. While retaining their independence, the External Auditors and Group Internal Audit (GIA) closely coordinate their work. The Audit Committee and ultimately the Board of Directors supervise the adequacy of audit work.

### EXTERNAL AUDITORS

The statutory auditor of the Julius Baer Group is KPMG AG (KPMG), Badenerstrasse 172, 8004 Zurich, Switzerland. The mandate was first given to KPMG for the business year 2006. Philipp Rickert has been the Lead Auditor since 2013. Swiss Law requires the Lead Auditor to rotate every seven years.

KPMG attends all meetings of the Audit Committee. At each meeting, KPMG reports on the findings of its audit and/or interim review work. The Audit Committee reviews KPMG's audit plan on an annual basis and evaluates the performance of KPMG and its senior representative in fulfilling their responsibilities.

Moreover, the Audit Committee recommends to the Board of Directors the appointment or replacement of the External Auditors, subject to shareholder approval as required by Swiss law.

KPMG provides a report as to its independence to the Audit Committee at least once a year. In addition, the policy that governs the cooperation with the External Auditors strives to ensure an appropriate degree of independence of the Group's External Auditors. The policy limits the scope of service that the External Auditors may provide to Julius Baer Group Ltd. or any of its subsidiaries in connection with its audit and stipulates certain permissible types and caps of additional audit-related and consulting-related services. The Audit Committee pre-approves all other services on a case-by-case basis. In accordance with this guidance and as in prior years, all KPMG non-audit services provided in 2016 were pre-approved. KPMG is required to report to the Chief Financial Officer and the Audit Committee periodically the extent of services provided and the fees for the services performed to date.

#### Fees paid to External Auditors

	2016 CHF m	2015 CHF m
Audit fees <sup>1</sup>	<b>6.7</b>	5.8
Audit-related fees <sup>2</sup>	<b>0.5</b>	0.4
Other services fees <sup>3</sup>	<b>0.8</b>	1.2

<sup>1</sup> Fees related to Group and stand-alone financial statement and regulatory audit

<sup>2</sup> Fees related to accounting and regulatory compliance services and other audit and assurance services

<sup>3</sup> Fees related to tax compliance and consultancy services

#### GROUP INTERNAL AUDIT

With 32 professionals as at 31 December 2016, compared to 33 as at 31 December 2015, Group Internal Audit (GIA) performs the global internal audit function for the Julius Baer Group. GIA is an independent and objective function that provides assurance to the Board of Directors on safeguards taken by management (i) to protect the reputation of the Group, (ii) to protect its assets and (iii) to monitor its liabilities. GIA provides assurance by assessing the reliability of financial and operational information, as well as compliance with legal,

regulatory and statutory requirements. All reports with key issues are provided to the Chief Executive Officer, the Executive Board members of the Bank and other responsible members of management. In addition, the Chairman and the Audit Committee members are regularly informed about important issues. GIA further assures the closure and successful remediation of audit issues.

To maximise its independence from management, the Head of GIA, Peter Hanimann, reports directly to the Chairman and to the Chairperson of the Audit Committee for delegated duties. GIA has unrestricted access to all accounts, books, records, systems, property and personnel, and must be provided with all information and data needed to fulfil its auditing duties. The Chairman and the Chairperson of the Audit Committee may request special assignments to be conducted. Other Board of Directors members and the Executive Board may ask for such special assignments with the approval of the Chairman or the Chairperson of the Audit Committee.

Coordination and close cooperation with the External Auditors enhance the efficiency of GIA's work.

## INFORMATION POLICY

Julius Baer Group Ltd. informs its shareholders and the public each year by means of the Annual and Half-year Reports. Julius Baer furthermore provides a summary account of the business performance for the first four and the first ten months of each year, respectively, in separate Interim Management Statements. It also publishes press releases, presentations and brochures as needed.

- ⇒ Current as well as archived news items can be accessed via [www.juliusbaer.com/news](http://www.juliusbaer.com/news).
- ⇒ Stakeholders and interested parties can be kept informed about our Group automatically by subscribing to Julius Baer's News Alert service at the address [www.juliusbaer.com/newsalert](http://www.juliusbaer.com/newsalert).

### ADDRESS AND CONTACT

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### Investor Relations

Alexander C. van Leeuwen  
Telephone +41 (0) 58 888 5256

### IMPORTANT DATES

20 March 2017	Publication of Annual Report 2016
12 April 2017	Annual General Meeting, Zurich
18 April 2017	Ex-dividend date
19 April 2017	Record date
20 April 2017	Dividend payment date

Additional information events are held regularly and as deemed appropriate in Switzerland and abroad.

- ⇒ Please refer to the corporate calendar at the address [www.juliusbaer.com/calendar](http://www.juliusbaer.com/calendar) for the publication dates of financial statements and further important corporate events.



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## LETTER TO OUR SHAREHOLDERS

Dear Shareholders,

In 2016, the Julius Baer Group continued to thrive. In comparison to 2015, operating income was up 6% (supported by a significant rise in net interest income), the adjusted net profit for the Group climbed to CHF 706 million (growing by 1% when excluding the 2015 US provision from the 2015 results or 153% when including such provision), and the Group increased its overall assets under management to a record level of CHF 336 billion (a 12% increase).

Julius Baer continued its growth and expansion in 2016. The Group underwent a structural reorganisation which focused on increasing efficiency by aligning the regions and divisions with client needs and expectations. The new structure created two new regions (Europe and Emerging Markets) and consolidated our Intermediaries division into the five regions. This realignment allows us to group important markets strategically, thus improving our clients' overall experience with the Group.

In 2016, we also further developed our processes for identifying and promoting our internal talent pool, refined our performance-assessment process and strengthened governance through the introduction of augmented qualitative assessment standards. This enhanced our ability to continue to identify high performers and to develop them into future leaders. Through this new programme, we have identified a significant number of employees at all levels of the organisation, who will benefit from additional mentoring and training to improve their skill sets and whom we will deploy across our Group functions. We are pleased that all the leadership roles required in the reorganisation we carried out in 2016 were filled by internal candidates.

Given the Group's commitment to maintain a compensation framework that promotes value creation for all stakeholders, we developed a new approach for assessing the performance of our relationship managers with a focus on team building and leadership. A new leadership-focused compensation programme will be implemented in 2017. To support this new programme, the Group implemented a fully re-designed qualitative assessment process which was applied to the evaluation of relationship managers in 2016. The new, transparent structure focuses on providing a real-time assessment of performance across our key qualitative targets, focused on conduct, operational and advisory excellence with meaningful negative impacts on compensation for non-compliance.

In line with the above changes, pay-mix appropriateness (from the perspective of best practices as defined by regulators, market alignment and our own compensation strategy) remained an important agenda item in 2016. The Group again carried out a detailed benchmarking of the compensation of the Board of Directors, the Executive Board and our key employees. No changes to the structure of the compensation paid to the Board of Directors or the Executive Board have been made in 2016, and our eligible employees continue to be awarded variable compensation in a mixture of immediate cash, deferred cash and deferred equity.

In 2016, minor compensation-policy changes were made to support our long-term business strategy and to comply with challenging regulatory requirements in our operating locations. These will continue to be monitored to ensure that Julius Baer's performance-based variable compensation complies with all rules and regulations and adheres to the best practices in our industry. Our compensation framework aims to support our overall business strategy in a responsible way in order to promote the continued development of our business for the benefit of our shareholders.

In this report, the Executive Board compensation reporting disclosure, which follows the rules provided by the 'Swiss Ordinance against Excessive Compensation in Listed Companies' (the 'Ordinance'), has been updated. In recent years, Julius Baer has disclosed such compensation from both a regulatory (grant-year under the Ordinance) and a company (performance-year) perspective. To avoid confusion amongst readers, this year's report has been harmonised by providing the regulatory view only. This reporting adjustment does not impact the information that the Group will provide to shareholders for the purposes of the vote on this Remuneration Report or on our compensation arrangements.

We are thankful for the confidence our shareholders have demonstrated in our compensation framework. In line with the Ordinance, shareholders will be asked to vote on the identified, detailed compensation arrangements for the Board of Directors and Executive Board. In addition, mirroring the importance we place on dialogue with our shareholders, a consultative vote on the Remuneration Report will again be conducted.

On behalf of the Board of Directors,

Daniel J. Sauter  
*Chairman*

Gareth Penny  
*Chairman of the Compensation Committee*

## COMPENSATION GOVERNANCE

### COMPENSATION COMMITTEE AUTHORITY AND RESPONSIBILITIES

Julius Baer operates a multi-tiered system of compensation governance which ensures that there are clear processes governing all aspects of compensation. The Board of Directors sets the overall remuneration policy and retains full responsibility for designing and monitoring all aspects of the compensation paid to the Board of Directors and the Executive Board.

The Compensation Committee supports the Board of Directors in carrying out the Board's overall responsibility with regard to defining the Julius Baer Group's remuneration principles and compensation strategy. The Compensation Committee oversees the compensation of the Board of Directors (including the Chairperson), Executive Board members (including the CEO) as well as that of all other employees of Julius Baer Group Ltd. (the 'Company' or the 'Group') on a collective basis. This includes reviewing any compensation principles (changes to which have to be submitted for approval to the

Board of Directors), reviewing and approving compensation policies relating to the Group as a whole as well as any compensation policies within the Group which are linked to the shares of the Group. Where relevant, the Compensation Committee also collaborates with other Julius Baer Group Ltd. Committees (e.g. the Audit Committee and the Chairman's & Risk Committee) when shaping policy.

Every year, the Compensation Committee reviews the compensation elements and the share ownership programmes in the context of Julius Baer Group Ltd.'s current business strategy, market practice, the possible impact of new regulatory developments and feedback received from stakeholders. The Compensation Committee also carries out an annual review of the Group's compliance with these principles and policies and ensures that the relevant policies conform to national and international standards and regulations. For each group of recipients, the following table shows the procedures for recommendations and decisions on compensation:

Compensation recipient	Recommended by	Reviewed and agreed by	Approved by
Chairperson of the Board of Directors	Chairperson of the Compensation Committee	Compensation Committee	Shareholders
Board of Directors members (excluding the Chairperson)	Compensation Committee	Board of Directors	Shareholders
CEO	Chairperson of the Board of Directors and Chairperson of the Compensation Committee	Compensation Committee/ Board of Directors	Shareholders
Executive Board (excluding the CEO)	CEO	Compensation Committee/ Board of Directors	Shareholders
Regulated staff (e.g. key risk takers)	Line management	CEO/Executive Board	Compensation Committee
High income earners	Line management	CEO/Executive Board	Compensation Committee

To avoid any conflicts of interest, the Chairperson of the Board, the CEO and other members of the Executive Board do not participate in those parts of the Compensation Committee meetings which serve to discuss and determine their proposed compensation.

The Compensation Committee consists of at least three members of the Board of Directors who are elected by the Annual General Meeting (AGM).

The current Compensation Committee is made up of four members. Where decisions of a specialised nature are required, the Compensation Committee may seek advice from additional members of the Board of Directors.

**Members:** Gareth Penny (Chairman), Gilbert Achermann, Heinrich Baumann and Ann Almeida (who joined the Compensation Committee in June 2016). As described in the 'Corporate Governance'

section of the Annual Report, these four individuals are experienced Board members who have a broad range of expertise in the industry as well as in matters of governance.

The Compensation Committee convenes as often as required and holds a minimum of three meetings

each year. During the year under review, the Compensation Committee held five meetings lasting an average of 2.5 hours each. The following table shows the meetings held by the Compensation Committee of Julius Baer Group Ltd. in 2016 and the Committee members attending each meeting:

	January	April	June	September	November
Gareth Penny, Chairperson	x	x	x	x	x
Gilbert Achermann	x	x	x	x	x
Ann Almeida <sup>1</sup>	-	-	x	x	x
Heinrich Baumann	x	x	x	x	x
Daniel J. Sauter	G	G	G	-	G
Charles G. T. Stonehill	-	-	-	G	-

<sup>1</sup> Joined the Committee on 1 June 2016

G = attended meeting as guest except portions of meetings where a conflict of interest might have arisen

## COMPENSATION PRINCIPLES

The primary compensation principles of the Julius Baer Group are to:

- attract and retain industry professionals who are dedicated to contributing value to the Group;
- foster risk awareness, while ensuring full alignment with regulatory compliance;
- incentivise management by rewarding achieved performance and by providing incentives for the creation of future shareholder value; and
- ensure that the performance-based variable compensation is in line with relevant current market practice.

## PEER BENCHMARKING

It is important to the Compensation Committee and the Board of Directors that the Group ensures that its compensation practices, structure and pay levels (adjusted for performance) are consistent with those of its peers from year to year, in order to remain competitive within the marketplace.

The Compensation Committee continues to consider the SMI as the most relevant peer group for the purposes of compensation comparison. However, it also looks to industry peers in its assessment of corporate governance practices and relative performance reviews. Taking into account the Group's market capitalisation and the complexity of the industry in which it operates, the Group's current positioning between the lower quartile and median of SMI companies remains appropriate. This current peer group positioning continues to be reviewed annually.

## Overview of peer groups for compensation benchmarking and relative performance review

Industry peer group		Market peer group (SMI)		
Credit Suisse	LODH	ABB	Nestlé	Swisscom
DBS	Morgan Stanley	Actelion	Novartis	Swiss Re
Deutsche Bank	Pictet	Adecco	Richemont	Syngenta
EFG	Standard Chartered	Geberit	Roche	Transocean
Goldman Sachs	UBS	Givaudan	SGS	Zurich Insurance
HSBC	Vontobel	LafargeHolcim	Swatch	

## EXTERNAL ADVISERS

In 2016, Julius Baer Group Ltd. obtained advice from HCM International Ltd. (formerly HCM Hostettler & Company) on compensation strategy, in particular with regard to our relationship manager compensation model, regulatory and compensation topics and the valuation of equity-based awards. During the year, Willis Towers Watson (formerly Towers Watson) and McLagan (a business division of Aon Hewitt) provided compensation survey data that was utilised internally by the Julius Baer Group for benchmarking purposes. For our Irish and UK-based entities, Mercer LLC was retained to provide pension and benefit advisory services. Ernst & Young AG (EY) was mandated to provide analysis on various aspects of compensation and diversity. Of these aforementioned advisers, EY also had other

mandates within the Group outside the Compensation and Benefits department.

## SAY ON PAY

In accordance with the Ordinance, Julius Baer Group Ltd. reports the compensation awarded to members of both the Board of Directors and the Executive Board on a business year basis. The Board of Directors recognises that the binding say-on-pay vote is not only a meaningful tool for shareholders, but also one that requires analysis and proper context to enable shareholders to understand and interpret the compensation numbers on which they vote. This Remuneration Report aims to assist shareholders in this responsibility.

## Say-on-pay shareholder approvals at AGM 2017

	2017 AGM vote			
	2016		2017	2018
Board of Directors maximum aggregate amount of compensation (AGM to AGM)			Compensation period	
Executive Board maximum aggregate amount of fixed compensation (2018)				Compensation period
Executive Board aggregate amount of variable cash-based compensation (2016)	Annual performance period			
Executive Board aggregate amount of variable equity-based Compensation (2017)			Annual grant (three-year performance period)	
Consultative vote on the Remuneration Report (2016)	Compensation framework and governance			

The approval of compensation by the AGM is defined in article 11.1 of the Articles of Incorporation. This approval determines:

- a) the maximum aggregate amount of compensation paid to the Board of Directors for its next term of office;
- b) the maximum aggregate amount of fixed compensation of the Executive Board for the financial year following the respective General Meeting of Shareholders;

- c) the aggregate amount of variable cash-based compensation elements of the Executive Board for the financial year preceding the respective General Meeting of Shareholders;
- d) the aggregate amount of variable equity-based compensation elements of the Executive Board granted in the current financial year.

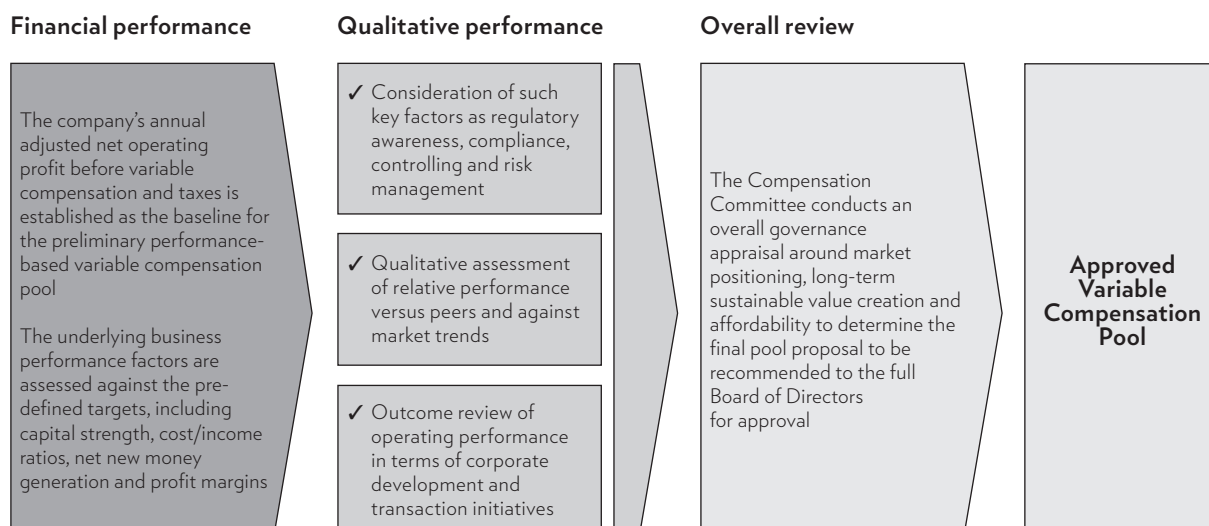
In addition, a consultative vote on the Remuneration Report is again scheduled for the AGM on 12 April 2017. The Board of Directors is interested in hearing shareholders' opinions on an ongoing basis. The detailed compensation data will be provided to shareholders as part of their invitations to the AGM.



## GROUP PERFORMANCE AND VARIABLE COMPENSATION POOL FUNDING

### VARIABLE COMPENSATION POOL FUNDING

#### Variable compensation pool funding process



#### Financial performance assessment

The baseline for calculating the Group's variable compensation pool is the annual adjusted net operating profit before variable compensation and taxes ('adjusted NOPbBT') generated by the Group (as reconciled by the Audit Committee). The Group's adjusted NOPbBT is derived by excluding from the audited IFRS financial statements items such as integration and restructuring expenses and amortisation of intangible assets related to acquisitions or divestments.

Adjusted NOPbBT has been selected as the appropriate baseline for the variable compensation pool funding as it is the underlying, sustainable operating profit generated by the business. It is an important metric which reflects the Group's actual performance, thus giving the Compensation Committee a clear indication of operating performance and providing a reliable baseline for comparing the year-on-year development of the Group.

In determining the pool, the Compensation Committee also takes other financial metrics into consideration such as changes in and/or the

development of the capital ratios, cost/income ratio, gross/net profit margin and net new money generation. All quantitative metrics are measured against the overall midterm plan, the strategic goals of the Julius Baer Group and its historical results for the prior three years.

#### Qualitative performance assessment

The qualitative review of performance is multi-faceted in order for the Compensation Committee to gain a perspective on the sustainability of the financial results and quality of earnings. Firstly, the Group's performance is measured in terms of how successfully key aspects, affecting current and future performance, have been managed with regard to regulatory awareness and compliance as well as controlling and risk. Secondly, the financial results are further assessed against the performance of peers and market trends, which guide the determination of relative value contribution. Finally, the progression and outcomes of key strategic initiatives pertaining to corporate development and transactions (merger and acquisition activity) are also appraised.

### Overall review

The Compensation Committee and the Board of Directors carry out a review of the size of the overall variable compensation pool taking into account factors such as overall affordability, market positioning and long-term sustainable value creation. Where required, the Compensation Committee may agree to apply a fixed percentage each year to adjust the variable compensation pool. This percentage would impact all employee bonuses within the Julius Baer Group. The Compensation Committee does not make adjustments to the pool in subsequent years to take into account reduced or revoked variable compensation due to ex-ante or ex-post performance adjustments made in prior years. This additional governance process further helps the Compensation Committee to maintain a balance between the development of the pool and the Group's corporate performance.

In addition, the Board of Directors seeks to ensure that the profit distribution amongst stakeholders (principally through shareholder dividends, global taxes paid to the relevant authorities, employee variable compensation and reinvestment into the business) is sustainable and reflects an appropriate, equitable distribution.

This performance-adjusted variable compensation pool is allocated across the various business units based on such factors as headcount, financial performance, significant achievements and contributions to the adjusted NOPbBT. This policy has been consistently employed over many years and thus allows meaningful year-on-year comparisons and the continued implementation of a stable compensation system.

### 2016 JULIUS BAER GROUP PERFORMANCE

The Group established key strategic initiatives in 2016 designed to position itself for future growth and profitability in the competitive global marketplace.

These initiatives included a focus on organic growth, the realignment of our organisation and the continued development of our technology platform.

In 2016, we successfully focused on organic growth, enlarging our relationship manager base in strategic markets, especially Asia. This increased our brand recognition, strengthened our position in our chosen markets and contributed noticeably to our growth prospects and future profitability. The net new money inflows resulting from organic growth, combined with our investment in our European presence (Kairos in Italy and Commerzbank International S.A. in Luxembourg) contributed to our achieving record-high assets under management of CHF 336 billion, a 12% increase on 2015. Net new money growth reached 4%, which puts it at the lower end of the Group's annual target range of 4-6%. While our strategic investment in organic growth has had a short-term impact on the cost/income ratio, which rose to 68.9%<sup>1</sup>, it has also created substantial medium-term inflow potential.

In 2016, the Group increased its adjusted net profit by 1% to CHF 706 million<sup>2</sup>, while operating income rose 6%, to CHF 2,852 million, supported by a significant increase in net interest income. Although the gross margin for the Group declined by 2.5 basis points (bps) to 91 bps, the significant rise in net interest income combined with the increases in net commission and fee income (up 3%) and other ordinary results more than offset the decrease in net trading income.

The IFRS results in the Group's 2016 consolidated financial statements confirm net profit grew by 408% to CHF 622 million. After considering non-controlling interests of CHF 3 million, the IFRS net profit attributable to shareholders of Julius Baer Group Ltd. increased by 411% to CHF 619 million, while earnings per share rose by 414% from CHF 0.55 to CHF 2.85. At the end of 2016, on a phase-in basis, the Group maintained a BIS total capital ratio of 17.5% and a BIS CET1 capital ratio of 16.4%, both well in excess of the Group's floors (15% and 11%, respectively) and the regulatory minimum requirements (12.2% and 8%, respectively).

<sup>1</sup> Excluding amortisation of intangible assets as well as integration and restructuring expenses related to previous acquisitions or divestments as well as valuation allowances, provisions and losses

<sup>2</sup> When excluding the settlement with the US Department of Justice from the 2015 adjusted results

## 2016 VARIABLE COMPENSATION POOL

The Group considers it vital that the amount of performance-based variable compensation available for distribution to its employees be directly linked to the overall performance of the Group.

When weighing the Group's performance (as outlined above in the section '2016 Julius Baer Group Performance'), including its adjusted NOPbBT and its strategic initiatives, the Compensation Committee supported an increase in the overall size of the variable compensation pool in 2016. A significant proportion of the pool increase this year was attributable to the costs associated with the Group's recruitment-based investments in hiring a large number of experienced private bankers. Key additional factors contributing to the level of the variable compensation pool also included the

residual costs and payments related to acquisition transactions and the staggered implementation of global synergies and Group right-sizing efforts (largely resulting from the Group's 2015 cost-saving measures).

Upon careful consideration of the above factors (most notably the strategic hiring initiative), the Compensation Committee determined that the 2016 pool properly reflects the Group's pay-for-performance culture in a reasonable and measured manner.

## OVERVIEW OF 2016 VARIABLE COMPENSATION PLANS

The following table summarises the key features of our variable compensation plans funded by the pool, including the relevant population eligibility:

### Summary of 2016 deferred compensation plans

	Ongoing plans <sup>1</sup>				One-time grants		Employee Share Purchase
	Deferred Bonus Plan	Equity Performance Plan	Deferred Cash Plan	Premium Share Plan	Long Term Incentive Plan (replacements) <sup>2</sup>	Integration Incentive Cash and Awards	Share Participation Plan
<b>Eligibility</b>	Executives and selected senior management with bonus over CHF 125,000	Executives and selected senior management by CEO invitation	Employees with bonus over CHF 125,000	Employees with bonus over CHF 125,000	New hires who lost compensation due to change in employer	Former BoA Merrill Lynch employees	All employees who are not participants in other company share plans <sup>3</sup>
<b>Purpose</b>	Align with sustainable value creation	Align long-term performance and retention	Align with sustainable value creation	Align long-term performance and retention	Attraction and long-term alignment	Retention and long-term alignment	Shareholder alignment
<b>Funding drivers</b>	Company, business and individual performance				Business and company affordability checks		Mainly self-financed <sup>4</sup>
<b>Duration</b>	5 years	3 years	3 years	3 years	3 years	3 to 5 years	3 years
<b>Payout factors</b>	<b>Share price</b>	•		•	•	•	•
	<b>Vesting performance conditions</b>	•					
	<b>Forfeiture clauses and claw back</b>	•	•	•	•	•	• (additional shares)
<b>Settlement</b>	Cash	Shares	Cash	Shares	Shares	Cash and shares	Shares

<sup>1</sup> Staff who are participants of the DBP and EPP are not eligible to participate in the DCP and PSP and vice versa.

<sup>2</sup> In very exceptional cases (e.g. restructuring), retention awards are granted under the LTI.

<sup>3</sup> Employees in some specific locations are excluded from participating, because the SPP cannot be offered in these particular jurisdictions for legal or regulatory reasons.

<sup>4</sup> For every three shares purchased by the employee, an additional share is granted free of charge at the end of the three-year vesting period.

## EXECUTIVE BOARD AND SENIOR MANAGEMENT COMPENSATION

This section provides the details of the compensation system for members of the Executive Board and selected senior management. The 2016 figures for the Executive Board are presented in the

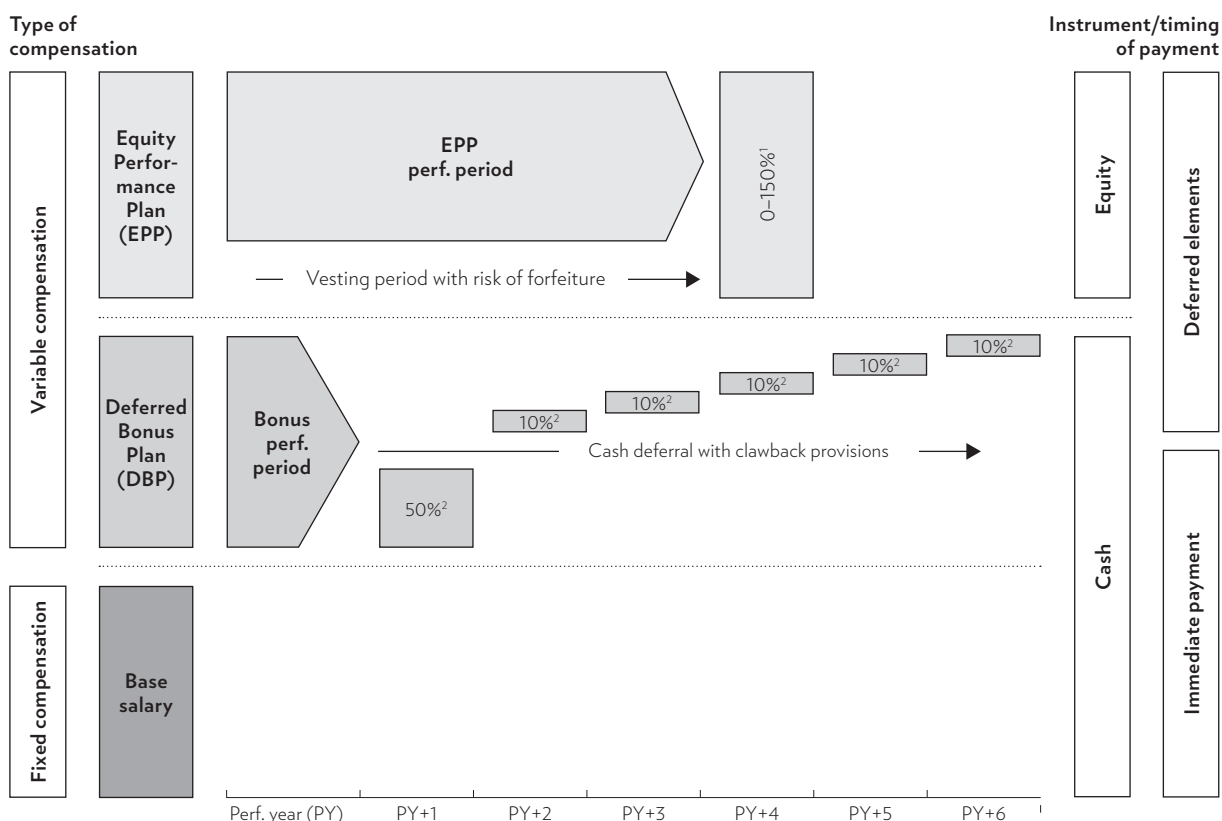
‘Compensation, loans and shareholdings of the Executive Board’ section of this Remuneration Report.

### Key elements of Executive Board and senior management compensation:

1.	<b>Simple and transparent structure</b>	Total compensation consists of three elements: (i) base salary in cash, (ii) a cash-based variable compensation element (delivered under the Deferred Bonus Plan – DBP), and (iii) a long-term, performance-based equity incentive (delivered under the Equity Performance Plan – EPP). The structure is designed to reward executives for contributing to the Group’s overall performance and implementing the Group’s strategy to enable future growth and success.
2.	<b>Internal and external performance achievements</b>	Explicit link to value drivers (internal factors) and share price performance (external factors): the DBP is based on internal measures of achieved performance that Julius Baer regards as being closely related to the long-term value of the Company. The EPP uses a system of Performance Units linked to two KPIs, cumulative Economic Profit (cEP) and relative Total Shareholder Return (rTSR), thus aligning managerial compensation to the external view of the market and incentivising long-term shareholder value creation.
3.	<b>Clearly defined caps</b>	The Company has Executive Board variable compensation caps across all members with specific caps for the CEO.
4.	<b>Share ownership guidelines</b>	To foster alignment of the interests of the Executive Board with those of our shareholders, members of the Executive Board have a three-year period to build up and hold a specific number of Julius Baer Group Ltd. shares.

The Julius Baer Group compensation model for the Executive Board and selected members of senior management is structured as follows:

*Illustrative example*



<sup>1</sup> Subject to performance of KPIs; share allocation capped at 150% of Performance Units granted; share value at vesting dependent on market performance.

<sup>2</sup> Deferrals from DBP range from 20 to 50% based on the level of the allocated bonus (example assumes 50% DBP deferral).

## TOTAL COMPENSATION PAY MIX

Total compensation of members of the Executive Board including the CEO consists of a base salary in cash, a cash-based variable compensation component (DBP) and a performance-based variable component (EPP) in the form of equity.

Based on a detailed benchmark analysis completed during the year, the Board of Directors and the Compensation Committee agreed to increase the target compensation of the CEO in 2016. This analysis demonstrated that the adjustment was

justified based on the significantly increased size of the Group and its expanded geographic reach, the complexity of Julius Baer's activities and the additional governance and regulatory requirements resulting therefrom. The increase was adopted to ensure that potential compensation remained competitive and continued to incentivise performance. There were no other significant pay-mix or compensation adjustments applied to the Executive Board members in 2016. All variable compensation was determined based on a combination of the Group's performance and that of the individual Executive Board members against set objectives.

## FIXED COMPENSATION

### Base salary

For Executive Board members, all base salary is paid in cash. The base salary represents the compensation for the market value of the function. Each Executive Board member's fixed base salary is determined individually, taking into consideration his or her role, tasks, responsibilities and experience, as well as the level of education, the degree of seniority and the level of expertise required to fulfil the function. The Julius Baer Group received shareholder approval for the aggregate amount of the 2017 Executive Board base salaries (which are consistent with the 2016 base salaries) at the 2016 AGM.

### Pension payments

The members of the Executive Board (all of whom have an employment relationship in Switzerland) share the same retirement plan benefits as all other employees in Switzerland.

The Julius Baer Pension Fund in Switzerland was recalibrated as of 1 July 2016 to account for increasing life expectancy and decreasing investment returns. Any pension-fund changes affecting our Executive Board members would be equal to those provided to all other similarly-situated employees in Switzerland. Additional details can be found in the 'Pension programmes' section provided below in the section 'Other Employee Compensation' of this Remuneration Report.

### Benefits

Julius Baer considers benefits to be a part of compensation and the benefits offered may vary substantially from location to location. In general, there are no special benefits for members of the Executive Board; they receive the same benefits as all other employees in the location and business where they work.

## VARIABLE COMPENSATION

### Cash-based variable compensation

The Executive Board members (plus selected key risk takers, regulated staff and/or nominated senior employees) receive their variable compensation under the Deferred Bonus Plan (DBP) in six

instalments over a five-year period from the date of deferral.

### Performance assessment process

Julius Baer rewards Executive Board members who contribute to:

- enhancing value by employing investor capital efficiently while at the same time managing risks;
- adhering to regulatory requirements; and
- meeting Julius Baer's corporate culture standards.

Although Julius Baer's variable compensation scheme is discretionary, the final amounts allocated to its individual participants are based on a careful assessment of each individual's attainment of a mix of specific quantitative and qualitative objectives.

Julius Baer believes that qualitative evaluations are important as they allow the Board of Directors to ensure that the compensation system remains in alignment with the core values of Julius Baer. In particular, the Board of Directors can use this component as one facet of the disciplinary measures available to it in the event of a violation of the cultural standards of Julius Baer.

### Objective setting for the CEO

Each year the Chairperson of the Board meets with the CEO to discuss and determine the key performance objectives for the upcoming performance year. The objectives are defined in a CEO scorecard (see the 2016 scorecard below in the 'Performance assessment based on scorecard' section of this report) with clear individual goals and targets for each of the respective value-driver categories. In a typical year, the CEO will have performance objectives in the four value-driver categories (each of which will typically contain several goals). These objectives include various qualitative and quantitative metrics individually weighted to support the alignment of managerial actions with shareholder interests.

When formulating the CEO's objectives, the Chairperson of the Board aims to ensure that the defined goals are aligned with the overall midterm plan and strategic goals of Julius Baer. In addition, he endeavours to weight the goals properly in order

to promote sustainable performance in a conservative manner, whilst also ensuring risk awareness and regulatory compliance. Qualitative objectives are defined to support the attainment of individual goals which, whilst not readily expressible in quantitative terms, nonetheless contribute to the overall success of Julius Baer.

Once agreed and defined, the Chairperson of the Board approves the final objectives in their entirety. It is important to note that the baseline for the various objectives contained in the CEO's scorecard (e.g. the three-year midterm plan or budget, quantitative Group level goals, etc.) is approved by the full Board of Directors.

*Objective setting for the Executive Board members*

The objective-setting process for the Executive Board members mirrors that of the CEO; however, it is the CEO who meets with each member of the Executive Board to discuss and determine the key performance objectives for the upcoming performance year.

The CEO's approved scorecard serves as the baseline for the individual Executive Board member's scorecards. Executive Board members are also given performance objectives in all four of the value-driver categories listed on the scorecard below (each of which will typically contain several goals). As each Executive Board member acts in a different capacity within the Group, the objectives for each value-driver category (and the corresponding goals within each category) are individually geared towards each Executive Board member's area of responsibility. The CEO approves the final objectives in their entirety.

*Performance assessment based on scorecard*


These key performance objectives are formally measured at year-end, when the scorecard is discussed between the Chairperson of the Board and the CEO (in the case of the CEO's goals) and between the CEO and the respective Executive Board member (in all other cases). However, performance against value drivers and individual goals is continuously monitored.




REMUNERATION REPORT  
EXECUTIVE BOARD AND SENIOR MANAGEMENT COMPENSATION

For the year 2016, the following value drivers and individual goals were defined in the Executive Board members' individual scorecards:

**Core objectives<sup>1</sup> (CEO 30%/EB 35%)<sup>2</sup>**

			Assessment
			Target
2016 Budget and KPIs	Overall	<ul style="list-style-type: none"> <li>Overall 2016 budget in terms of profitability including operating income and expenses</li> <li>For the specific area of responsibility, the 2016 budget is directly allocated to each of the EB members' scorecards and is directly derived from the budget the Board of Directors has approved for the performance year 2016</li> </ul>	
	Client-facing units targets	<ul style="list-style-type: none"> <li>Growth of net new clients assets</li> <li>Development of asset profitability</li> <li>Cost/income ratio</li> <li>Cost management</li> <li>Attraction and retention of relationship managers</li> </ul>	
	Non-client-facing units targets	<ul style="list-style-type: none"> <li>Efficient and process-optimised management</li> <li>Cost management</li> </ul>	
	Additional targets for CEO/CFO/CRO	<ul style="list-style-type: none"> <li>Capital Requirement KPIs</li> <li>Specific Risk KPIs</li> </ul>	


**Project objectives (CEO 30%/EB 35%)<sup>2</sup>**

			Assessment
			Target
Julius Baer - Your Wealth	<ul style="list-style-type: none"> <li>Successfully complete rollout of the new service models in Switzerland</li> <li>Improve the quality of the Group's advisory services</li> </ul>		
Corporate Social Responsibility (CSR)	<ul style="list-style-type: none"> <li>Promote continuous integration of sustainability considerations into Julius Baer's daily life including sustainable investing</li> </ul>		
Strategic targets	<ul style="list-style-type: none"> <li>Actively drive the implementation of regional and divisional strategies</li> <li>Identify and drive internal projects of strategic importance</li> <li>Define strategy for sustainable profitability in strategically important regions and locations</li> </ul>		
Mergers & Acquisitions (M&A)	<ul style="list-style-type: none"> <li>Actively shape the M&amp;A strategy of the Group</li> <li>Support the successful integration of recently acquired/merged entities</li> </ul>		
Platform	<ul style="list-style-type: none"> <li>Successfully drive implementation in Asia</li> <li>Ensure that all key deliverables are implemented in a timely manner</li> </ul>		

**General objectives (CEO 30%/EB 15%)<sup>2</sup>**

			Assessment
			Target
Regulatory awareness and compliance	<ul style="list-style-type: none"> <li>Actively address changes in the regulatory environment by defining suitable measures for important topics such as: tax transparency/enforcement development, investment suitability, FINMA regulations (e.g. distribution rules, balance sheet requirements) and fulfilment of regulatory requirements outside Switzerland</li> </ul>		
Risk and qualitative objectives	<ul style="list-style-type: none"> <li>Revalidate new consolidated risk framework following the IWM integration</li> <li>Succession planning/management; manage existing staff and hiring pipeline</li> <li>Proactively advance and handle communication</li> <li>Comply with and build sensible business policies and practices</li> </ul>		
Other general objectives	<ul style="list-style-type: none"> <li>Raise awareness of data security and enforce compliance</li> <li>Promote core values to further develop a common culture and identity</li> </ul>		

**Personal goals (CEO 10%/EB 15%)<sup>2</sup>**

			Assessment
			Target
<ul style="list-style-type: none"> <li>To improve their contributions to Group value, goals are set that help the individual EB member to develop their skill sets and ultimately contribute to the success of Julius Baer</li> </ul>			

<sup>1</sup> The overall variable compensation pool available is determined by the overall profitability of the Group. Accordingly, company-wide performance measures are also relevant for the total variable compensation awarded and the variable compensation is always conditional on the size of such pool in a given year.

<sup>2</sup> The weightings shown are the standard for EB members and may vary slightly in individual cases depending on roles and responsibilities.

For competitive confidentiality reasons, the specific quantitative objectives for each of the above components are not disclosed.

In the assessment process, the actual achievement of quantitative objectives is measured against the objective set in the individuals' scorecards to determine their relative achievement. For qualitative objectives, actual performance is measured directly by the Chairperson in the case of the CEO and by the CEO in the case of all other members of the

Executive Board. However, in the case of qualitative measurements, the measuring party may need to rely upon other Julius Baer employees, external advisers, and/or members of the Board of Directors to complete the measurement. For example, in the determination of the level of the individual's performance relative to regulatory awareness and compliance, consultation with the Group's Head of Compliance may be required to complete the final assessment.

For each of the individual goals, each Executive Board member's actual achievement is determined in percentage terms based on the following rating system:

Rating	Description	Performance objective achievement
A++	significantly exceeds goal	>133%
A+	exceeds goal	111–133%
A	fully meets goal	91–110%
B	goal achievement below expectation	67–90%
C	does not meet goal at all	<67%

Once the individual performance goals (within each value driver) are properly assessed, a weighted average of all performance objectives is calculated to determine the individual's overall performance within the applicable value driver. A final average weighting of all four value drivers is calculated based on the value-driver weighting to determine the preliminary performance rating based on the individual's assessed performance.

Once the Executive Board member's preliminary performance rating has been calculated, a verification is performed. This verification is completed by the Chairperson of the Board in the case of the CEO's performance and by the CEO for all other members of the Executive Board. The purpose of this verification step is to ensure that the preliminary performance rating of the participant makes fundamental sense (for example to ensure that strong qualitative performance does not skew the overall rating of an Executive Board member in a year when overall quantitative corporate performance and shareholder return is negative). In this verification process, the preliminary performance

rating of the Executive Board member may be adjusted marginally upwards or downwards to determine the final performance rating.

The scorecard's results provide the basis for determining the recommended DBP allocation. These individual assessments mean that the overall pay mix awarded to individual Executive Board members may differ from year to year, due to individual, divisional and/or Group performance, as well as overall individual responsibilities.

All DBP recommendations for the Executive Board are subject to confirmation by the Compensation Committee and, once approved, are then brought to the attention of the Board of Directors, with specific acceptance of the proposed DBP award to the CEO being requested from the Board of Directors. The Board of Directors reserves the right to make further adjustments to the DBP allocations based on Group performance (taking into consideration such factors as extraordinary events, changes in responsibility, etc.). This adjustment for Group performance can be either positive or negative.

Final approval of the DBP for the financial year for the Executive Board will be sought from our shareholders at the AGM following the end of the financial year.

#### *2016 Executive Board performance*

In a year when deflationary fears were overshadowed by major and unexpected political developments, Julius Baer was able to guide and advise clients and continue its growth and profitability.

As always, the Group's adjusted financial results remain a significant component of the scorecard assessment of both the CEO and the other Executive Board members. In 2016, the Julius Baer Group successfully managed the decline in gross margins through the implementation of balanced cost management, while still continuing to invest in future growth. While market conditions and strategic initiatives did weigh on the Group's margins, the Group achieved strong results (as described in the section above entitled '2016 Julius Baer Group Performance').

The Group's key strategic initiatives in 2016 (organic growth, business realignment and technological enhancements) were designed and implemented by the Group's Executive Board.

The Executive Board successfully focused on organic growth in 2016, recruiting over 200 experienced private bankers in strategic markets (particularly Asia) who are being integrated into the organisation between 2016 and 2017. In addition to increasing Julius Baer's brand recognition and enhancing its position in strategically important markets, this key initiative will make a noticeable contribution to the Group's growth prospects and future profitability. This organic growth initiative was further supported by the Group's decision to strengthen its Investment Management and Advisory Solutions divisions through key hires, continued investment in technology and the launching of a new discretionary investment approach based on active risk management and active asset allocation.

The 2016 reorganisation, spearheaded by the CEO, strategically realigned the Group's client-facing organisation. This realignment was designed to focus on regionalising the business to further

support the Group's aim of delivering a seamless client experience while at the same time allowing for further efficiency gains. The reorganisation included the creation of two new regions (Europe and Emerging Markets), the reassignment of existing locations amongst the regions and the integration of individuals and regions/divisions into the new corporate structure. The Executive Board played a key role in ensuring that each region was smoothly and successfully integrated into the new structure. Together with the ongoing investments in advisory services, investment management expertise and the Group's technology transformation, the Executive Board has also developed a roadmap for the future allowing the Group to provide the best possible service to its clients.

From a technological perspective, the Group made significant strides in the implementation of its integrated core banking system in Asia, with the platform set to go live in 2017. The recent integration of Commerzbank International S.A. Luxembourg also accelerated the Group's timeline for implementing the global platform in Europe.

In addition to the key initiatives taken in 2016, key Group initiatives commenced in prior years were finalised. In 2016, the Group successfully completed the transfer of assets and on-boarding of Commerzbank International S.A. Luxembourg and formally completed the Kairos transaction. The Group also completed the global roll-out of its new service model, Julius Baer – Your Wealth, which had been initiated in 2015.

The above reinforced Julius Baer's client-centric excellence and management culture and these achievements were reflected in external recognition bestowed on the Group. Julius Baer received various awards across the globe, including 'Best Boutique Private Bank in Asia' by 'The Asset' (a leading publication in the region) for the seventh consecutive year, 'Pure Play Private Bank' in Hong Kong and Singapore at the 'WealthBriefingAsia Awards 2016' for the second consecutive year, 'Outstanding Private Bank/Boutique Bank Switzerland – Domestic Player 2016' at the '2016 Private Banker International Global Wealth Awards' and the 'Best Pure Play Private Bank in Asia' in the 2016 private banking poll by Asiamoney.

Based on individual and corporate performance in 2016, the Executive Board members (excluding the CEO) achieved an average performance rating of 'A' under Julius Baer's assessment process.

The CEO's leadership in the continuing company transformation and positioning of Julius Baer was reflected in his 2016 scorecard assessment as were the aforementioned strong Group financial results. His sustained focus on business right-sizing, organic growth and cost discipline has allowed the Group to achieve a high degree of strategic flexibility, enabling Julius Baer to take advantage of structural changes in the wealth management industry. The Group-wide reorganisation carried out in 2016 has created synergies and implemented business processes and models which help ensure resilience, consistent execution and sustainable success. In recognition of this, Boris Collardi was named 'Outstanding Private Banker' in 2016 at the '2016 Private Banker International Global Wealth Awards'. Based on the above individual and corporate performance in 2016, the CEO scorecard assessment completed by the Chairperson of the Board of Directors and reviewed with the Compensation Committee resulted in a final assessment of 'A+' under Julius Baer's performance rating scheme.

In assessing and determining the compensation of the CEO and Executive Board members for 2016, the Compensation Committee and Board of Directors took all of the Group's achievements in 2016 into consideration, including its significant success in attracting and hiring new talent across the globe.

#### *Plan structure of the DBP*

The DBP aims to ensure that its participants continue to manage Julius Baer for sustainable long-term shareholder value creation, to emulate the Julius Baer values, and to carry out all business activities in a manner which is compliant with regulatory requirements. As a result, the amounts allocated to each individual (through the individual's scorecard) are closely tied to factors that Julius Baer has identified as key value drivers for the Group.

The full amount of the DBP is generally awarded in the first quarter following the close of the relevant financial (i.e. calendar) year. In 2017, the DBP 2016

for the Executive Board will be recommended in the first quarter of 2017; however, it will not be paid until it has been approved by our shareholders.

Although subject to deferral, the DBP is considered as earned in the year the award is granted and, as such, it is reported under the accrual principle in the Remuneration Report for the performance year in which the award is earned. The DBP is paid in cash; however, where the granted DBP exceeds the minimum threshold (CHF 125,000, or its local currency equivalent) a portion is subject to a five-year deferral. During those five years, the deferred amount is paid out in five equal annual instalments. For DBP amounts between the minimum threshold and CHF 1 million (or its local currency equivalent), a sliding scale is applied, under which the deferral percentage increases linearly from 20% to 50% (consistent with the previous year). DBP amounts of CHF 1 million (or its local currency equivalent) or higher will remain subject to the maximum deferral rate of 50%. Amounts below the DBP minimum threshold are not subject to deferral.

This deferral promotes a long-term orientation. In addition, it allows Julius Baer to claw back DBP amounts in the event of substantial breaches of legal or regulatory requirements, financial losses (e.g. misrepresentation of variables on which the DBP award was based) and a variety of other events where the employee's conduct has substantially contributed to a financial loss by the Julius Baer Group or has caused it reputational damage. The deferral element is not intended to function as a retention measure, since the executives are entitled to continue to receive the deferred amounts (according to the payout schedule) even after termination of employment. It is nevertheless an important element in the compensation package.

For DBP grants made in respect of the performance year 2015 and thereafter, the members of the Executive Board and senior management can elect to hold the deferred cash awards (partially or fully) in Julius Baer mutual funds, in particular the JB Strategy Income, Balanced or Growth funds. This plan adjustment further aligns the interests of the Executive Board with those of our major clients. All such investments and any potential proceeds remain subject to the same clawback conditions.

### Equity-based variable compensation

The Equity Performance Plan (EPP) is a key part of the Julius Baer compensation model. One of the Compensation Committee's objectives was to create a robust long-term incentive mechanism for key employees. The EPP is an equity plan which seeks to create a retention element for key employees and to link a significant portion of the executive compensation to the future performance of the Julius Baer Group.

Eligibility for the EPP is based on various factors, which include nomination by the CEO, overall role within Julius Baer and total variable compensation. All members of the Executive Board, key employees, and employees defined as risk takers by virtue of their function within the organisation are considered for the EPP based on their specific role. The size of the grant awarded to each individual varies based on factors which include, but are not limited to, seniority, contribution to Julius Baer, defined total pay mix and level of responsibility.

#### *Plan structure of the EPP*

The EPP is an annual rolling equity grant (made in February each year) that awards Performance Units to eligible executives subject to service and performance-based requirements. The EPP award reflects the value of the employee for the future success of the business and more closely links an individual's compensation to his or her contribution to the future performance of Julius Baer. The goal of the EPP is to incentivise participants in two ways:

- Firstly, by the nature of its construction, the ultimate value of the award to the participants fluctuates with the market value of Julius Baer shares.
- Secondly, the Performance Units are contingent on continued service and two KPIs, cumulative Economic Profit (cEP) and relative Total Shareholder Return (rTSR). The service condition requires that the participant remains with Julius Baer for three years after the grant (through a cliff-vesting mechanism). The performance of the two KPIs determines the number of shares the participant ultimately receives.

The number of shares delivered under the EPP is between 0% and 150% of the number of

Performance Units granted in any given year (with each individual KPI being capped at a maximum multiplying factor of 200%). The cap serves to limit EPP awards so as to avoid any unforeseen outcome of the final EPP multiplier resulting in unintentionally high or excessive levels of compensation. A high level of performance is required to attain a maximum share delivery (creating a maximum uplift of 50% of the Performance Units granted), with low-level performance leading to potential nil compensation.

The KPI targets are set based on the strategic three-year budget/plan that is approved by the Board of Directors on an annual basis. Extremely high (and, thus, unrealistic) performance targets are avoided, so as not to incentivise excessive risk taking by executives and other managerial staff.

Until allocation to the plan participants, all Performance Units granted under the EPP are administered by the LOTEKO Foundation.

The Group plans to add a backward-looking element to the 2018 EPP which would link the equity-based award to current-year performance while maintaining a significant focus on incentivising future performance.

#### *Details of key performance indicators (KPIs)*

KPI 1: cumulative Economic Profit (cEP). Julius Baer rewards Executive Board members for creating economic value added, i.e. profitability for shareholders over and above the cost of capital (CoC). This idea is captured in economic profit, which is calculated as:

$$\text{cEP} = \text{NOPbB} - \text{T} - \text{CoC}$$

where

NOPbB = adjusted net operating profit before variable compensation (excluding amortisation of intangible assets as well as integration and restructuring costs related to previous acquisitions or divestments, as well as non-performance-related extraordinary events approved by the Compensation Committee)

T = taxes

CoC = cost of capital

All calculations will be based on the approved figures confirmed by the Audit Committee of Julius Baer. The calculation and all its components are reviewed and approved by the Compensation Committee.

Each year, the Compensation Committee approves a cEP target range for the next three years. Any performance below the minimum in this range will be deemed to constitute low-level performance and will result in a multiplier of 0%; when the cEP achieved over the three-year performance period is above this minimum, the multiplier increases linearly, up to a maximum multiplying factor of 200%. For both the EPP 2016 and EPP 2017 grants, the Compensation Committee has chosen the following payout parameters:

- Minimum: if the final cEP is 50% or less of the cEP target, the cEP multiplier will be 0%
- Target: if the final cEP is equal to the cEP target, the cEP multiplier will be 100%
- Maximum: if the final cEP exceeds the cEP target by 50% or more, the cEP multiplier will be 200%

Julius Baer's cEP target is entirely based on the Group's three-year midterm plan. As publishing the actual cEP performance target is considered market-sensitive from a competitive viewpoint, Julius Baer has chosen not to disclose these figures. However, Julius Baer sets a challenging midterm plan which is approved by the Board of Directors, which is fully aware that this plan constitutes the baseline for the cEP.

KPI 2: relative Total Shareholder Return (rTSR). Julius Baer wishes to ensure that the Executive Board (plus selected regulated staff and/or nominated employees) is rewarded for outperforming its competitors in terms of the value created for shareholders. Thus, while a positive economic profit (KPI 1) indicates that value was created, Julius Baer also wishes to incentivise its management to work on developing, executing and communicating on strategic and operational objectives in such a way that the expected and resulting economic profit performance is deemed sustainable into the future and will, as a result, translate into a relative share-price outperformance. Accordingly, rTSR has been chosen as the second KPI, because it provides a measure of the success of these efforts. To calculate rTSR, the

Julius Baer Group's TSR is compared against the performance of the STOXX Europe 600 Banks gross return Index (the 'Index').

Each year, the Compensation Committee approves the rTSR target range. Any performance below the minimum in that range will be deemed to constitute low-level performance and will result in a multiplier of 0%; when the rTSR achieved over the three-year performance period is above this minimum, the multiplier increases linearly up to a maximum multiplying factor of 200%. For both the EPP 2016 and EPP 2017 grants, the Compensation Committee has chosen the following payout parameters:

- Minimum: if the final Julius Baer TSR is -22% or less than the return of the Index, the rTSR multiplier will be 0%
- Target: if the final Julius Baer TSR is +3% higher than the return of the Index, the rTSR multiplier will be 100%
- Maximum: if the final Julius Baer TSR is at least +28% higher than the return of the Index, the rTSR multiplier will be 200%

For the purposes of calculating the rTSR performance over the three-year performance period, the TSR will be calculated using a fixed pricing period at the beginning and end of the performance period. The calculation will be performed using the average closing price of the STOXX Europe 600 Banks gross return index during the first and last calendar months of the performance period. This return will be compared against the TSR of Julius Baer Group Ltd. shares over the same period. The performance will then be assessed against the aforementioned scale (-22% to +28%) to determine the multiplier.

#### *Final evaluation of KPIs*

Once the KPIs have been measured at the end of the Performance Period, as described above, the final multiplier is calculated. The final multiplier used in calculating the number of shares ultimately allocated to plan participants is an average of the two multipliers (each individually capped at 200%) associated with the KPIs. The final multiplier itself, however, is capped at 150%. The number of shares ultimately allocated to each plan participant is then calculated as follows:

Number of shares vesting = Final Multiplier x  
Number of Performance Units granted

The final multiplier for the EPP 2014 programme was 1.246, which was adjusted to reflect actual acquisition and joint-venture factors which were not identified when the original targets were set. The final multiplier was significantly influenced by strong rTSR results (reflected in an individual rTSR multiplier of 1.486) while the cEP multiplier affirmed the Group's continued budget achievements over the past few years (reflected in an individual cEP multiplier of 1.005).

Similarly to the DBP, the EPP is also subject to forfeiture in the event of substantial breaches of

legal or regulatory requirements, financial losses and a variety of other events where the employee's conduct has substantially contributed to a financial loss by the Julius Baer Group or has caused it reputational damage.

## COMPENSATION CAPS

The Compensation Committee agrees that it is important to ensure that the compensation paid to members of the Executive Board is benchmarked and subject to specifically defined caps. There are no changes to the prior year's compensation caps.

### 2016 targets and maximum caps for Executive Board (all caps as a multiple of base salary)

	Target		Cap	
	Average EB	CEO	Average EB	CEO
Total variable compensation (DBP / EPP)	3.0	3.2	4.0	4.0
Cash-based variable compensation (DBP)	–	–	2.0	2.0
Equity-based variable compensation (EPP)	–	–	2.0	2.0

As a result, for 2016 the members of the Julius Baer Executive Board are subject to the following caps:

- The total sum of the variable compensation allocated to the members (in aggregate) of the Executive Board (including the CEO) shall be targeted at three times, but will be capped at four times the total sum of the base salaries paid to the entire Executive Board.
- The total sum of the DBP and the total sum of EPP allocated to all members (in aggregate) of the Executive Board (including the CEO) will each be capped at two times the total sum of the base salaries paid to the entire Executive Board.
- The total sum of the variable compensation allocated to the CEO shall be targeted at 3.2 times, but will be capped at four times the CEO's base salary.

- The total sum of the DBP and the total sum of the EPP allocated to the CEO will each be capped at two times the CEO's base salary.

The Compensation Committee is responsible for ensuring that the total variable compensation paid to the Executive Board members is compliant with the applicable compensation caps.

## GUIDELINES ON SHARE OWNERSHIP

Since 2014, the Executive Board members have been required to build up their total vested shareholdings until they reach the following levels:

Executive Board member	Share ownership requirement (in vested Julius Baer Group shares)
Chief Executive Officer (CEO)	100,000 shares
Executive Board members (excluding the CEO)	30,000 shares (or 2.5 times base salary, if lower)



The members of the Executive Board have a period of three full calendar years starting from the beginning of 2014 (for the members of the Executive Board already serving in 2014) or their appointment to the Executive Board (for new members of the Executive Board) to build up their Julius Baer Group Ltd. shareholdings. The final measurement will be performed on 31 December of the third calendar year following the Executive Board member's appointment to the Board. For the members of the Executive Board already serving in 2014, this measurement has been assessed as of 31 December 2016.

Details of the shareholdings of each member of the Executive Board can be found in the 'Compensation, loans and shareholdings of the Executive Board' section of this Remuneration Report. In accordance with the Compensation Committee's instructions, 50% of all outstanding equity-based grants shall be held back from any Executive Board member who has not reached his or her target at the measurement date until the defined level has been reached.

Executive Board members are not permitted to hedge Julius Baer Group Ltd. shares.

## EMPLOYMENT CONTRACTS

The notice period for all members of the Executive Board does not exceed six months. The Executive Board members are not entitled to any special severance payments or special termination benefits under the pension plans compared to the general staff population.

## CLAUSES FOR CHANGE OF CONTROL

Executive Board members are not entitled to specific payments upon a change of control or upon termination of employment related to a change of control; however, they are eligible to receive such benefits (e.g. accrued holiday pay, death/disability/retirement benefits under the pension plan, etc.) which are generally available to other Julius Baer employees. The Executive Board members are not entitled to other severance payments or special

termination benefits under the pension plans compared to the general staff population.

Special change-of-control and good-leaver provisions may be available under the variable compensation plans. The 'Termination Provisions of Julius Baer Plans' table provides general details of the vesting and forfeiture rules for termination events. All provisions remain subject to the prevailing legislation in each of the applicable jurisdictions at the time of the change of control.

## 2016 EXECUTIVE COMPENSATION DECISIONS

### Compensation decisions for the CEO

The CEO's defined base salary (including a fixed lump-sum expense allowance) was set by the Compensation Committee at CHF 1.5 million and was approved by the shareholders at the 2016 AGM. There was no increase to the base salary from 2015 to 2016; however, shareholders will notice a reporting increase of 4.35%, which is due to the 5% voluntary base-salary reduction for the 2015 performance year (effective 1 March 2015 and expiring 31 December 2015) which was implemented as part of the Group's cost-management initiative following the appreciation of the CHF after the Swiss National Bank's January 2015 decision to abandon its EUR floor exchange rate.

In determining the CEO's bonus allocation, the Compensation Committee considered both the CEO's positive scorecard results and Julius Baer's successful 2016 performance year. In comparison to 2015, the total reported DBP paid to the CEO increased by 23.8% relative to 2015; however, the CEO's 2015 total variable compensation was curtailed by 10% to take account of the US cross-border tax litigation. Without the effect of this curtailment on the 2015 DBP, the net annual increase to the CEO's DBP in 2016 would have been 10.7%. The allocated 2016 EPP was also curtailed by the US settlement, resulting in a decreased award of 8% relative to 2015. Without such curtailment, the 2016 EPP would have represented an increase of 2% over the 2015 allocation.

Based on the audited reporting figures, the CEO's total compensation increased by 5.4% in 2016 (before taking into consideration the decrease applied in 2015 for the US cross-border settlement). Including the effect of this 2015 decrease, the CEO's total compensation increased by 5.2% in 2016.

The compensation paid to the CEO is fully in line with the prescribed compensation caps in all respects.

**Compensation decisions for the Executive Board**

The total base salary paid to the Executive Board increased to CHF 5.3 million; however, no individual base-salary adjustments were made between 2015 and 2016. The increase in total base salary relates solely to the addition of one Executive Board member, raising the total number of Executive Board members from six to seven, and the elimination of the cost savings resulting from the voluntary base-salary reduction applied in 2015 (under the same terms as described above for the CEO).

From a variable-compensation perspective, the total DBP and EPP paid to the Executive Board members (excluding the CEO) decreased in 2016 relative to 2015. The reported DBP decreased by 12.5% when adjusted for the US cross-border tax litigation (and the decrease would be 21.8% if the US cross-border tax litigation were excluded). The 2016 EPP was also curtailed by adjustments for the US cross-border tax litigation, resulting in a 12.6% decrease in the reported EPP award (or a decrease of 0.9% if no curtailment had occurred). The DBP and EPP decreases are mainly attributable to reduced levels of variable compensation (both DBP and EPP) paid to two departing Executive Board members.

The compensation paid to the aggregate Executive Board is fully in line with the prescribed compensation caps in all respects.

## OTHER EMPLOYEE COMPENSATION

This section provides details of the ongoing compensation system for the employees of Julius Baer (excluding the Executive Board and selected senior management, whose compensation was addressed in the previous section). Swiss rules regarding the disclosure of compensation concern the Board of Directors and the Executive Board. It is on these groups that this Remuneration Report focuses. However, Julius Baer's success also depends on the continued excellence of all its employees. Accordingly, this section discusses the salient features of the compensation system for non-executive employees.

### Key elements of other employee compensation:

1. Simple and transparent total compensation structure: base salary in cash, year-end, cash-based variable compensation and deferred variable compensation when above minimum thresholds.
2. Performance assessment: individual bonus allocation based on paying for success where performance is measured on both a quantitative and qualitative basis, including such factors as compliance and regulatory awareness.
3. Balanced deferral scheme: deferred variable compensation delivered in equal proportions under the Deferred Cash Plan (DCP) and Premium Share Plan (PSP), which are both subject to forfeiture and deferred over three years to foster long-term orientation.

### FIXED COMPENSATION

#### Base salary

The Group's salary framework is based on a functional model comprising ten function levels, each of which represents an increasing degree of job complexity. A salary band is assigned to each function level. This band defines the target base salary range for jobs assigned to the respective function level concerned. Individual salaries are then determined in accordance with these salary bands taking market benchmarks into account.

The Group does not apply general salary increases (unless required by local legislation). Salary adjustments are made on an individual basis when employ-

ees are promoted to a new function level and/or based on the results of their annual personal assessment.

#### Pension programmes

Julius Baer offers competitive and market-appropriate pension programmes throughout its global offices. All programmes are in compliance with local rules and regulations of the country in which they operate.

In agreement with the employer, the Julius Baer Pension Fund in Switzerland was recalibrated as of 1 July 2016 to account for increasing life expectancy and decreasing investment returns. This recalibration included an increase in the retirement age from 63 to 64 and a decrease in the conversion rates with a corresponding increase to employee and employer pension-fund savings contributions for base salaries up to CHF 230,000. In addition, entitled and insured Swiss-based employees aged 51 and above (i.e. those with less time to contribute to the revised pension scheme) received a savings capital preservation payment into their savings deposits to maintain an adequate pension-fund level. The recalibration treatment focused on providing equal treatment to employees by age classification and individual savings deposits; such treatment was not impacted by rank or function level.

### VARIABLE COMPENSATION

As previously stated, Julius Baer's success also depends on the continued excellence of all its employees. The majority of permanent employees at Julius Baer are considered eligible for cash-based variable compensation.

Individual variable compensation amounts depend on the formal year-end assessment of performance against a range of quantitative and qualitative objectives (e.g. adherence to compliance and regulatory standards and to the Julius Baer Group policies, core values and procedures) as well as skills, expertise and conduct.

As a result, in addition to the plans offered to the members of the Executive Board (as described above), Julius Baer also offers various equity- and

cash-based plans to members of the global staff population. Participation in these plans depends on factors such as function level, overall variable compensation, and/or nomination for participation in the relevant plan on an annual basis.

Until their ultimate allocation to the individual plan participants, all shares underlying the equity-based compensation plans are administered by the LOTEKO Foundation.

## DEFERRED VARIABLE COMPENSATION

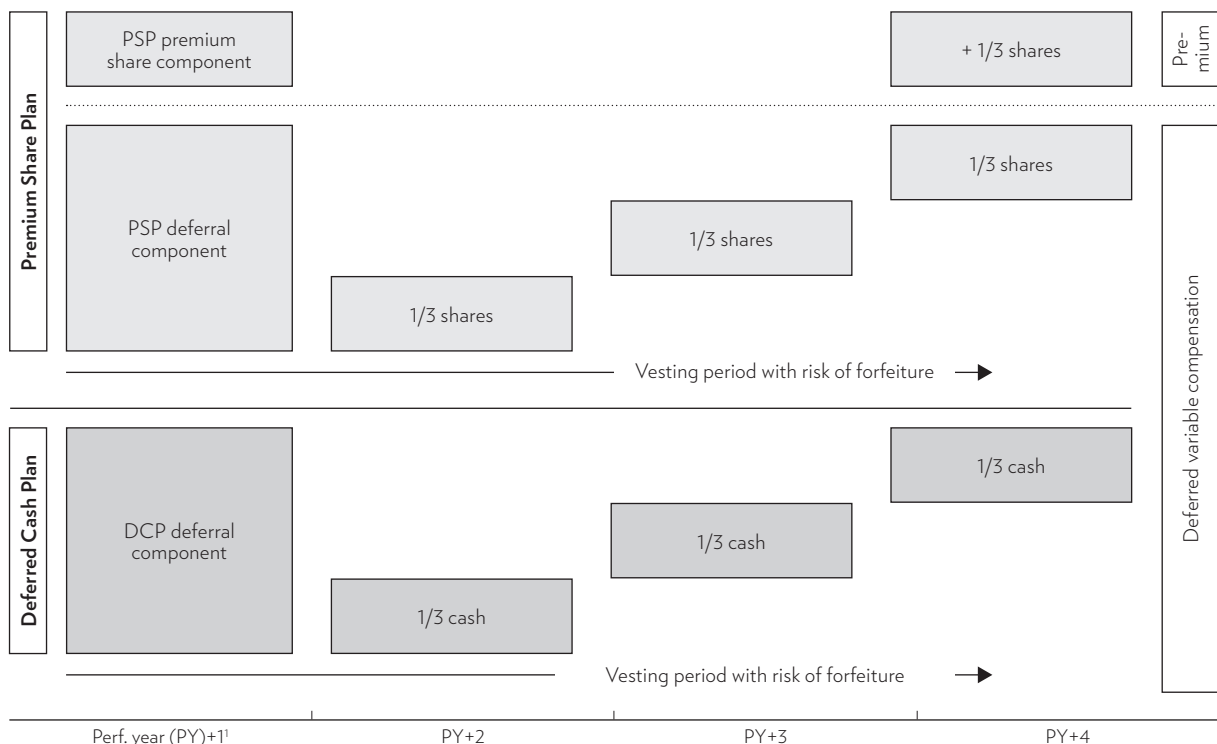
Generally, eligible permanent employees receive their variable compensation in one payment via a year-end bonus. However, where awards exceed the minimum threshold (CHF 125,000, or its local currency equivalent) a portion is subject to deferral either in cash or equity. For amounts between the minimum threshold and CHF 1 million (or its local currency equivalent), a sliding scale is applied, under

which the deferral percentage increases linearly from 20% to 50%. For amounts of CHF 1 million (or its local currency equivalent) or higher, the award will remain subject to the maximum deferral rate of 50%. The aforementioned thresholds and deferral percentages may vary across global jurisdictions based on regulatory requirements.

Until vested, the awards are subject to forfeiture in certain circumstances including resignation by the employee, termination for cause, substantial breaches of legal or regulatory requirements, financial losses and a variety of other events where the employee's conduct has substantially contributed to a financial loss by the Julius Baer Group or has caused it reputational damage.

Half of the deferred variable compensation is deferred through the Deferred Cash Plan (DCP) with the remaining portion being deferred through the Premium Share Plan (PSP) over a three-year period.

### Deferred variable compensation model for other employees



<sup>1</sup> Grant takes place in February following the performance year.

The intention of this variable compensation pay mix is to provide a balanced deferral scheme which promotes sound business activities that support our core values and simultaneously allows employees to participate in the long-term development and success of Julius Baer.

#### **Cash-based variable compensation**

The Deferred Cash Plan (DCP) promotes sound business activities by remaining subject to forfeiture (as previously described) while providing an inherently less volatile payout than shares. The DCP grant is made once a year as part of the annual variable compensation awarded to the individual concerned, and participation is determined on an annual basis. These deferred cash awards vest in equal one-third tranches over a three-year plan period subject to continued employment. Where share-based plans are not permissible under local legislation, employee annual awards are fully deferred through the DCP.

#### **Equity-based variable compensation**

The Premium Share Plan (PSP) is designed to link a portion of the employee's variable compensation to the long-term success of the Julius Baer Group through its share price. A PSP grant is made once a year as part of the annual variable compensation awarded to the individual concerned, and participation is determined on an annual basis. The employee is granted a number of shares equal in value to the deferred element. These shares vest in equal one-third tranches over a three-year plan period. At the end of the plan period, subject to continued employment, the employee then receives an additional share award representing a further one-third of the number of shares granted to him or her at the beginning of the plan period.

### **OTHER COMPENSATION ARRANGEMENTS**

#### **Integration Incentive Award (for former Bank of America Merrill Lynch relationship managers)**

As part of Julius Baer's integration of Bank of America Merrill Lynch's IWM business, key relationship managers from IWM were offered participation in the Integration Incentive Award (a cash- and share-based plan) which was designed to incentivise individuals to

join Julius Baer and move clients and assets to Julius Baer. In 2016, there were no new grants under the Integration Incentive Award.

The Integration Incentive Award plan runs for a maximum of five years, with cash being paid out on a rolling six-month basis over the first three years and shares being delivered to participants on the fourth and fifth anniversaries of the offer date. At the end of the plan period, subject to continued employment, the employee receives an additional share award representing one-third of the number of shares granted to him or her at the beginning of the plan period.

In the event of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested cash and/or shares are forfeited.

### **COMPENSATION ARRANGEMENTS IN STRATEGIC PARTNERSHIPS**

In certain strategic partnerships, Julius Baer operates special compensation arrangements unique to the organisation concerned. Such arrangements can include compensation linked to the strategic partner entity's shares. No such arrangements are currently linked to the shares of Julius Baer Group Ltd.

### **KEY RISK TAKERS AND REGULATED STAFF**

In accordance with European legislation, Julius Baer takes particular care in identifying staff whose professional activities may have a material impact on the Group's risk profile. Key Risk Takers are identified on an annual basis throughout the entire Group (i.e. not limited merely to the European Economic Area). Quantitative and qualitative criteria are both taken into consideration in the identification process. Defined minimum compensation standards are applicable (in general) to members of the Executive Board as well as employees (including relationship managers) with a relatively high total compensation and/or who hold a function that has a high impact on the risk profile of the entity employing them or the Group. Regulated staff (e.g. Key Risk Takers and code staff) are reviewed by the Compensation

Committee on an individual basis which also takes the potential payout volatility (pay riskiness) of their total compensation into account.

## SIGN-ONS AND REPLACEMENTS

### **Sign-on bonus**

Although Julius Baer only offers performance-based compensation to its current staff (including the Executive Board), it may in the course of its recruitment processes also offer incentives for specific new hires when they join the Group. A sign-on bonus may be made in the form of cash and/or shares and includes a minimum one-year clawback from the employee's hiring date. Actual parameters may vary according to location, local regulations and the specific circumstances of the hiring process. As a general policy, Julius Baer offers such forms of guaranteed remuneration only on an exceptional basis typically in the first year of employment and in restructuring situations. No sign-on or other guaranteed bonuses were awarded to members of the Executive Board in 2015 or 2016.

### **Long Term Incentive Plan (LTI)**

In certain specific situations, Julius Baer may also offer incentives outside the annual compensation cycle. Compensatory payments to new hires for deferred awards they have forfeited by resigning from their previous employer or retention payments to key employees during extraordinary or critical circumstances may be made by granting individuals an equity-based LTI.

An LTI granted in these circumstances generally runs over a three-year plan period. Julius Baer currently operates two different vesting schedules for this plan: (1) three equal one-third tranches vesting over a three-year period, (2) cliff-vesting of all granted shares in one single tranche at the end of a three-year period.

The shares are transferred to participants at the time of vesting, subject to continued employment and any other conditions set out in the plan rules. All grants made in 2016 are free from restrictions upon vesting. In the event of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested shares are forfeited. Where equity-based awards are not permitted in a specific location, awards are made in cash in accordance with the terms and conditions in the DCP (as described above). No LTI grants were awarded to members of the Executive Board in 2015 or 2016.

## EMPLOYEE SHARE PURCHASE

### **Staff Participation Plan (SPP)**

The SPP is offered to most of Julius Baer's global employee population. Some individuals or employees in specific locations are excluded from participating because, for example, the employees concerned are participants in another Julius Baer equity-based plan or because the SPP cannot be offered in a particular jurisdiction for legal or regulatory reasons. Under this plan, eligible participants may voluntarily purchase Julius Baer Group Ltd. shares at the prevailing market price and for every three shares so purchased they will receive one additional share free of charge. These free shares vest after three years, subject to continued employment. Purchases under the SPP only occur once a year.

The objective of this plan is to strengthen the employee's identification with the Group, to encourage entrepreneurial spirit, to generate greater interest in the business through ownership, and to provide employees with financial recognition for their long-term dedication to the Group.

## BOARD OF DIRECTORS COMPENSATION

This section provides details of the compensation system for members of the Board of Directors. The figures for 2016 are presented in the audited 'Compensation, loans and shareholdings of the Board of Directors' section of this Remuneration Report.

### Key elements of Board of Directors compensation

1. Simple structure: fixed compensation, paid in cash and in share awards, which is not linked to performance, but based on the work load of the individual Board member.
2. Share ownership guidelines: minimum required holdings of Julius Baer shares (subject to a three-year build-up period).

### COMPENSATION

Members of the Julius Baer Group Board of Directors (including the Chairperson) are only entitled to fixed compensation for their term in office. This fixed compensation is determined by the work load of the individual Board member based on the Board Committees on which he or she serves and his or her committee position.

The fixed compensation is paid in a combination of cash and shares. Reflecting the independent status of all members of the Board of Directors (including the Chairperson), the remuneration of members of the Board does not include a variable component and is therefore not dependent on the financial performance of the Julius Baer Group. However, in order to align their compensation with the interests of our shareholders, a portion of the fixed compensation is paid in the form of shares.

Generally, the cash-based compensation is paid in December each year; the Chairperson receives the cash element on a quarterly basis. The cash element is disclosed on a business-year basis (i.e. split across the two calendar years that make up a Board member's term).

At the beginning of each term, share-based compensation is determined on the basis of a fixed total compensation value. The number of shares which is granted is calculated on the basis of a five-day

volume-weighted average price of Julius Baer Group Ltd. shares on the Swiss Stock Exchange prior to the grant date. This share-based compensation is delivered under the Group's LTI plan and remains subject to a one-year, service-based vesting period over the term. This element is disclosed at grant value in the year of election or re-election.

No dividend entitlements accrue or are paid on the share-based awards until vesting. All shares delivered at vesting are unrestricted (subject to the Guidelines on share ownership as described below). Shares granted to all members of the Board of Directors are subject to a forfeiture clause, under which the award will only vest if the Board member concerned fulfils the entire term for which he or she has been elected or re-elected.

No additional compensation is paid to members of the Board of Directors for attending meetings. No stock options are granted to the members of the Board of Directors.

No changes were made to the elements of compensation paid to Board members in 2016. Due to the changes in the composition of the Board Committees, the compensation paid to individual Board members may have changed slightly. Notably, Ann Almeida joined the Julius Baer Group Board of Directors at the AGM 2016, thus increasing the number of Board members from eight to nine. In 2016 a comprehensive benchmark review was conducted regarding Board members' compensation levels. It was determined that the current levels are lower than the median of our SMI peer group and, as a result, an increase to Board of Director compensation was proposed and recommended. The maximum aggregate compensation adjustments shall be presented to shareholders for approval at the AGM 2017 for the subsequent compensation period (AGM 2017 to AGM 2018).

In order to avoid any conflicts of interest, members of the Board of Directors do not benefit from preferential staff conditions with regard to mortgages or loans. They do, however, benefit from preferential staff conditions for transactions (e.g. in securities) executed in-house.



## GUIDELINES ON SHARE OWNERSHIP

Share ownership is considered an additional factor underscoring commitment towards Julius Baer. The Board of Directors believes these requirements will

strengthen the ownership mentality of Board members and ensure the alignment of the Board of Directors decisions with the interests of our shareholders.

The members of the Board of Directors will be required to build up their total vested shareholdings until they reach the following levels:

Board member	Share ownership requirement (in vested Julius Baer Group shares)
Chairperson of the Board of Directors	25,000 shares
Members of the Board of Directors (excluding the Chairperson)	7,500 shares

The members of the Board of Directors will have a period of three full calendar years starting from their initial election to the Board of Directors to build up their Julius Baer shareholdings to the minimum required levels. The final measurement will be performed on 31 December of the third calendar year following the Board member's election to the Julius Baer Group Board of Directors. Under these rules, individuals who were members of the Board of Directors from the inception of the shareholding guideline requirements (in May 2014) will be required to build up the aforementioned Julius Baer shareholdings by 31 December 2017. If the above shareholding requirements are not reached by the measurement date, 50% of the shares vesting from the individual's equity-based compensation grant will be held back until the defined level of shareholding has been reached.

Details of the shareholdings of each member of the Board of Directors can be found in the 'Compensation, loans and shareholdings of the Board of Directors' section of this Remuneration Report.

## CONTRACTS

The members of the Board of Directors do not have contracts with Julius Baer which provide for benefits upon termination of their term of office on the Board of Directors.

## COMPENSATION, LOANS AND SHAREHOLDINGS OF THE EXECUTIVE BOARD (AUDITED)

This section provides the data for 2016 and 2015. It does not repeat the details of the compensation system, but describes its outcome.

Under the guidance provided in the 'selected questions and answers for the audit of the remuneration reports in accordance with the Swiss

Ordinance against Excessive Compensation in Listed Companies' formulated by the Swiss Expert Association for Audit, Tax and Fiduciary, the Julius Baer Group's deferred equity-based awards must be disclosed as compensation in the year of grant. The table below reflects this method of reporting.

		Variable compensation <sup>2</sup>					Pension fund, social security contributions and varia <sup>3</sup> CHF 1,000	<b>Total</b> CHF 1,000
		Deferred elements			Performance Units CHF 1,000			
		DBP		EPP				
		Base salary <sup>1</sup> CHF 1,000	Cash CHF 1,000	Cash CHF 1,000				
<b>Compensation of the members of the Executive Board</b>								
<b>Total compensation</b>	<b>2016</b>	<b>5,325</b>	<b>3,032</b>	<b>2,618</b>	<b>5,173</b>	<b>2,214</b>	<b>18,362</b>	
Total compensation	2015	4,504	3,029	2,649	5,797	1,873	17,852	

At the end of 2016, the Executive Board consisted of seven members as opposed to six members at the end of 2015.

<sup>1</sup> The amounts disclosed for 2016 and 2015 include the lump-sum expense allowance of CHF 22,800 p.a. per member of the Executive Board and CHF 24,000 p.a. to the CEO (unchanged from the previous year). These amounts are based on full-time employment (100%) during the performance year. The aggregate amount of lump-sum expense allowances paid in 2016 was CHF 156,960 (CHF 128,570 in 2015). The voluntary salary reduction in relation to cost-management measures in response to the marked appreciation of the Swiss franc was effective from 1 March 2015 through 31 December 2015.

The maximum aggregate amount of fixed compensation for the financial year 2016 approved at the 2015 AGM (CHF 4,700,000) did not include the fixed compensation for Giovanni M.S. Flury, Business Representative, who was nominated after the 2015 AGM to join the Executive Board on 1 January 2016. Giovanni M.S. Flury's base pay for 2016 (CHF 625,000 [including lump sum expenses] plus social security contributions of CHF 176,687), however, is disclosed above as part of the 2016 'base salary' and 'pension fund, social security contributions and varia', respectively. In accordance with

article 11.2 of the Articles of Incorporation of the Company ("Supplementary Amount for Changes on the Executive Board"), Giovanni M.S. Flury's compensation for 2016 did not exceed the threshold of 25% of the aggregate amounts of compensation of the Executive Board last approved by the AGM.

<sup>2</sup> The variable compensation for the members of the Executive Board for the 2016 and 2015 financial years comprised a cash component and an equity-based component. For the reporting periods 2016 and 2015, the members of the Executive Board received a substantial part of their variable compensation as deferred elements (for details on the deferral see the 'Cash-based variable compensation' and 'Equity-based variable compensation' sections of this Remuneration Report). A minimum deferral of 20% of the DBP is applied starting from CHF 125,000 and the maximum deferral amounts to 50% at a DBP of CHF 1 million and above; the non-deferred amount of the DBP award is paid out in cash up front, whereas the deferral amount is deferred over a period of five years (disclosed under 'deferred elements, cash'). In addition to the DBP, the members of the Executive Board were granted an equity-based EPP

at fair value (CHF 37.89 per Performance Unit for the grant dated 15 February 2016 and CHF 35.07 per Performance Unit for the grant dated 15 February 2015, disclosed under 'Performance Units'). Such awards cliff-vest in Julius Baer Group Ltd. shares at the end of year three from the grant date.

The fair value of the Performance Units was based on an equally weighted valuation of (i) the cumulative Economic Profit (cEP) component using a probabilistic model of the potential deviation of the future Group results from the strategic three-year plan, and of (ii) the relative Total Shareholder Return (rTSR) with the peer group being the STOXX 600 Europe Banks Index. The final payout of this EPP is linked to these two Key Performance Indicators (KPIs). Both KPIs have a payout range of 0% to 200% each, but the maximum uplift of the EPP is 50% of the number of Performance Units originally granted and is subject to full downside risk.

All deferred elements of the variable compensation of the members of the Executive Board (including the CEO) are subject to forfeiture and/or clawback provisions.

The DBP for 2016 as disclosed above is subject to approval by the shareholders at the AGM in April 2017.

The Compensation Committee decided on 23 January 2017 on the cash-based variable compensation (DBP) for 2016 and the EPP 2017 grant to be awarded to the members of the Executive Board. Due to the variability of annual performance payments and awards from equity-based elements, the ratio of base salary to total compensation can vary significantly from year to year. In 2016, the average ratio of fixed to variable compensation for the members of the Executive Board amounted to 33%: 67%, compared to 28.2%: 71.8% in 2015. 72% of the variable compensation of the members of the Executive Board in the reporting period was deferred either for a period of five years for the DBP or three years for the EPP (73.6% in 2015).

All current members of the Executive Board have a full-time employment relationship with the Group.

<sup>3</sup> The amounts reported in this column include actual employer contributions to social security (AHV/ALV) for base salaries and estimated future contributions based on the grant values of the DBP 2016 and DBP 2015 and the fair value of the Performance Units/EPP granted in 2016 and 2015. These amounts also include premiums for additional accident insurance. The aggregate total of these social security and accident insurance costs for each respective year is CHF 1,436,522 for 2016 and CHF 1,106,176 for 2015.

The above table is based on the accrual principle, which means that the amounts shown are the compensation earned for the respective year. The actual payment of a portion of the amounts for the performance-related components may, however, be effected at a later date. In particular, under the DBP, a portion of the cash-based variable compensation (as described in the 'Cash-based variable compensation' section) was paid in February with the remainder being deferred over a five-year period (delivered in equal instalments each February over the following five years).

The immediately payable portion of the DBP is not paid to the recipients until shareholder approval has been granted at the AGM.

In 2016, no compensation was paid to former members of the Executive Board who left the Executive Board in 2015 or earlier that related to such members' prior function within the Executive Board. No compensation was granted to parties related to members of the Executive Board or former members of the Executive Board. No sign-on payments or severance payments to members of the Executive Board were effected in 2016 or 2015.

## COMPENSATION OF THE HIGHEST-PAID MEMBER OF THE EXECUTIVE BOARD (AUDITED)

Under the guidance provided in the 'selected questions and answers for the audit of the remuneration reports in accordance with the Swiss Ordinance against Excessive Compensation in

Listed Companies' formulated by the Swiss Expert Association for Audit, Tax and Fiduciary, the Julius Baer Group's deferred equity-based awards must be disclosed as compensation in the year of grant.

	Variable compensation <sup>2</sup>						Total CHF 1,000	
	Base salary <sup>1</sup> CHF 1,000	Cash CHF 1,000	Deferred elements		Performance Units CHF 1,000	Pension fund, social security contributions and varia <sup>3</sup> CHF 1,000		
			DBP					EPP
			Cash CHF 1,000					
Details of the compensation of the highest-paid member of the Executive Board or former Executive Board, Boris F.J. Collardi, CEO								
Total compensation	2016	1,500	1,163	1,163	2,178	491	6,494	
Total compensation	2015	1,438	939	939	2,372	475	6,162	

<sup>1</sup> The amounts disclosed for 2016 and 2015 include the lump-sum expense allowance of CHF 24,000 p.a. to the CEO (unchanged from the previous year). This amount is based on full-time employment (100%) during the performance year. The increase in base salary came into effect on 1 March 2014 and remained unchanged for 2015 and 2016 (the voluntary salary adjustment in 2015 was effective from 1 March 2015 to 31 December 2015).

<sup>2</sup> As with other members of the Executive Board, the variable compensation for the CEO for the 2016 and 2015 financial years comprised a cash component and an equity-based component. For the reporting periods 2016 and 2015, the CEO received a substantial part of his variable compensation as deferred elements (for details on the deferral see the 'Cash-based variable compensation' and 'Equity-based variable compensation' sections of this Remuneration Report). A minimum deferral of 20% of the DBP is applied starting from CHF 125,000 and the maximum deferral amounts to 50% at a DBP of CHF 1 million and above; the non-deferred amount of the DBP award is paid out in cash up front, whereas the deferral amount is deferred over a period of five years (disclosed under 'deferred elements, cash'). In addition to the DBP, the CEO was granted an equity-based EPP at fair value (CHF 37.89 per Performance Unit for the grant dated 15 February 2016 and CHF 35.07 per Performance Unit for the grant dated

15 February 2015, disclosed under 'Performance Units'). Such awards cliff-vest in Julius Baer Group Ltd. shares at the end of year three from the grant date.

The fair value of the Performance Units was based on an equally weighted valuation of (i) the cumulative Economic Profit (cEP) component using a probabilistic model of the potential deviation of the future Group results from the strategic three-year plan, and of (ii) the relative Total Shareholder Return (rTSR) with the peer group being the STOXX Europe 600 Banks Index. The final payout of this EPP is linked to these two KPIs. Both KPIs have a payout range of 0 to 200% each, but the maximum uplift on the EPP is 50% of the number of Performance Units originally granted and is subject to full downside risk.

All deferred elements of the variable compensation of the Executive Board (including the CEO) are subject to forfeiture and clawback provisions.

The DBP for 2016 as disclosed above is included in the amount which will be submitted for approval to the shareholders at the AGM in April 2017.

The Compensation Committee decided on 23 January 2017 on the cash-based variable compensation (DBP) for 2016 and the EPP 2017 grant to be awarded to the CEO. Due to the variability of annual performance payments and awards from equity-based elements, the

ratio of base salary to total compensation can vary significantly from year to year. In 2016, the ratio of fixed to variable compensation for the CEO amounted to 25%:75%, compared to 25.3%:74.7% in 2015. 74.2% of the variable compensation of the CEO in the reporting period was deferred either for a period of five years for the DBP or three years for the EPP (77.9% in 2015).

<sup>3</sup> The amounts reported in this column include actual employer contributions to social security (AHV/ALV) for base salaries and estimated future contributions based on the grant values of the DBP 2016 and DBP 2015 and the fair value of the Performance Units/EPP granted in 2016 and 2015. These amounts also include premiums for additional accident insurance. The aggregate total of these social security and accident insurance costs for each respective year is CHF 396,818 for 2016 and CHF 383,753 for 2015.

The above table is based on the accrual principle, which means that the amounts shown are compensation earned for the respective year. The actual payment of a portion of the amounts for the performance-related components may, however, be effected at a later date. In particular, under the DBP, a portion of the cash-based variable compensation (as described in the 'Cash-based variable compensation' section) was paid each February with the remainder being deferred over a five-year period (disbursed in equal instalments each February over the following five years).

The immediately payable portion of the DBP is not paid to the recipients until shareholder approval has been granted at the AGM.

## LOANS TO THE MEMBERS OF THE EXECUTIVE BOARD (AUDITED)

	Loans CHF 1,000	31.12.2016 Loans to related parties CHF 1,000	Loans CHF 1,000	31.12.2015 Loans to related parties CHF 1,000
<b>Loans to the members of the Executive Board</b>				
<b>Total</b>	<b>14,750</b>	-	16,248	-
<i>of which the highest amount: Boris F.J. Collardi</i>	<b>12,110</b>	-	12,200	-

The loans granted to the members of the Executive Board consist of Lombard loans on a secured basis (through pledging of securities portfolios or other marketable coverage), fixed-rate mortgages (on a fixed-rate basis) as well as Libor mortgages and floating-rate mortgages (both on a variable-rate basis).

The interest rates of the Lombard loans are at a refinancing rate plus 0.5%. Mortgage loans on a principal residence and/or holiday home to employees and Executive Board members of the Group in 2016 were granted at a discount of 1% p.a. for floating-rate mortgage loans, whereas fixed-rate mortgage loans and Libor mortgage loans were granted at a refinancing rate plus 0.5% p.a. For investment properties the standard mortgage conditions for external clients apply, both in terms of pricing and amortisation.

The loans disclosed for the CEO in 2016 and 2015 include CHF 10,550,000 of mortgage loans on investment properties (at standard mortgage conditions for external clients).

No loans to former members of the Executive Board (and their related parties) were outstanding at year-end 2016 or were granted in 2016 at conditions that were not in line with market conditions.

All loans are aligned with the cap stipulated in the Articles of Incorporation of the Company.

Members of the Executive Board benefit from preferential staff conditions for transactions (e.g. in securities) executed in-house.

## SHAREHOLDINGS OF THE MEMBERS OF THE EXECUTIVE BOARD (AUDITED)

Number of shares

### Shareholdings of the members of the Executive Board<sup>1</sup>

Boris F.J. Collardi, Chief Executive Officer	<b>2016</b>	<b>260,253</b>
	2015	205,882
Dieter A. Enkelmann, Chief Financial Officer	<b>2016</b>	<b>86,000</b>
	2015	87,719
Jan A. Bielinski, Chief Communications Officer	<b>2016</b>	<b>34,896</b>
	2015	33,511
Giovanni M.S. Flury, Business Representative (member of the Executive Board January–December 2016)	<b>2016</b>	-
	2015	n.a.
Gregory F. Gatesman, Chief Operating Officer (left the Executive Board at the end of 2016)	<b>2016</b>	-
	2015	6,000
Christoph Hiestand, General Counsel	<b>2016</b>	<b>14,100</b>
	2015	9,469
Bernhard Hodler, Chief Risk Officer	<b>2016</b>	<b>30,000</b>
	2015	43,632
<b>Total</b>	<b>2016</b>	<b>425,249</b>
Total	2015	386,213

<sup>1</sup> Including shareholdings of related parties

None of the members of the Executive Board held any option positions on Julius Baer Group Ltd. shares as at year-end 2016 and 2015.

Share ownership guidelines for the members of the Board of Directors and the members of the Executive Board were introduced with effect from 2014.

The CEO is required to build up and maintain 100,000 vested shares of Julius Baer Group Ltd., the other members of the Executive Board the lower of 2.5 times base salary or 30,000 shares.

The targeted number of Julius Baer Group Ltd. shares has to be built up over a period of three years (and reached at year-end of the respective year) and maintained until the Executive Board member leaves his or her current position and/or the Julius Baer Group.

### FORMER EXECUTIVES

Executive Board members Gregory F. Gatesman and Giovanni M.S. Flury left the Company with effect from 31 December 2016. No compensation was paid to former executives in 2016.

### ADDITIONAL HONORARIA, RELATED PARTIES, OTHER IMPORTANT INFORMATION

The compensation disclosed for the CEO, CFO, COO and CRO includes the compensation for the same function those members assume at the level of the Executive Board of Bank Julius Baer & Co. Ltd., the major subsidiary of Julius Baer Group Ltd.

No compensation has been granted to parties related to members of the Executive Board.



## COMPENSATION, LOANS AND SHAREHOLDINGS OF THE BOARD OF DIRECTORS (AUDITED)

This section provides the data for 2016 and 2015. It does not repeat the details of the compensation system, but describes its outcome.

		Base salary <sup>3</sup> CHF 1,000	Share-based payments <sup>4</sup> CHF 1,000	Social security contributions and varia <sup>5</sup> CHF 1,000	Total CHF 1,000
<b>Compensation of the members of the Board of Directors<sup>1</sup></b>					
Daniel J. Sauter – Chairman	<b>2016</b>	<b>375</b>	<b>600</b>	<b>99</b>	<b>1,074</b>
	2015	325	600	124	1,049
Gilbert Achermann	<b>2016</b>	<b>107</b>	<b>100</b>	<b>21</b>	<b>228</b>
	2015	97	100	21	217
Ann Almeida (joined the Board in 2016)	<b>2016</b>	<b>71</b>	<b>88</b>	<b>18</b>	<b>177</b>
	2015	n.a.	n.a.	n.a.	n.a.
Andreas Amschwand	<b>2016</b>	<b>129</b>	<b>100</b>	<b>24</b>	<b>253</b>
	2015	120	100	23	243
Heinrich Baumann	<b>2016</b>	<b>147</b>	<b>100</b>	<b>23</b>	<b>269</b>
	2015	136	100	25	262
Paul Man Yiu Chow (joined the Board in 2015)	<b>2016</b>	<b>103</b>	<b>100</b>	<b>16</b>	<b>219</b>
	2015	65	100	9	174
Claire Giraut	<b>2016</b>	<b>107</b>	<b>100</b>	<b>64</b>	<b>271</b>
	2015	99	100	64	263
Gareth Penny	<b>2016</b>	<b>129</b>	<b>100</b>	<b>38</b>	<b>267</b>
	2015	117	100	31	248
Charles G. T. Stonehill	<b>2016</b>	<b>151</b>	<b>100</b>	<b>34</b>	<b>285</b>
	2015	138	100	39	278
<b>Total</b>	<b>2016</b>	<b>1,319</b>	<b>1,388</b>	<b>337</b>	<b>3,043</b>
Total	2015	1,097	1,300	336	2,734

### Compensation of the Honorary Chairman (the Honorary Chairman function is an honorific title and Mr Baer is not a member of the Board of Directors)<sup>2</sup>

Raymond J. Baer	<b>2016</b>	-	-	<b>5</b>	<b>5</b>
	2015	80	-	23	103

At the end of 2016, the Board of Directors consisted of nine members as opposed to eight members at the end of 2015.

<sup>1</sup> The members of the Board of Directors of Julius Baer Group Ltd. assume similar director roles on the Board of Directors of Bank Julius Baer & Co. Ltd. For more information on the detailed compensation components of the Board of Directors please refer to the 'Board of Directors Compensation' section of this Remuneration Report.

<sup>2</sup> Given the specific role of Raymond J. Baer, besides acting as Honorary Chairman, i.e. assuming the role of Chairperson of the Special Committee of the Board of Directors of Bank Julius Baer & Co. Ltd. and thus coordinating the efforts of Bank Julius Baer & Co. Ltd. to resolve the issue with the United States, the Compensation Committee decided on a remuneration agreement effective as of 1 May 2012 in the form of a yearly base salary of CHF 250,000, which the Compensation

Committee reduced to CHF 160,000 with effect from 1 March 2014 and to CHF 40,000 with effect from 1 May 2015 to reflect changes in the required workload of Raymond J. Baer. The remuneration agreement with Raymond J. Baer was terminated with the Group at the end of 2015 following the Group's agreement to terms with the United States. The amount disclosed for 2016 represents social security contributions as well as employer and employee contributions into the Pension Fund of the Julius Baer Group for the period from January to August 2016, when Raymond J. Baer exited the fund. While Raymond J. Baer continues to act as Honorary Chairman of the Julius Baer Group and Chairman of the Group's Pension Fund in Switzerland, he is not compensated for any services related to these activities.

<sup>3</sup> The base salaries are disclosed on a business year basis according to the requirements of the Ordinance.

<sup>4</sup> The share-based elements reflect a fixed amount in CHF (currently CHF 100,000 for Board members and CHF 600,000 for the Chairperson, rounded up to the next share) and are granted each year upon election or re-election to the Board. The share-based payments are valued at fair value at the grant date (CHF 50.26 per share of Julius Baer Group Ltd. as at 2 May 2015; CHF 40.85 per share of Julius Baer Group Ltd. as at 2 May 2016).

In 2016, Daniel J. Sauter (Chairman), Gilbert Achermann, Andreas Amschwand, Heinrich Baumann, Paul Man Yiu Chow, Claire Giraut, Gareth Penny and Charles G. T. Stonehill were re-elected for a term of one year. Ann Almeida was elected as a new Board member with effect from 1 June 2016.

<sup>5</sup> The amounts reported for 2016 and 2015 include Julius Baer's actual contributions to social security in the respective reporting period in accordance with the

Ordinance, amounting to CHF 246,273 for 2016 and CHF 232,365 for 2015. Depending on the domicile of the Board member and the applicable local legislation, contributions to social security vary despite the similar level of compensation amongst members of the Board of Directors.

The value of the share-based payments shown in the above table cannot be compared with the figures in Note 28 ('Share-based payments') of the Group's 2016 consolidated financial statements as the latter disclose the compensation expense for the shares that has been recognised during the applicable reporting periods.

Under the forfeiture clause, the members of the Board of Directors are only entitled to the shares granted to them provided that they fulfil the entire term for which they have been elected or re-elected. Should a Board member resign between two AGMs, any unvested shares are generally forfeited. In that event the cash element will, however, be paid on a pro rata basis. In the event of dismissal of the Chairperson or a Board member by an Extraordinary General Meeting, both the cash and the share elements will be paid on a pro rata basis. In the event of disability or death, all awards granted may be retained by the Board member and no forfeiture applies.

Board members are not entitled to participate in any performance-related share or cash programme at either Group or Bank level.

No compensation was granted to parties related to members of the Board of Directors.

## LOANS TO THE MEMBERS OF THE BOARD OF DIRECTORS (AUDITED)

		<b>31.12.2016</b>		31.12.2015
	Loans CHF 1,000	Loans to related parties CHF 1,000	Loans CHF 1,000	Loans to related parties CHF 1,000
<b>Loans to the members of the Board of Directors</b>				
Daniel J. Sauter – Chairman	-	<b>530</b>	-	-
Gilbert Achermann	-	-	-	-
Ann Almeida (joined the Board in 2016)	-	-	n.a.	n.a.
Andreas Amschwand	-	-	-	-
Heinrich Baumann	<b>5,150</b>	-	5,100	-
Paul Man Yiu Chow (joined the Board in 2015)	-	-	-	-
Claire Giraut	-	-	-	-
Gareth Penny	-	-	-	-
Charles G. T. Stonehill	-	-	-	-
<b>Total</b>	<b>5,150</b>	<b>530</b>	5,100	-

The loans granted to members of the Board of Directors or their related parties consist of Lombard loans on a secured basis (through pledging of securities portfolios or other marketable coverage), fixed-rate mortgages (on a fixed-rate basis), Libor mortgages and floating-rate mortgages (the latter two on a variable-rate basis).

The interest rates on the Lombard loans and the mortgage loans for Board members and related parties are in line with normal market rates at the time the loans were granted and do not include any preferential conditions.

Members of the Board of Directors benefit from preferential staff conditions for transactions (e.g. in securities) executed in-house.

## SHAREHOLDINGS OF THE MEMBERS OF THE BOARD OF DIRECTORS (AUDITED)

Number of shares

### Shareholdings of the members of the Board of Directors<sup>1</sup>

Daniel J. Sauter – Chairman	<b>2016</b>	<b>172,495</b>
	2015	155,128
Gilbert Achermann	<b>2016</b>	<b>9,705</b>
	2015	7,715
Ann Almeida (joined the Board in 2016)	<b>2016</b>	-
	2015	n.a.
Andreas Amschwand	<b>2016</b>	<b>9,705</b>
	2015	7,715
Heinrich Baumann	<b>2016</b>	<b>15,432</b>
	2015	13,442
Paul Man Yiu Chow (joined the Board in 2015)	<b>2016</b>	<b>1,990</b>
	2015	-
Claire Giraut	<b>2016</b>	<b>18,995</b>
	2015	17,005
Gareth Penny	<b>2016</b>	<b>20,105</b>
	2015	20,715
Charles G. T. Stonehill	<b>2016</b>	<b>20,365</b>
	2015	18,375
<b>Total</b>	<b>2016</b>	<b>268,792</b>
<b>Total</b>	2015	240,095

<sup>1</sup> Including shareholdings of related parties

None of the Board members held any option positions on Julius Baer Group Ltd. shares as at year-end 2016 and 2015.

Share ownership guidelines for the members of the Board of Directors and the members of the Executive Board were introduced with effect from 2014. The Chairperson of the Board of Directors is required to build up and maintain 25,000 vested shares of Julius Baer Group Ltd., the other members of the Board 7,500 each, respectively.

The targeted number of Julius Baer Group Ltd. shares has to be built up over a period of three years following election (and reached at year-end of the respective year) and maintained until the Board member leaves the Board of Directors.

Board members who were elected and/or re-elected in 2014 (i.e. all Board members except for Paul Man Yiu Chow and Ann Almeida) are required to reach the targeted number of shares by year-end 2017. Paul Man Yiu Chow and Ann Almeida are required to reach the targeted number of shares by year-end 2018 and 2019, respectively.

### FORMER DIRECTORS

In 2016, no compensation was granted to Board members who left the Board in 2015 or earlier. No loans to former members of the Board of Directors (or their related parties) were outstanding at year-end 2016 or were granted in 2016 at conditions that were not in line with market rates.

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## ABBREVIATIONS

AGM	Annual General Meeting	IWM	Bank of America Merrill Lynch's
BIS	Bank for International Settlements		International Wealth Management
CEO	Chief Executive Officer		business outside the US
cEP	Cumulative Economic Profit	Kairos	Kairos Investment Management SpA
CFO	Chief Financial Officer	KPI(s)	Key Performance Indicator(s)
CoC	Cost of Capital	LTI	Long Term Incentive Plan
COO	Chief Operating Officer	NOPbBT	Net operating profit before variable
CRO	Chief Risk Officer		compensation and taxes
DBP	Deferred Bonus Plan	Ordinance	Swiss Ordinance against Excessive
DCP	Deferred Cash Plan		Compensation in Listed Companies
EB	Executive Board	PSP	Premium Share Plan
EP	Economic Profit	rTSR	Relative Total Shareholder Return
EPP	Equity Performance Plan	SMI	Swiss Market Index
IFRS	International Financial Reporting	SPP	Staff Participation Plan
	Standards	TSR	Total Shareholder Return
Index	STOXX® Europe 600 Bank Index (gross		
	return)		

## TERMINATION PROVISIONS OF JULIUS BAER PLANS

Award Name	Voluntary Termination	Termination without Cause	Death	Disability	Retirement	Termination for Cause	Change of Control
<b>Deferred Bonus Plan (DBP)</b>	Outstanding deferral is paid out in accordance with the original payment schedule.	Outstanding deferral is paid out in accordance with the original payment schedule.	Outstanding deferral amounts are paid out within 30 days of the notification of the event.	Outstanding deferral amounts are paid out within 30 days of termination.	Outstanding deferral is paid out in accordance with the original payment schedule.	Outstanding deferral is clawed back upon notice of termination.	Payment-schedule adjustments permissible at Board of Directors' discretion.
<b>Equity Performance Plan (EPP)</b>	Unvested awards are forfeited upon notice of termination.	Pro rata portion of unvested awards vests upon notice of termination subject to final performance multiplier assessment at the end of the plan period.	Award fully vests based on an assumed Final Multiplier of 100% and is paid out within 30 days of the notification of the event.	Award fully vests based on an assumed Final Multiplier of 100% and is paid out within 30 days of termination.	Awards fully vest on the date of retirement subject to the Final Multiplier performance assessment at the end of the plan period.	Unvested awards are forfeited upon notice of termination.	Award adjustments solely at Board of Directors' discretion. Plan allows for an intrinsic value roll-over of awards and/or early evaluation of actual performance followed by vesting.
<b>Integration Incentive Award (IIA)</b>	Unvested awards (cash and/or shares) are forfeited upon notice of termination.	Unvested awards (cash and/or shares) vest on the date of the notification of the event.	Unvested awards (cash and/or shares) vest on the date of the notification of the event.	Unvested awards (cash and/or shares) vest on the date of termination.	Unvested awards (cash and/or shares) are forfeited in full if retirement occurs prior to final cash payment. Unvested shares continue to vest if retirement occurs after final cash payment (subject to Restricted Activity covenants).	Unvested awards (cash and/or shares) are forfeited upon notice of termination.	Award adjustments solely at Compensation Committee's discretion. Intrinsic value roll-over of awards permitted.
<b>Long Term Incentive Plan (LTI)</b>	Unvested shares are forfeited upon notice of termination.	Unvested shares are forfeited upon notice of termination.	Unvested shares vest on the date of the notification of the event.	Unvested shares vest on the date of termination.	Unvested shares vest on the date of retirement.	Unvested shares are forfeited upon notice of termination.	Award adjustments solely at Compensation Committee's discretion. Intrinsic value roll-over of awards permitted.
<b>Premium Share Plan (PSP)</b>	Unvested shares from deferral and Premium Shares are forfeited upon notice of termination.	Unvested shares from deferral and Premium Shares vest on date of termination. Premium Shares are forfeited.	The unvested shares from deferral and Premium Shares vest and are paid out within 30 days of the notification of the event.	The unvested shares from deferral and Premium Shares vest and are paid out within 30 days of termination.	The unvested shares from deferral and Premium Shares vest and are paid out within 30 days of retirement.	Unvested shares from deferral and Premium Shares are forfeited upon termination.	Award adjustments solely at Compensation Committee's discretion. Intrinsic value roll-over of awards permitted.
<b>Deferred Cash Plan (DCP)</b>	Unvested awards are forfeited upon notice of termination.	Unvested awards vest on the date of termination.	Unvested awards vest and are paid out within 30 days of the notification of the event.	Unvested awards vest on the date of termination.	Unvested awards vest on the date of retirement.	Unvested awards are forfeited upon notice of termination.	Award adjustments solely at Compensation Committee's discretion.

# REPORT OF THE STATUTORY AUDITOR TO THE ANNUAL GENERAL MEETING OF JULIUS BAER GROUP LTD., ZURICH



## Report of the Statutory Auditor

To the General Meeting of Julius Baer Group Ltd., Zurich

We have audited pages 64 to 73 of the accompanying remuneration report of Julius Baer Group Ltd. for the year ended 31 December 2016.

### Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

### Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Opinion

In our opinion, the remuneration report for the year ended 31 December 2016 of Julius Baer Group Ltd. complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Philipp Rickert  
Licensed Audit Expert  
Auditor in Charge

Cataldo Castagna  
Licensed Audit Expert

Zurich, 9 March 2017

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

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# III. FINANCIAL STATEMENTS

## JULIUS BAER GROUP 2016

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## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED INCOME STATEMENT

	Note	2016 CHF m	2015 CHF m	Change %
Interest and dividend income		<b>1,043.9</b>	847.2	23.2
Interest expense		<b>166.8</b>	135.7	22.8
Net interest and dividend income	1	<b>877.1</b>	711.5	23.3
Commission and fee income		<b>1,771.1</b>	1,732.1	2.3
Commission expense		<b>206.2</b>	209.7	-1.7
Net commission and fee income	2	<b>1,564.9</b>	1,522.4	2.8
Net trading income	3	<b>332.5</b>	435.8	-23.7
Other ordinary results	4	<b>77.9</b>	24.7	215.1
<b>Operating income</b>		<b>2,852.4</b>	2,694.4	5.9
Personnel expenses	5	<b>1,335.9</b>	1,236.1	8.1
General expenses	6	<b>623.2</b>	1,100.2	-43.4
Depreciation of property and equipment	12	<b>37.6</b>	34.5	9.0
Amortisation of customer relationships	12	<b>68.5</b>	126.2	-45.7
Amortisation and impairment of other intangible assets	12	<b>34.6</b>	58.6	-41.0
<b>Operating expenses</b>		<b>2,099.8</b>	2,555.6	-17.8
<b>Profit before taxes</b>		<b>752.6</b>	138.8	442.2
Income taxes	7	<b>130.4</b>	16.3	701.4
<b>Net profit</b>		<b>622.1</b>	122.5	407.8
Attributable to:				
Shareholders of Julius Baer Group Ltd.		<b>619.4</b>	121.2	411.2
Non-controlling interests		<b>2.7</b>	1.4	101.5
		<b>622.1</b>	122.5	407.8
	Note	2016 CHF	2015 CHF	Change %
<b>Share information</b>				
Basic earnings per share (EPS)	8	<b>2.85</b>	0.55	414.1
Diluted earnings per share (EPS)	8	<b>2.84</b>	0.55	413.2
Dividend proposal 2016 and dividend 2015		<b>1.20</b>	1.10	9.1

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2016 CHF m	2015 CHF m
<b>Net profit recognised in the income statement</b>	<b>622.1</b>	122.5
Other comprehensive income (net of taxes):		
<b>Items that may be reclassified to the income statement</b>		
Net unrealised gains/(losses) on financial investments available-for-sale	19.8	-85.8
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	7.8	0.3
Translation differences	22.8	-79.6
Realised (gains)/losses on translation differences reclassified to the income statement	-0.0	0.2
<b>Items that will not be reclassified to the income statement</b>		
Remeasurement of defined benefit obligation	18.9	-98.4
<b>Other comprehensive income</b>	<b>69.2</b>	-263.2
<b>Total comprehensive income</b>	<b>691.3</b>	-140.7
Attributable to:		
Shareholders of Julius Baer Group Ltd.	685.7	-139.3
Non-controlling interests	5.6	-1.4
	<b>691.3</b>	-140.7

## CONSOLIDATED BALANCE SHEET

	Note	31.12.2016 CHF m	31.12.2015 CHF m
<b>Assets</b>			
Cash		<b>13,599.5</b>	9,185.7
Due from banks	9	<b>11,389.8</b>	6,901.1
Loans	9	<b>38,419.0</b>	36,380.9
Trading assets	10	<b>7,660.7</b>	8,984.0
Derivative financial instruments	24	<b>2,690.9</b>	2,189.1
Financial assets designated at fair value	25	<b>252.4</b>	197.0
Financial investments available-for-sale	11	<b>18,266.6</b>	16,572.5
Investments in associates	26	<b>29.4</b>	90.3
Property and equipment	12	<b>373.8</b>	373.2
Goodwill and other intangible assets	12	<b>2,834.3</b>	2,316.4
Accrued income and prepaid expenses		<b>327.2</b>	366.2
Deferred tax assets	17	<b>28.8</b>	23.8
Other assets		<b>335.0</b>	535.4
<b>Total assets</b>		<b>96,207.2</b>	84,115.5

FINANCIAL STATEMENTS JULIUS BAER GROUP 2016  
**CONSOLIDATED FINANCIAL STATEMENTS**

	Note	31.12.2016 CHF m	31.12.2015 CHF m
<b>Liabilities and equity</b>			
Due to banks		<b>10,076.8</b>	4,672.0
Due to customers		<b>67,495.2</b>	64,781.4
Trading liabilities	10	<b>159.0</b>	190.8
Derivative financial instruments	24	<b>2,285.3</b>	2,391.4
Financial liabilities designated at fair value	15	<b>8,444.4</b>	4,263.1
Debt issued	16	<b>1,213.5</b>	1,152.7
Accrued expenses and deferred income		<b>620.3</b>	530.1
Current tax liabilities		<b>123.0</b>	65.6
Deferred tax liabilities	17	<b>77.8</b>	41.6
Provisions	18	<b>23.0</b>	575.2
Other liabilities		<b>335.1</b>	509.7
<b>Total liabilities</b>		<b>90,853.4</b>	79,173.5
Share capital	19	<b>4.5</b>	4.5
Retained earnings		<b>5,840.4</b>	5,467.8
Other components of equity		<b>-251.6</b>	-317.9
Treasury shares		<b>-263.1</b>	-218.9
Equity attributable to shareholders of Julius Baer Group Ltd.		<b>5,330.2</b>	4,935.6
Non-controlling interests		<b>23.6</b>	6.4
<b>Total equity</b>		<b>5,353.9</b>	4,942.0
<b>Total liabilities and equity</b>		<b>96,207.2</b>	84,115.5

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital CHF m	Retained earnings <sup>1</sup> CHF m
At 1 January 2015	4.5	5,560.3
Net profit	-	121.2
Unrealised gains/(losses)	-	-
Realised (gains)/losses reclassified to the income statement	-	-
Changes	-	-
Total other comprehensive income	-	-
Total comprehensive income	-	121.2
Dividends	-	-223.8
Dividend income on own shares	-	4.8
Share-based payments expensed for the year	-	60.0
Share-based payments vested	-	-55.1
Changes in derivatives on own shares	-	14.2
Acquisitions of own shares	-	-
Disposals of own shares	-	-13.8
At 31 December 2015	4.5	5,467.8
<b>At 1 January 2016</b>	<b>4.5</b>	<b>5,467.8</b>
Net profit	-	<b>619.4</b>
Unrealised gains/(losses)	-	-
Realised (gains)/losses reclassified to the income statement	-	-
Changes	-	-
Total other comprehensive income	-	-
Total comprehensive income	-	<b>619.4</b>
Changes in non-controlling interests	-	<b>-23.4<sup>2</sup></b>
Dividends	-	<b>-246.2</b>
Dividend income on own shares	-	<b>6.2</b>
Share-based payments expensed for the year	-	<b>70.8</b>
Share-based payments vested	-	<b>-49.4</b>
Changes in derivatives on own shares	-	<b>-0.2</b>
Acquisitions of own shares	-	-
Disposals of own shares	-	<b>-4.5</b>
<b>At 31 December 2016</b>	<b>4.5</b>	<b>5,840.4</b>

<sup>1</sup> Retained earnings include the capital reserves of Bank Julius Baer & Co. Ltd. and the statutory capital reserve/retained earnings reserves of Julius Baer Group Ltd.

<sup>2</sup> Related to the acquisition of GPS Investimentos Financeiros e Participações S.A. and Julius Bär Wealth Management AG.

<sup>3</sup> Related to the acquisition of GPS Investimentos Financeiros e Participações S.A., Julius Bär Wealth Management AG and Kairos Investment Management SpA.

FINANCIAL STATEMENTS JULIUS BAER GROUP 2016  
CONSOLIDATED FINANCIAL STATEMENTS

Other components of equity						
Financial investments available-for-sale, net of taxes CHF m	Remeasurement of defined benefit obligation CHF m	Translation differences CHF m	Treasury shares CHF m	Equity attributable to shareholders of Julius Baer Group Ltd. CHF m	Non-controlling interests CHF m	Total equity CHF m
108.5	-123.0	-42.9	-178.7	5,328.7	9.1	5,337.8
-	-	-	-	121.2	1.4	122.5
-85.8	-	-76.9	-	-162.6	-2.7	-165.4
0.3	-	0.2	-	0.5	-	0.5
-	-98.4	-	-	-98.4	-	-98.4
-85.4	-98.4	-76.7	-	-260.5	-2.7	-263.2
-85.4	-98.4	-76.7	-	-139.3	-1.4	-140.7
-	-	-	-	-223.8	-1.3	-225.1
-	-	-	-	4.8	-	4.8
-	-	-	-	60.0	-	60.0
-	-	-	55.1	-	-	-
-	-	-	8.9	23.2	-	23.2
-	-	-	-232.0	-232.0	-	-232.0
-	-	-	127.9	114.1	-	114.1
23.1	-221.4	-119.6	-218.9	4,935.6	6.4	4,942.0
23.1	-221.4	-119.6	-218.9	4,935.6	6.4	4,942.0
-	-	-	-	619.4	2.7	622.1
19.8	-	19.8	-	39.6	2.9	42.5
7.8	-	-0.0	-	7.8	-	7.8
-	19.0	-	-	19.0	-0.1	18.9
27.5	19.0	19.8	-	66.3	2.9	69.2
27.5	19.0	19.8	-	685.7	5.6	691.3
-	-	-	-	-23.4	13.7 <sup>3</sup>	-9.7
-	-	-	-	-246.2	-2.1	-248.3
-	-	-	-	6.2	-	6.2
-	-	-	-	70.8	-	70.8
-	-	-	49.4	-	-	-
-	-	-	-3.5	-3.7	-	-3.7
-	-	-	-305.7	-305.7	-	-305.7
-	-	-	215.5	211.0	-	211.0
50.6	-202.4	-99.8	-263.1	5,330.2	23.6	5,353.9



## CONSOLIDATED STATEMENT OF CASH FLOWS

	2016 CHF m	2015 CHF m
Net profit	622.1	122.5
Adjustments to reconcile net profit to cash flow from/(used in) operating activities:		
Non-cash items included in net profit and other adjustments:		
- Depreciation of property and equipment	37.6	34.5
- Amortisation and impairment of intangible assets	103.1	184.8
- Allowance for credit losses	15.1	35.9
- Income from investment in associates	-48.7	-5.9
- Deferred tax expense/(benefit)	8.4	-60.3
- Net loss/(gain) from investing activities	80.2	92.1
- Other non-cash income and expenses	70.8	60.0
Net increase/decrease in operating assets and liabilities:		
- Net due from/to banks	5,131.4	-981.6
- Trading portfolios and derivative financial instruments	682.7	-1,295.9
- Net loans/due to customers	-245.4	-529.3
- Accrued income, prepaid expenses and other assets	335.4	-400.0
- Accrued expenses, deferred income, other liabilities and provisions	-653.7	158.9
Adjustment for income tax expenses	122.0	76.5
Income taxes paid	-78.3	-125.3
Cash flow from operating activities	6,182.9	-2,633.1
Dividend of associates	10.2	4.4
Purchase of property and equipment and intangible assets	-172.9	-105.9
Disposal of property and equipment and intangible assets	0.3	0.7
Net (investment in)/divestment of financial investments available-for-sale	-251.9	-2,415.1
Acquisition of subsidiaries and businesses, net of cash and cash equivalents acquired	556.1	967.7
Deferred payment of acquisition of subsidiaries and associates	-11.2	-28.9
Cash flow from investing activities	130.7	-1,577.1
Net money market instruments issued/(repaid)	78.7	-0.1
Net movements in treasury shares and own equity derivative activity	-92.2	-89.9
Dividend payments	-246.2	-223.8
Issuance and repayment of financial liabilities designated at fair value	4,126.0	-211.4
Issuance of perpetual tier 1 subordinated bond	230.4	319.3
Repayment of lower tier 2 bond	-250.0	-
Changes in non-controlling interests	-9.6	-
Dividend payment to non-controlling interests	-2.1	-1.3
Cash flow from financing activities	3,835.0	-207.3
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>10,148.6</b>	<b>-4,417.6</b>

FINANCIAL STATEMENTS JULIUS BAER GROUP 2016  
**CONSOLIDATED FINANCIAL STATEMENTS**

	2016 <i>CHF m</i>	2015 <i>CHF m</i>
Cash and cash equivalents at the beginning of the year	18,128.7	22,293.4
Cash flow from operating activities	6,182.9	-2,633.1
Cash flow from investing activities	130.7	-1,577.1
Cash flow from financing activities	3,835.0	-207.3
Effects of exchange rate changes on cash and cash equivalents	-6.4	252.9
<b>Cash and cash equivalents at the end of the year</b>	<b>28,270.9</b>	18,128.7

	31.12.2016 <i>CHF m</i>	31.12.2015 <i>CHF m</i>
<b>Cash and cash equivalents are structured as follows:</b>		
Cash	13,599.5	9,185.7
Money market instruments	3,785.0	2,298.1
Due from banks (original maturity of less than three months)	10,886.4	6,645.0
<b>Total</b>	<b>28,270.9</b>	18,128.7

	31.12.2016 <i>CHF m</i>	31.12.2015 <i>CHF m</i>
<b>Additional information</b>		
Interest received	895.4	605.5
Interest paid	-156.0	-121.2
Dividends on equities received (including associates)	209.4	153.7

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF ACCOUNTING

Julius Baer Group Ltd. is a Swiss corporation which is committed to the private banking business. The consolidated financial statements as at 31 December 2016 comprise those of Julius Baer Group Ltd. and all its subsidiaries (the Group). The Board of Directors approved these financial statements on 31 January 2017. In addition, they are submitted for approval to the Annual General Meeting on 12 April 2017.

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

### USE OF ESTIMATES IN PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

### ACCOUNTING POLICIES

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

#### **Business combinations**

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

#### **Subsidiaries and associates**

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

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

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

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

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

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

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

### Foreign currency translation

The Group companies prepare their financial statements in the respective functional currency. The balance sheets of Group companies that are denominated in foreign currencies are translated into Swiss francs at the closing exchange rates on the balance sheet date. Average exchange rates for the reporting period are used for the income statements. Exchange differences arising from consolidation using closing and average exchange rates for the reporting period are recognised in other

comprehensive income. When a foreign operation is disposed of such that control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

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

The following exchange rates are used for the major currencies:

	Year-end rates		Average exchange rates for the year	
	31.12.2016	31.12.2015	2016	2015
USD/CHF	<b>1.0164</b>	1.0010	<b>0.9875</b>	0.9645
EUR/CHF	<b>1.0720</b>	1.0874	<b>1.0890</b>	1.0640
GBP/CHF	<b>1.2559</b>	1.4753	<b>1.3280</b>	1.4710

### Reporting of transactions

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

### Income recognition

Income from services provided is either recognised at the time the service is performed, i.e. upon execution of a transaction, or in the corresponding

periods over the life of a contract if services are provided over a certain period of time. Income and income components that are based on performance are recognised at the time when all performance criteria are fulfilled.

### Cash

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

### Due from banks and loans

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

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

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

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

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

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

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

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

#### **Securities lending and borrowing transactions**

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

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

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

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

#### **Repurchase and reverse repurchase transactions**

Reverse repurchase transactions and repurchase transactions are considered secured financing transactions and are recorded at the value of the

cash provided or received. The transactions are generally conducted under standard agreements employed by the market participants; the counter-parties are subject to the Group's normal credit risk process.

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

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

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

#### **Trading assets/liabilities**

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

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

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

#### **Financial assets and liabilities designated at fair value**

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

- they are hybrid instruments which consist of a debt host and an embedded derivative component;

- they are part of a portfolio which is risk-managed on a fair value basis; or
- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise.

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

In addition, the Group reports assets and liabilities related to certain structured investments for which the client bears all the related risks and rewards from the investments, as designated at fair value through profit or loss.

#### **Derivative financial instruments and hedging**

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

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

- existence of documentation that specifies the underlying transaction (balance sheet item or cash flow), the hedging instrument as well as the hedging strategy/relationship;
- effective and reliably measurable elimination of the hedged risks through the hedging transaction during the entire reporting period; and

- sustained high effectiveness of the hedging transaction. A hedge is regarded as highly effective if actual results are within a range of 80% to 125%.

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

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

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

#### **Financial investments available-for-sale**

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

Equity securities are deemed impaired if there has been a significant or prolonged decline of fair value below the initial cost. A debt instrument is deemed impaired if the creditworthiness of the issuer significantly deteriorates or if there are other indications that an event has a negative impact on the future

estimated cash flows related to the debt instrument, i.e. if it is likely that the amount due according to the contractual terms cannot be entirely collected.

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

#### **Property and equipment**

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

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

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

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

On each balance sheet date, the items of property and equipment are reviewed for indications of impairment. If such indications exist, it is determined



whether the carrying amount of the item is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

### **Leasing**

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

### **Goodwill and intangible assets**

Goodwill and intangible assets are classified into the following categories:

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

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

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

On each balance sheet date, the intangible assets with a finite life (customer relationships, software) are reviewed for indications of impairment. If such indications exist, it is determined whether the carrying

amount of the intangible assets is fully recoverable, and an impairment loss is recognised if the carrying amount exceeds the recoverable amount.

### **Due to banks and customers**

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

### **Debt issued**

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

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

### **Provisions**

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

Restructuring provisions are recognised if a constructive obligation is incurred, which requires commencement of an approved detailed and formal restructuring plan or the announcement of its main features to the affected employees before the balance sheet date.

### **Income taxes**

Income tax expense comprises current and deferred taxes. Current income taxes are calculated on the basis of the applicable tax laws of the respective countries and are recognised as expense in the

financial year in which the related taxable income arises. Liabilities related to current taxes are recognised in the balance sheet as current tax liabilities.

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

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

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

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

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

#### **Post-employment benefits**

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

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

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

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

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

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

#### **Share capital**

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

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

**Treasury shares and contracts on treasury shares**

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

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

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

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

**Earnings per share (EPS)**

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

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

**Segment reporting**

Determination of the operating segments is based on the management approach. The management approach reflects the way in which management

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

**Contingent liabilities and irrevocable commitments**

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

**CHANGES IN ACCOUNTING POLICIES**

In 2016, the following amendments have been applied in the Group:

**Disclosure Initiative**

The amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. The amendments had no material impact on the presentation of the Group's financial statements.

**Annual Improvements to IFRSs (2012–2014 Cycle)**

A number of amendments to several standards are included in the IASB's Annual Improvement Projects. The amendments had no material impact on the Group's financial statements.

## NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

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

### IFRS 9 – Financial Instruments

The new standard includes the following changes to current accounting for financial instruments:

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

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

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

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

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

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

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

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

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

The new standard will be effective 1 January 2018, with early application available for certain parts. However, the Group does not intend to early apply these parts of IFRS 9.

During 2016, the Group continued its assessment of the impact on the Group's financial statements and expects the following:

*Recognition and measurement:* Based on the analyses of the two classification criteria 'contractual cash flow characteristics' and 'business model', the Group determined that the financial instruments currently reported at amortised cost generally fulfil the criteria and therefore will be measured at amortised cost on an ongoing basis. The same applies to the vast majority of the debt financial instruments currently reported as available-for-sale and therefore measured at fair value through OCI, which will also be measured at fair value through OCI in the future. Certain equity instruments currently measured at fair value through OCI will be classified at fair value through profit or loss going forward. Therefore, the Group does not expect significant changes to the measurement basis arising from adopting the new classification and measurement model.

*Expected credit losses:* The Group is currently modelling the impairment loss estimation methodology to quantify the impact of the expected credit losses on its financial statements. The models are generally based on the financial instrument's probability of default (PD), its loss given default (LGD) and the exposure at default (EAD), taking into account the respective interest rates. These models are tailored to the Group's fully collateralised Lombard loans and mortgages, and the high-quality debt instruments in the Treasury portfolio. The quantitative impact of the new expected credit loss model has not yet been assessed.

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

*Hedge accounting:* The Group expects that all its existing hedges that are designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9.

#### **IFRS 15 – Revenue Recognition**

The new standard, including the clarifications published in 2016, introduces the core principle to recognise revenue to depict the transfer of services to customers in amounts that reflect the consideration (that is, payment) to which the Group expects to be entitled in exchange for those services.

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

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

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

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

#### **IFRS 16 – Leases**

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

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

## COMMENT ON RISK AND CAPITAL MANAGEMENT

### RISK MANAGEMENT FRAMEWORK AND PROCESS

#### Risk types

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

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

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

#### Risk governance

The Board of Directors of Julius Baer Group Ltd. defines the Group's risk policies and regularly reviews their appropriateness. This ensures that risks are managed effectively at Group level and that suitable processes are in place. The risk categories and the risk management processes as well as a common risk terminology for the Group are laid down in the Group Risk Policy. Specific Group policies are defined for particular risk categories. Overall responsibility for the implementation of the Group's risk management lies with those members of the Executive Board of Julius Baer Group Ltd. with designated risk management duties – the Chief Risk Officer (CRO) and the General Counsel (GC). The CRO is responsible for the management and control of credit risk, market

risk (trading book and banking book), liquidity and financing risk (particularly with regard to the banking book) and of operational risk. Especially as far as legal and compliance risk matters are concerned, he coordinates his activities with the GC, who, as a member of the Executive Board of Julius Baer Group Ltd., is responsible for the management and control of legal and compliance risk at Group level. In addition, the CRO and the GC coordinate their activities with the Chief Financial Officer (CFO), who is responsible for balance-sheet, capital and liquidity management. The CFO's duties thus include maintaining a sound ratio of eligible capital to risk-weighted positions and ensuring that sufficient liquidity is available at all times.

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

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

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

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

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

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

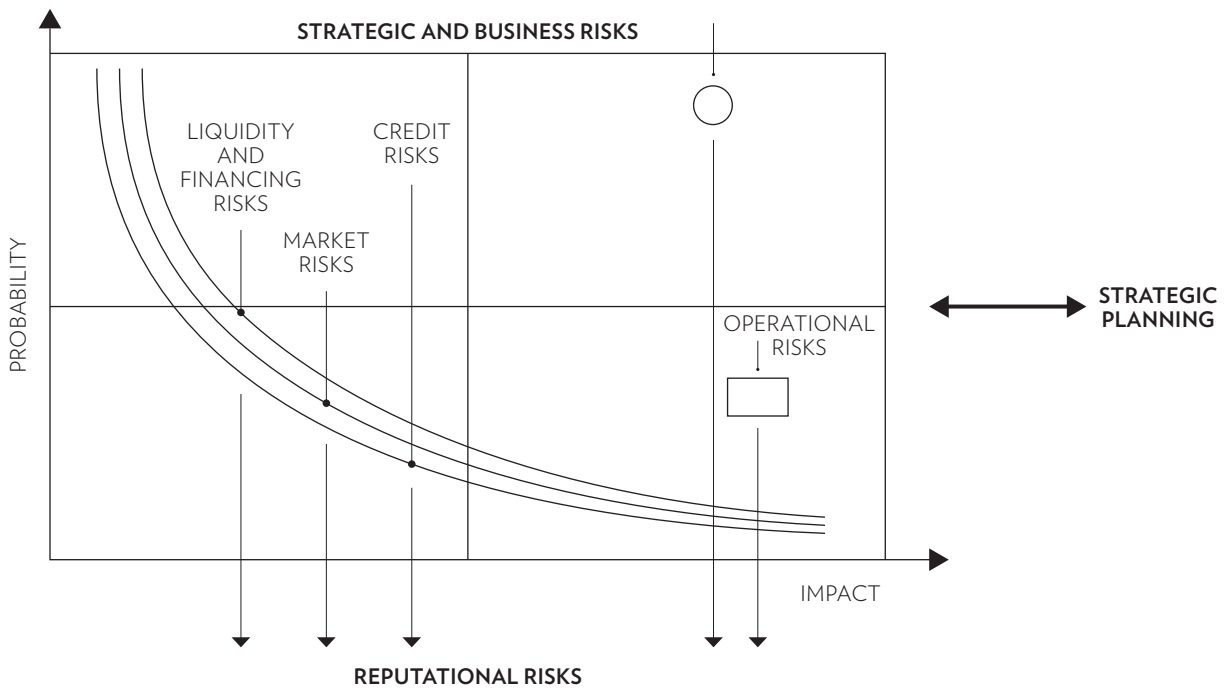
- formulating policies governing credit risk;
- making credit business decisions and allocating credit limits within the scope of its remit;
- delegating credit authority;
- receiving and reviewing credit risk reports.

The Information Security Committee of the Executive Board of Bank Julius Baer & Co. Ltd. is responsible both for monitoring and supervising

information security risk and for related activities for the purpose of ensuring data confidentiality and integrity.

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

#### Risk landscape: illustrative diagram



## STRATEGIC AND BUSINESS RISK

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

## CREDIT RISK

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

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

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

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

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

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

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



In the following table the counterparty domicile serves as the fundamental basis for the geographical breakdown. For the secured portion of the credit, however, geographical allocation is shown on the

basis either of the domicile of the assets pledged, e.g. the domicile of the issuer of securities which are pledged as collateral, or the domicile of the guarantor.

### Credit risk by region

						31.12.2016
	Switzerland CHF m	Europe CHF m	Americas CHF m	Asia/Pacific CHF m	Other countries CHF m	Total CHF m
Due from banks	6,149	3,486	333	1,400	4	11,372
Loans	9,621	12,426	8,300	7,634	438	38,419
Financial assets designated at fair value	-	158	94	-	-	252
Financial investments available-for-sale	185	7,090	6,998	3,827	46	18,146
Investments in associates	-	-	29	-	-	29
Derivative financial instruments	2,122	810	467	241	4	3,644
Contingent liabilities	105	238	141	64	16	564
Irrevocable commitments	212	116	52	20	-	400
Securities lending and repo transactions	856	2,912	445	46	3	4,262
<b>Total</b>	<b>19,250</b>	<b>27,236</b>	<b>16,859</b>	<b>13,232</b>	<b>511</b>	<b>77,088</b>

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

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

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

### Credit risk by sector

	31.12.2016				
	Governments and agencies CHF m	Financial institutions CHF m	Private clients CHF m	Other CHF m	Total CHF m
Due from banks	-	11,372	-	-	11,372
Loans	630	5,254	25,393	7,142	38,419
Financial assets designated at fair value	-	252	-	-	252
Financial investments available-for-sale	6,530	7,262	-	4,354	18,146
Investments in associates	-	29	-	-	29
Derivative financial instruments	61	1,233	2,058	292	3,644
Contingent liabilities	8	53	381	122	564
Irrevocable commitments	44	110	208	38	400
Securities lending and repo transactions	700	3,075	51	436	4,262
<b>Total</b>	<b>7,973</b>	<b>28,640</b>	<b>28,091</b>	<b>12,384</b>	<b>77,088</b>

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

The collateral pledged to cover Lombard loans, OTC derivatives positions and securities lending and repo transactions consists primarily of readily marketable securities. In the following table all the collateral accepted within the scope of the capital adequacy

regulations is disclosed. The haircuts applied to the collateral positions are in accordance with current Swiss regulatory requirements, which are based on the Basel III BIS standard haircuts.

#### Credit risk secured/not secured

			31.12.2016
	Secured by recognised financial collaterals <sup>1</sup> CHF m	Not secured by recognised financial collaterals CHF m	Total CHF m
Due from banks	6,395	4,977	11,372
Loans	35,458	2,961	38,419
Financial assets designated at fair value	-	252	252
Financial investments available-for-sale	-	18,146	18,146
Investments in associates	-	29	29
Derivative financial instruments	1,647	1,997	3,644
Contingent liabilities	511	53	564
Irrevocable commitments	195	205	400
Securities lending and repo transactions	3,466	796	4,262
<b>Total</b>	<b>47,672</b>	<b>29,416</b>	<b>77,088</b>

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

<sup>1</sup> Taking into account recognised collaterals with applied discount factors according to Swiss Capital Adequacy Ordinance

The following table gives an overview of the credit risk classified by regulatory risk weightings. The regulatory risk weightings are in accordance with current Swiss regulatory requirements, which are based on the Basel III BIS approach. The allocation of the receivables to the risk weights depends on the

type and current rating of the counterparty or the individual rating of the specific financial investment held. The collateralised portion of receivables (other than mortgages) is allocated to the 0% risk-weight column, since no regulatory capital is required in respect of these lending positions.

### Credit risk by regulatory risk weightings

	31.12.2016							
	0% CHF m	20% CHF m	35% CHF m	50% CHF m	75% CHF m	100% CHF m	150% or greater CHF m	Total CHF m
Due from banks	6,391	3,882	-	1,049	-	45	5	11,372
Loans	25,768	12	7,636	266	681	4,052	4	38,419
Financial assets designated at fair value	252	-	-	-	-	-	-	252
Financial investments available-for-sale	5,089	6,553	-	6,298	-	149	57	18,146
Investments in associates	-	-	-	-	-	-	29	29
Derivative financial instruments	1,646	1,475	-	342	2	179	-	3,644
Contingent liabilities	513	-	-	8	-	43	-	564
Irrevocable commitments	195	31	-	89	-	85	-	400
Securities lending and repo transactions	3,466	592	-	-	-	204	-	4,262
<b>Total</b>	<b>43,320</b>	<b>12,545</b>	<b>7,636</b>	<b>8,052</b>	<b>683</b>	<b>4,757</b>	<b>95</b>	<b>77,088</b>

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

### Reconciliation of credit risk totals

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

- The difference in the due-from-banks position is attributable to the fact that under IFRS reverse repurchase positions are recognised on the balance sheet. This differs from the Basel III BIS approach, under which reverse repurchase positions are disclosed as off-balance sheet items under securities lending and repurchase positions. The credit risk tables have been adjusted to avoid double counting.
- In the financial investments available-for-sale position the unrealised gains are deducted from the market value under the Basel III BIS approach.
- The total amount of exposure in derivative financial instruments under the Basel III BIS approach corresponds to the total of the replace-

ment values as disclosed in the balance sheet, plus calculated add-ons, minus any netting permitted under Basel III BIS. The add-on is a percentage of the notional amount of the instrument underlying the contract. The percentage depends on the type of the underlying and the residual term to maturity of the contract. Positive and negative replacement values of derivative exposures with the same counterparty (irrespective of maturity or currency) are netted against each other if a legally acknowledged netting agreement has been signed.

- Under the Basel III BIS approach, the total contingent liabilities and irrevocable commitments off-balance sheet positions correspond to the calculated credit equivalents. The credit equivalent of each off-balance sheet position is determined by multiplying its nominal value (or current value should this be lower) by a credit-conversion factor. The conversion factor depends on the original maturity of the contract. The contingent liabilities and irrevocable commitments as presented in the credit risk tables do not qualify as contingent liabilities under IFRS.
- Under the Basel III BIS approach, securities lending and repurchase transactions are disclosed including risk premiums. The percentage of the risk premium depends on the quality of the security involved in each securities lending or repo transaction.

### Reconciliation of credit risk totals with balance sheet positions

	Basel III BIS approach CHF m	Balance sheet CHF m	Deviation CHF m	Comment
Due from banks	11,372.2	11,389.8	-17.6	reverse repurchase transactions of CHF 17.6 million deducted
Loans	38,419.0	38,419.0	-	
Financial assets designated at fair value	252.4	252.4	-	
Financial investments available-for-sale	18,145.6	18,266.6	-121.0	unrealised gains deducted under BIS approach (CHF 138.0 million); partly offset by transfer of securities from trading to banking book under BIS approach (CHF 17.0 million)
Investments in associates	29.4	29.4	-	
Derivative financial instruments	3,643.5	2,690.9	952.6	
<i>of which security supplement (add-ons)</i>			1,616.9	<i>according to add-on and netting rules under BIS approach</i>
<i>of which netting of replacement values</i>			-664.3	<i>impact of netting rules under BIS approach</i>
<b>Total 31.12.2016</b>	<b>71,862.1</b>	<b>71,048.1</b>	<b>814.0</b>	

### Comments on off-balance sheet positions

	Basel III BIS approach CHF m	Off-balance sheet total CHF m	Deviation CHF m	Comment
Contingent liabilities	563.7	1,121.4 <sup>1</sup>	-557.7	converted in credit equivalent
Irrevocable commitments	399.5	813.3 <sup>1</sup>	-413.8	converted in credit equivalent
Securities lending and repo transactions	4,262.3	3,961.7	300.6	including risk premium
<b>Total 31.12.2016</b>	<b>5,225.5</b>			

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

Reconciliation of credit risk totals with balance sheet positions

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

Comments on off-balance sheet positions

	Basel III BIS approach CHF m	Off-balance sheet total CHF m	Deviation CHF m	Comment
Contingent liabilities	512.2	1,057.4 <sup>1</sup>	-545.2	converted in credit equivalent
Irrevocable commitments	405.0	824.9 <sup>1</sup>	-419.9	converted in credit equivalent
Securities lending and repo transactions	4,429.7	4,133.0	296.7	including risk premium
Total 31.12.2015	5,346.9			

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

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

In this analysis, credit exposure primarily comprises the following elements: cash exposure (such as advances, account overdrafts, cash balances with correspondent banks, etc.), derivatives exposure (replacement value plus add-on), and issuer risk from debt securities held in the Group's investment and treasury books. Exposure from reverse repo and securities lending transactions is not included in this credit exposure analysis, since these positions are

over-collateralised on a net basis and therefore do not constitute credit risk. In this context, over-collateralised on a net basis means that, in each transaction, the value of the collateral provided (without regulatory standard haircuts being applied) exceeds the value of the securities lent (without a risk premium being applied). Intraday settlement exposures are also not included in the credit exposure analysis. These are monitored separately. The credit exposure arising from the trading book, which is insignificant compared to that arising from the positions listed above, is also not included in this analysis.

For the purpose of this analysis, client cash balances across different accounts and Lombard sureties are netted against each other in accordance with the pledge agreements in place. Derivatives exposures across different products, accounts and counter-parties are netted against each other provided an ISDA close-out netting master agreement has been signed.



**Exposure to credit risk by credit quality**

	31.12.2016 Collateralised CHF m	31.12.2015 Collateralised CHF m	31.12.2016 Unsecured CHF m	31.12.2015 Unsecured CHF m
Neither past due nor impaired	43,277.4	40,843.4	36,580.4	31,165.7
Past due but not impaired	9.4	14.9	-	-
Impaired	69.2	65.0	-	-
<b>Total</b>	<b>43,356.0</b>	<b>40,923.3</b>	<b>36,580.4</b>	<b>31,165.7</b>

**Neither past due nor impaired**

R1 to R3	37,230.2	34,658.6	35,358.6	29,758.8
R4 to R6 (including temporarily unrated)	6,047.2	6,184.8	1,221.8	1,406.9
<b>Total</b>	<b>43,277.4</b>	<b>40,843.4</b>	<b>36,580.4</b>	<b>31,165.7</b>
<i>Collateral held or credit enhancement available</i>	<b>173,841.5</b>	164,035.7	-	-

**Past due but not impaired**

R7	9.4	14.9	-	-
<b>Total</b>	<b>9.4</b>	<b>14.9</b>	<b>-</b>	<b>-</b>
<i>Collateral held or credit enhancement available</i>	<b>9.3</b>	12.4	-	-

**Impaired**

R8	25.0	28.6	-	-
R9 to R10	44.2	36.4	-	-
<b>Total</b>	<b>69.2</b>	<b>65.0</b>	<b>-</b>	<b>-</b>
<i>Collateral held or credit enhancement available</i>	<b>30.1</b>	14.8	-	-

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

Specific allowance for credit losses	54.2	65.8	-	-
Collective allowance for credit losses	24.9	24.3	1.3	2.3
<b>Total</b>	<b>79.1</b>	<b>90.1</b>	<b>1.3</b>	<b>2.3</b>

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

The internal credit ratings R1–R10 form the basis for calculating allowances for credit losses. Loans, receivables and other exposures are allocated to one of the ten rating classes. In the case of rating classes R1–R6, the outstanding balances are serviced, the advanceable value of the collateral (at fair value) pledged for collateralised exposures equals or exceeds the balances, and repayment of the balance is not in doubt. For these exposures, no specific allowances for credit losses are established. Balances

in rating class R7 are past due, but the exposure is still covered by collateral, and allowances are established only for past-due interest payments. For balances in rating class R8, specific allowances for credit losses are established if it is more likely than not that a loss will arise. The credit risks in rating classes R9 and R10 are very high, and specific allowances for credit losses are established for balances in these rating classes.

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

#### Maximum exposure to credit risk

	31.12.2016 Gross maximum exposure CHF m	31.12.2015 Gross maximum exposure CHF m
Cash (excluding cash on hand)	13,572.5	9,155.5
Due from banks	11,389.8	6,901.1
Loans	38,419.0	36,380.9
Trading assets	1,415.0	1,155.7
Derivative financial instruments	2,690.9	2,189.1
Financial assets designated at fair value	252.4	197.0
Financial investments available-for-sale	18,101.1	16,475.3
Accrued income	282.8	326.9
Total	86,123.5	72,781.5
<b>Off-balance sheet</b>		
Irrevocable commitments <sup>1</sup>	813.3	824.9
<b>Total maximum exposure to credit risk</b>	<b>86,936.8</b>	<b>73,606.4</b>

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

## MARKET RISK (TRADING BOOK)

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

Market risk measures the potential loss to which the Group is exposed through changes in market prices in interest rate, equity, foreign exchange and

commodity markets. Market risk management involves the identification, measurement, control and management of the market risks assumed. The trading units enter into market risk positions within defined limits.

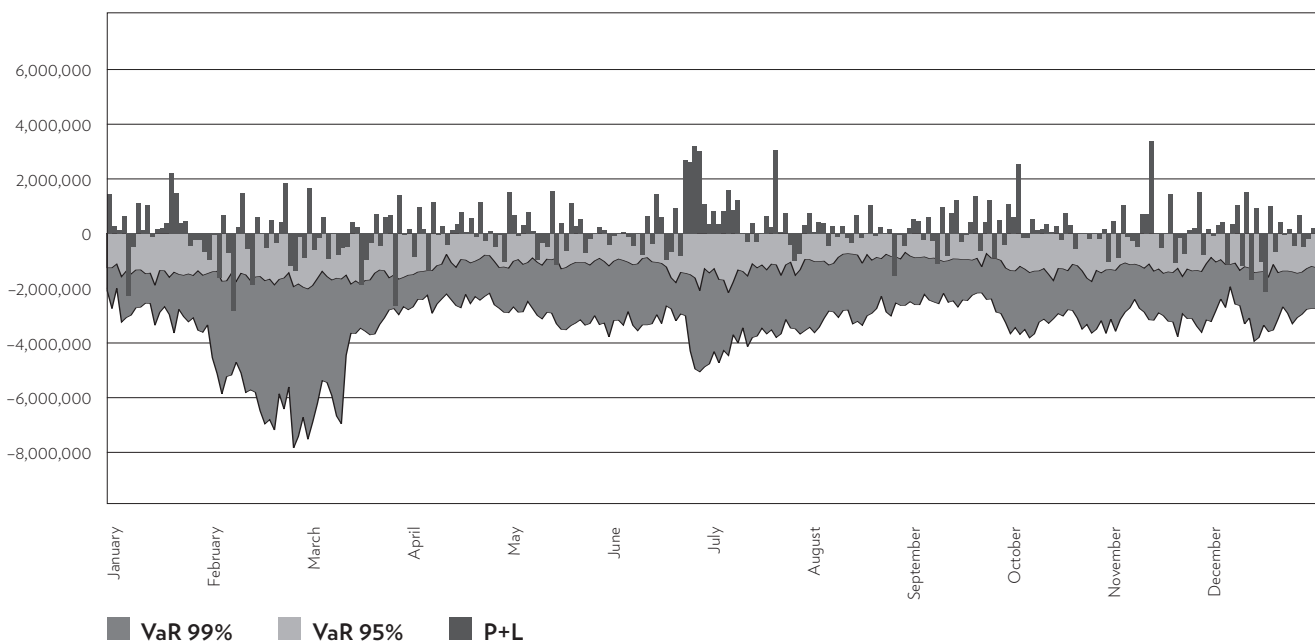
#### Market risk measurement, market risk limitation, back testing and stress testing

The following methods are used to measure and limit market risk: value at risk (VaR) limits, sensitivity or concentration limits (delta, vega, basis-point and nominal limits as well as scenario analysis), and country limits for trading positions. VaR, the key risk figure, measures the magnitude of the loss on a portfolio that, under normal circumstances and for a specific probability (confidence interval), will not be exceeded during the observed holding period. The VaR of the Group amounted to CHF 1.23 million on 31 December 2016 (one-day holding period, 95% confidence interval). The maximum VaR recorded in 2016 amounted to CHF 2.19 million; the minimum

was CHF 0.70 million. The adequacy of the VaR calculation, which is based on historical market movements, is monitored through regular back testing. This involves the comparison of the VaR values calculated each day with the hypothetical gains or losses which would have occurred if the end-of-day positions had been left unchanged on the next trading day. The following chart shows the daily calculations of VaR in 2016 (at confidence

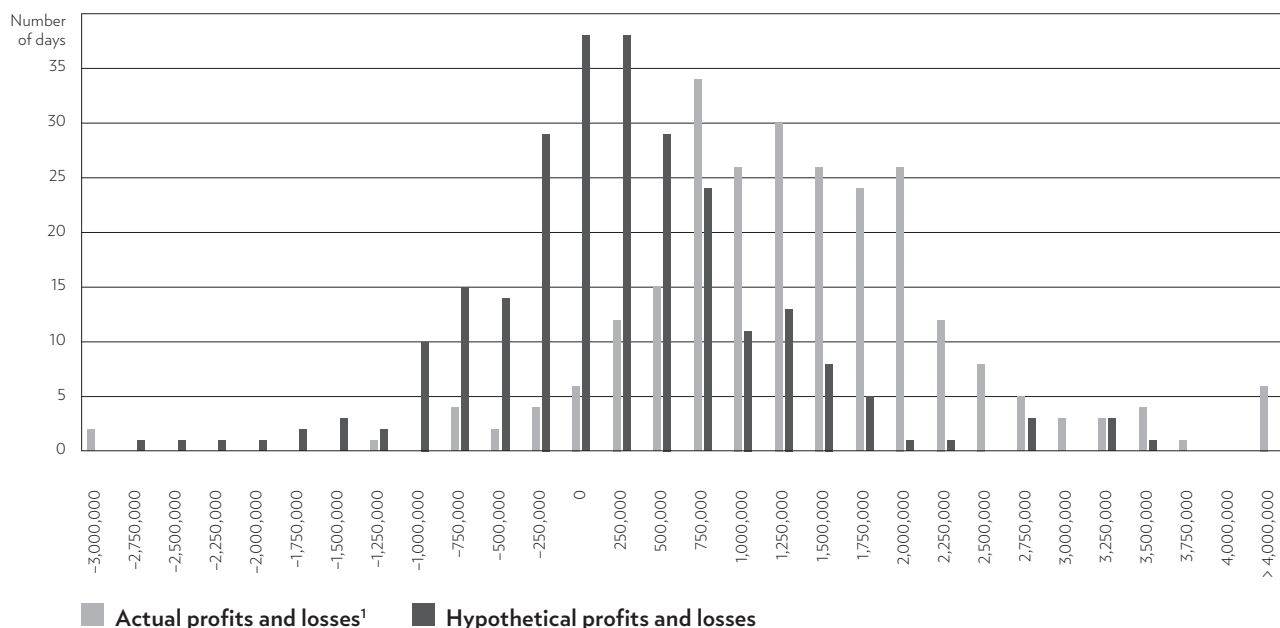
intervals of 95% and 99% and for a one-day holding period) compared with these hypothetical gains or losses. A back-testing excession occurs when the change in overall position value resulting from the back-testing simulation is negative and its absolute value is greater than the VaR (at a confidence interval of 99%) for the relevant day's closing positions.

**Back testing of Julius Baer Group trading book positions in 2016 (CHF)**



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

#### Distribution of daily revenues from trading activities of Julius Baer Group for 2016 (CHF)



<sup>1</sup> Pure trading revenues excluding commissions and fees

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

At the beginning of 2016, the preceding twelve months period contained six back-testing excessions. These were attributable to a variety of factors. The decision by the Swiss National Bank in January 2015 to abandon its exchange rate floor for the EUR against the CHF led to a marked downward correction in Swiss share prices and a substantial appreciation of the CHF. This resulted in two back-testing excessions on the USD position the Group continued to hold for the financing of its acquisition of parts of Merrill Lynch's International Wealth Management business. In May and June

2015, weakness in the USD and the Swiss Market Index led to two further back-testing excessions. In August 2015, markedly lower share prices in China caused international equity markets to falter, which again strengthened the CHF. This resulted in two additional back-testing excessions. Since these excessions were more numerous than the statistically permitted limit, the capital multiplier had to be increased.

No new back-testing excessions occurred during the course of 2016. As the above-mentioned back-testing excessions from 2015 were gradually eliminated from the trailing twelve months sample during 2016, there were no excessions to report in the 12 months to 31 December 2016. By January 2016, this had already resulted in a reduction in the capital multiplier applied to the Julius Baer Group.

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

#### VaR method and regulatory capital

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

In addition to the normal VaR calculations detailed above, a so-called stress-based VaR calculation is also carried out. Instead of the historical prices observed over the last 300 trading days, this stress-

based VaR calculation uses those observed during a highly volatile period in the past (the stress period). The Group's stress-based VaR amounted to CHF 2.05 million on 31 December 2016 (for a one-day holding period and a 95% confidence interval). The maximum stress-based VaR recorded in 2016 amounted to CHF 3.00 million; the minimum was CHF 0.80 million. Under FINMA regulations, the capital requirement for market risk is the sum of the normal VaR and the stress-based VaR.

FINMA applies a multiplier to the capital requirement for market risk. Every back-testing excession over and above the statistically based maximum permitted number of excessions results in an increase in the multiplier applied to the capital requirement for market risk. There were no back-testing excessions to report for the 12 months to 31 December 2016.

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

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

#### Market risk – VaR positions by risk type

	At 31 December CHF m	Average CHF m	Maximum CHF m	2016 Minimum CHF m
Equities	-0.9	-0.8	-1.8	-0.1
Interest rates	-0.8	-0.8	-1.3	-0.2
Foreign exchange/precious metals	-0.4	-0.9	-1.7	-0.3
Effects of correlation	0.9			
<b>Total</b>	<b>-1.2</b>	<b>-1.3</b>	<b>-2.2</b>	<b>-0.7</b>

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

## FINANCING, LIQUIDITY AND INTEREST RATE RISKS IN THE BANKING BOOK

Financing risk is the risk of the Group being unable to finance its existing or planned activities on an ongoing basis at acceptable prices. Liquidity risk, conversely, is the risk of the Group being unable to meet its payment obligations when they fall due. Interest rate risk is defined as the effect of potential changes in interest rates on the market value of the Group's assets and liabilities.

### Governance

The Treasury department of Bank Julius Baer & Co. Ltd. manages the Group's financing, liquidity and interest rate risks on an integrated basis, with Bank Julius Baer & Co. Ltd. acting as the Group's central liquidity provider. The Treasury department proposes the strategy for managing the financing, liquidity and interest rate risks and submits this to the Group's Asset and Liability Management Committee (ALMCO) for approval. Limits for financing, liquidity and interest rate risks are defined at Group level. These are reviewed at least once annually and approved by the Board of Directors and the Group ALMCO. The Group's consolidated exposure to financing, liquidity and interest rate risks is reported to the Group ALMCO at least once a month. The particular liquidity and interest rate risks to which Bank Julius Baer & Co. Ltd. is exposed are monitored and managed on a daily basis, as are those of the other Group companies. The Treasury Risk Control unit provides independent reports on the relevant risk positions for this purpose.

### Management of liquidity and financing risks

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

A liquidity stress scenario is modelled, which, over a time horizon of 30 days, essentially simulates substantial outflows of client deposits which would be stable under normal circumstances and the Group's ability to compensate for these by selling highly liquid investments and taking other appropriate measures. This scenario models an

extreme stress situation combining company-specific stress events with tight market conditions. It is calculated on a daily basis.

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

Switzerland's Liquidity Ordinance and FINMA's 'Liquidity Risks – Banks' circular make it a regulatory requirement for the Group to calculate and monitor its Liquidity Coverage Ratio (LCR). The LCR provides banks with a metric to assist them in ensuring that they hold a sufficient quantity of highly liquid assets to enable them to withstand a short-term (30-day) company-specific stress situation which coincides with a period of general market stress. During 2016, the Group's LCR fluctuated between 157% and 199%, which puts it significantly above the minimum statutory requirement.

Additional quantitative information relating to the LCR will be published in a separate disclosure report. This report will be available on the [www.juliusbaer.com](http://www.juliusbaer.com) website from the end of April 2017.

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

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

### Management of interest rate risks

One measure of interest rate risk can be provided by showing the impact of a positive change of 1% (+100 basis points) in the entire yield curve in the respective currency. The table below, broken down according to maturity bands and currencies, shows the results of such a scenario as at 31 December

2016. Negative values under this scenario reflect a potential drop in fair value within the respective maturity band; positive values reflect a potential increase in fair value. This risk measure is also used to carry out scenario analyses on a regular basis. As there are no material option structures in the

banking book, a negative change of 1% in the yield curves would result in scenario values of similar magnitude but with the opposite sign, though such outcomes are mitigated by the fact that the yield curves for the markets in which the Group carries out most of its activities are currently close to zero.

### Interest-rate-sensitive positions

	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total CHF m
<b>Interest sensitivity by time bands and 100 bp parallel increase</b>						
<b>CHF</b>						
<b>2016</b>	<b>3.4</b>	<b>-4.9</b>	<b>34.3</b>	<b>61.7</b>	<b>-44.5</b>	<b>49.9</b>
2015	1.7	-5.3	28.3	52.2	-62.6	14.4
<b>USD</b>						
<b>2016</b>	<b>12.0</b>	<b>-3.6</b>	<b>-4.7</b>	<b>-136.3</b>	<b>-1.4</b>	<b>-134.0</b>
2015	14.4	-2.3	-3.2	-155.8	-4.7	-151.5
<b>EUR</b>						
<b>2016</b>	<b>7.9</b>	<b>-2.2</b>	<b>-12.5</b>	<b>55.5</b>	<b>-1.8</b>	<b>46.9</b>
2015	6.1	-2.3	-9.5	53.0	-3.6	43.7
<b>Other</b>						
<b>2016</b>	<b>2.8</b>	<b>-1.7</b>	<b>-6.7</b>	<b>29.5</b>	<b>0.3</b>	<b>24.2</b>
2015	2.4	-2.2	-0.8	22.7	0.1	22.1

In addition, the effect on interest earnings resulting from a parallel shift of 1% in the yield curve is measured. In this gap analysis, the interest-bearing assets and liabilities are offset within maturity bands. The impact of the yield curve shift on the residual exposure over the time horizon from the next repricing date to a point 12 months ahead is measured. Based on the assumptions described above, and further assuming that the Group took no mitigating action, the modelled effect on interest earnings would have been CHF -180.0 million at the end of 2016 (2015: CHF -128.9 million).

### Hedging interest rate risks

The Group accepts deposits from clients at both floating and fixed rates and for various periods and either lends these funds on a collateralised basis or

invests them in high-quality assets. By consolidating the short-term money deposited by clients and lending it out at longer maturities, an effort is made to increase the interest margin. At the same time, sufficient liquid assets are held in order to be always able to meet all maturing obligations. In managing the associated interest rate risks, the Group applies fair value hedges for hedging a portion of the interest rate exposure by employing interest rate swaps. The market value of these swaps on 31 December 2016 amounted to a net CHF -61.1 million (2015: CHF -72.5 million). The fair value gain on the hedged mortgages attributable to the hedged interest rate risk amounts to CHF 58.0 million (2015: CHF 70.2 million).

The following table shows an analysis of the Group's financial assets and financial liabilities by remaining expected maturities as of the balance sheet date. The expected maturities are based on management estimates and may differ from the contractual

maturities. Balances are classified as on demand if the nature of the position concerned indicates that expected maturity modelling will not yield useful insights.

#### Remaining expected maturities of financial assets and liabilities

	On demand CHF m	Due within 3 months CHF m	Due within 3 to 12 months CHF m	Due within 12 months to 5 years CHF m	Due after 5 years CHF m	Total CHF m
<b>Financial assets</b>						
Cash	13,599.5	-	-	-	-	<b>13,599.5</b>
Due from banks	-	10,958.9	380.9	50.0	-	<b>11,389.8</b>
Loans	-	31,157.6	2,532.4	2,439.9	2,289.2	<b>38,419.0</b>
Trading assets	7,660.7	-	-	-	-	<b>7,660.7</b>
Derivative financial instruments	2,690.9	-	-	-	-	<b>2,690.9</b>
Financial assets designated at fair value	252.4	-	-	-	-	<b>252.4</b>
Financial investments available-for-sale	-	2,470.5	3,395.7	11,692.1	708.4	<b>18,266.6</b>
Accrued income	-	282.8	-	-	-	<b>282.8</b>
<b>Total 31.12.2016</b>	<b>24,203.4</b>	<b>44,869.8</b>	<b>6,309.0</b>	<b>14,181.9</b>	<b>2,997.6</b>	<b>92,561.6</b>
Total 31.12.2015	20,555.7	38,832.2	4,622.9	13,694.1	3,032.3	80,737.2
<b>Financial liabilities</b>						
Due to banks	-	10,076.8	-	-	-	<b>10,076.8</b>
Due to customers	-	67,351.5	143.7	-	-	<b>67,495.2</b>
Trading liabilities	159.0	-	-	-	-	<b>159.0</b>
Derivative financial instruments	2,285.3	-	-	-	-	<b>2,285.3</b>
Financial liabilities designated at fair value	871.1	3,960.5	2,078.5	1,163.5	370.9	<b>8,444.4</b>
Debt issued	0.2	78.6	-	-	1,134.7	<b>1,213.5</b>
Accrued expenses	-	187.7	-	-	-	<b>187.7</b>
Other liabilities <sup>1</sup>	-	-	21.3	19.9	-	<b>41.2</b>
<b>Total 31.12.2016</b>	<b>3,315.6</b>	<b>81,655.1</b>	<b>2,243.5</b>	<b>1,183.4</b>	<b>1,505.6</b>	<b>89,861.9</b>
Total 31.12.2015	3,342.9	70,486.9	1,426.7	929.9	1,443.8	77,605.8

<sup>1</sup> Relates to the deferred purchase price of Fransad Gestion SA, NSC Asesores, S.C., and GPS Investimentos Financeiros e Participações S.A., see Notes 26B and 27.



The following table shows an analysis of the Group's financial liabilities by remaining contractual maturities as of the balance sheet date. Contrary to the balance sheet presentation, these amounts include the total of contractual undiscounted interest payments related to these financial liabilities. Liabilities without a stated maturity, i.e. that can

be called for repayment at any time, are classified as on demand. All derivative financial instruments held for trading are classified as on demand, as there are no single derivatives or classes of derivatives for which the contractual maturities are relevant for the timing of the total cash flows of the Group.

#### Remaining contractual maturities of financial liabilities

	On demand CHF m	Due within 3 months CHF m	Due within 3 to 12 months CHF m	Due within 12 months to 5 years CHF m	Due after 5 years CHF m	Total CHF m
<b>Financial liabilities recognised on balance sheet</b>						
Due to banks	9,771.6	304.8	-	0.6	-	<b>10,076.9</b>
Due to customers	61,412.7	5,661.1	278.3	147.1	-	<b>67,499.1</b>
Trading liabilities	159.0	-	-	-	-	<b>159.0</b>
Derivative financial instruments	2,213.5	-	0.6	24.9	46.3	<b>2,285.3</b>
Financial liabilities designated at fair value	871.1	3,986.7	2,125.9	1,174.3	370.9	<b>8,528.9</b>
Debt issued	0.2	92.0	40.1	119.8	1,134.7	<b>1,386.8</b>
Accrued expenses	-	187.7	-	-	-	<b>187.7</b>
Other liabilities <sup>1</sup>	-	-	21.3	19.9	-	<b>41.2</b>
<b>Total 31.12.2016</b>	<b>74,428.0</b>	<b>10,232.2</b>	<b>2,466.1</b>	<b>1,486.6</b>	<b>1,551.9</b>	<b>90,164.9</b>
Due to banks	3,915.2	756.9	-	0.3	-	4,672.4
Due to customers	59,991.8	4,598.7	194.0	0.2	-	64,784.8
Trading liabilities	190.8	-	-	-	-	190.8
Derivative financial instruments	2,318.9	-	-	16.9	55.6	2,391.4
Financial liabilities designated at fair value	760.6	1,093.2	1,260.0	927.9	291.2	4,333.0
Debt issued	0.1	28.4	77.1	114.4	1,152.6	1,372.6
Accrued expenses	-	154.4	-	-	-	154.4
Other liabilities <sup>2</sup>	-	0.5	12.0	12.1	-	24.5
<b>Total 31.12.2015</b>	<b>67,177.5</b>	<b>6,632.1</b>	<b>1,543.1</b>	<b>1,071.7</b>	<b>1,499.4</b>	<b>77,923.8</b>
<b>Financial liabilities not recognised on balance sheet</b>						
Irrevocable commitments <sup>3</sup>	788.8	14.2	2.7	7.5	-	<b>813.3</b>
<b>Total 31.12.2016</b>	<b>788.8</b>	<b>14.2</b>	<b>2.7</b>	<b>7.5</b>	<b>-</b>	<b>813.3</b>
<b>Total 31.12.2015</b>	<b>754.9</b>	<b>22.2</b>	<b>43.5</b>	<b>3.2</b>	<b>1.0</b>	<b>824.9</b>

<sup>1</sup> Relates to the deferred purchase price of Fransad Gestion SA, NSC Asesores, S.C., and GPS Investimentos Financeiros e Participações S.A., see Notes 26B and 27.

<sup>2</sup> Relates to the deferred purchase price of WMPartners Wealth Management Ltd., Fransad Gestion SA and NSC Asesores, S.C., see Notes 26B and 27.

<sup>3</sup> These amounts reflect the maximum payments the Group is committed to making.

Exposures to risks, in addition to interest rate and liquidity risks, arising from positions held by the Group in the banking book are limited and monitored using nominal and VaR limits. Price-risk exposures arise from positions in equities, funds and non-traditional funds. They are managed by the Treasury department of Bank Julius Baer & Co. Ltd. Currency risks on the banking book are transferred to the trading book. The balance sheets of the vast majority of Group entities are managed in local currency and they are only allowed to take on exchange rate exposure against their local currency in exceptional circumstances. Where they do occur, these exposures are limited and measured according to individual balance-sheet-management guidelines and are also included in the Group's VaR calculations. The local-currency shareholders' equity of these Group entities are not hedged against exchange rate risk at Group level.

## OPERATIONAL RISK

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

### Framework for the management of operational risk

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

The key components of this framework are described below:

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

- Self evaluation of risks and of the quality of the control system: these self evaluations are carried out by the individual specialised areas and legal entities with the assistance of Risk Management. The process involves applying a uniform risk taxonomy to identify inherent operational risks and their causes, to evaluate the effectiveness of the controls and other risk-minimising measures in place and to determine the level of residual risk. The results of these self evaluations are incorporated into the Group-wide risk landscape which is presented to the Executive Board, the Chairman's & Risk Committee and the Audit Committee each year.
- Risk information consolidation process: the risk managers have unrestricted access to all the information they require to identify and evaluate operational risks in the areas for which they are responsible. This includes internal and external audit reports, data on operational losses, information from risk committees, quantitative risk indicators (Key Risk Indicators), control results, complaints from clients and other internal and external risk information. The resulting operational risk evaluation and the extent to which risk-minimising measures have been implemented are regularly reviewed and updated by the risk manager and those responsible for managing the business areas concerned. A further objective of these discussions is to identify potential new risks at an early stage and to determine possible initiatives to address them.
- Reporting to senior management: a number of formal risk reports are submitted to management and the Board of Directors. These reports incorporate the key insights and developments relating to operational risks, thus ensuring that timely and appropriate action can be taken in response to operational risk events and to any activities which exceed current levels of operational risk appetite.

### **Business Continuity Management**

The objective of the Business Continuity Management (BCM) Programme is to establish and maintain the stability of the overall organisation in the event of massive disturbances to its operations and in crisis situations. The programme aims to protect the Group's reputation and to minimise any

financial loss to clients, the Group and its employees. To that end, Julius Baer has formulated a BCM strategy and implemented a set of Group-wide BCM directives and guidelines, which assign BCM tasks and responsibilities across the Group and define the structure of the crisis management organisation. These directives and guidelines also define the processes for planning, analysing and assessing recovery and continuity measures, and the procedures for communication and internal training.

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

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

### **Legal and compliance risk**

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

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

Measures aimed at minimising legal and regulatory or compliance risks include raising staff awareness of legal and regulatory issues through training and

internal directives and controls to ensure adherence to the legal and regulatory requirements within which the Group operates.

As described in the risk governance section of this report, the General Counsel and the Chief Risk Officer coordinate the management and control of legal and compliance risk. Legal and compliance risks are regularly reported to the Board of Directors. In line with the development of the legal and regulatory environment of the industry, the Group has consistently invested in personnel and technical resources to ensure adequate compliance coverage. Measures in place to ensure adherence to current standards include a comprehensive and continuously updated catalogue of directives and manuals and an extensive staff-training concept.

#### **Personnel risk**

Personnel risks such as bottleneck risk, motivational risk, adaptation risk and departure risk will continue to affect the Group in the years ahead. These individual types of risk interact with each other in a number of ways. Continuous change, the increasing burdens placed on managers and staff alike as a result of day-to-day business taking place alongside major projects, the relatively inclement economic outlook and current demographic trends are all factors which can be expected to affect a number of different risk areas in the next few years. Maintaining departure risk at modest levels requires work-structure models for staff that are flexible with regard to both time and location. These need to be complemented by modular compensation concepts. The bottleneck risk resulting from current demographic trends and political restrictions placed on migration can be addressed through attractive terms of employment, a contemporary and competitive working environment, education and training

tailored to individual job functions and strategically oriented staff-development and talent-management concepts. Motivational and adaptation risks are closely interrelated. They reflect the ongoing changes which are now inherent in day-to-day operations. In order to take appropriate, targeted action to address these risks, employee surveys and regular dialogue with employees are important. The essential point is for people to understand why change is necessary. They also need to be fairly remunerated for the substantial amount of work they are willing to carry out. Dealing with these issues appropriately is something Julius Baer regards as an important management task, and it is one to which the Group accords commensurate priority.

#### **Insurance**

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

### **REPUTATIONAL RISK**

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

## MANAGEMENT OF CAPITAL INCLUDING REGULATORY CAPITAL

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

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

In 2016, the scope of consolidation used for the calculation of capital adequacy is identical to that applied for accounting purposes. Note 26A provides an overview of the Group's consolidated companies.

The Group's calculations of its risk-weighted assets published in the Annual Report are identical to those carried out for regulatory reporting purposes.

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

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

## Capital ratios

	31.12.2016 Basel III phase-in <sup>1</sup> CHF m	31.12.2015 Basel III phase-in <sup>1</sup> CHF m
<b>Risk-weighted positions</b>		
Credit risk	14,902.8	13,775.4
Non-counterparty-related risk	506.7	510.0
Market risk	957.7	776.5
Operational risk	4,634.6	4,232.9
<b>Total</b>	<b>21,001.8</b>	<b>19,294.8</b>
<b>Eligible capital</b>		
CET1 capital <sup>2</sup>	3,444.2	3,534.2
Tier 1 capital <sup>2</sup>	3,597.0	3,534.2
of which hybrid tier 1 capital instruments <sup>3</sup>	1,134.7	908.0
Tier 2 capital	70.2	214.2
of which lower tier 2 capital instruments	-	171.4 <sup>4</sup>
Total capital	3,667.2	3,748.4
CET1 capital ratio	16.4%	18.3%
Tier 1 capital ratio	17.1%	18.3%
Total capital ratio	17.5%	19.4%

<sup>1</sup> The Basel III effects, but also the effects of IAS 19 revised relating to pension liabilities, will be phased in between 2014 and 2018 for the calculation of the eligible capital. All listed capital instruments of Julius Baer are fully compliant with the Basel III guidelines as at the end of 2016.

<sup>2</sup> During the phase-in period the amount of intangibles which has to be deducted directly from CET1 increases proportionally over time and the remaining amount of intangibles which is allowed to be deducted from additional tier 1 capital decreases respectively. As soon as the remaining amount of intangibles is lower than the additional tier 1 capital the CET1 capital will be lower than the tier 1 capital.

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

<sup>4</sup> Julius Baer Group Ltd. exercised its call option for an early repayment in full at par value plus accrued interests on the reset date of 23 December 2016 and redeemed the 4.50% lower tier 2 subordinated bonds issued in 2011 with final maturity in 2021.

Further details regarding tier 1 capital instruments can be found in the Regulatory Disclosures section of [www.juliusbaer.com](http://www.juliusbaer.com). Please also refer to debt issued, Note 16.

The principal adjustment to the Group's total equity under IFRS for the purpose of determining total eligible capital is the deduction of intangible assets. These and other capital components are shown in the following table. In addition to the table below, a separate Basel III pillar 3 report has been prepared

which shows a full reconciliation between all components of the Group's eligible regulatory capital and its reported IFRS balance sheet as at 31 December 2016. This report, which is published in the Regulatory Disclosures section of [www.juliusbaer.com](http://www.juliusbaer.com), has been prepared in accordance with the FINMA regulations governing the disclosure of the composition of eligible regulatory capital (information will be available at the end of April 2017).

## Capital components

	31.12.2016 Basel III phase-in CHF m	31.12.2015 Basel III phase-in CHF m
Gross common equity tier 1 capital <sup>1</sup>	5,339.7	4,939.4
of which non-controlling interests	9.4	3.8
Effects of IAS19 revised relating to pension liabilities	81.0	132.8
Goodwill and other intangible assets	-1,670.8	-1,250.9
Other deductions	-305.7	-287.1
<b>Common equity tier 1 capital</b>	<b>3,444.2</b>	<b>3,534.2</b>
Tier 1 capital instruments	1,134.7	908.0
of which tier 1 bonds (Basel III-compliant capital instruments)	1,134.7	908.0
Goodwill and intangible assets, offset against tier 1 capital instruments	-981.9	-908.0
<b>Additional tier 1 capital</b>	<b>152.8</b>	<b>-</b>
Tier 1 capital	3,597.0	3,534.2
Tier 2 capital	70.2	214.2
of which lower tier 2 capital (phase-out capital instrument)	-	171.4
of which other tier 2 capital	70.2	42.8
<b>Total capital</b>	<b>3,667.2</b>	<b>3,748.4</b>

<sup>1</sup> Phase-in of 40% of non-controlling interests of CHF 9.4 million (31.12.2015: phase-in of 60% of CHF 6.4 million)

Required capital (see table below) for credit risks arising from amounts due from banks, loans, financial investments and derivative financial instruments accounts for more than 71% (2015: 71%) of the total required capital. Capital required

for non-counterparty risk (2016: 2%; 2015: 3%) and market risk (2016: 5%; 2015: 4%) is of minor significance. The capital required to cover operational risk accounts for more than 22% of total required capital (2015: 22%).

## Minimum capital requirement

	31.12.2016 Basel III phase-in CHF m	31.12.2015 Basel III phase-in CHF m
Credit risk	1,192.2	1,102.0
of which for equity securities in the banking book	9.8	4.4
Non-counterparty-related risk	40.5	40.8
Market risk	76.6	62.1
Operational risk	370.8	338.7
<b>Total</b>	<b>1,680.1</b>	<b>1,543.6</b>

### **Leverage ratio**

In November 2014, FINMA published a new 'Leverage Ratio' circular, which sets out the rules for calculating the leverage ratio in Switzerland. In addition to the existing requirement for banks to hold eligible capital proportionate to their risk-weighted assets, the circular defines the leverage ratio as a new, non-risk-based metric. The leverage ratio is defined as the ratio between eligible (tier 1) core capital and total exposure. Total exposure encompasses all balance-sheet and off-balance-sheet positions, and the new 'Leverage Ratio' circular defines how these are to be calculated. The Basel Committee on Banking Supervision will define the requirements which it will place on the leverage ratio from 2018 after the conclusion of an observation

period. That period will also be used to clarify a number of currently open questions regarding the calculation of total exposure. The indicative leverage ratio requirement, which is not yet binding at this stage, is three percent. This may however be subject to change once the observation period has concluded.

Basel III regulations also require publication of the leverage ratio from 2015 onwards. This requirement is contained in the revised version of the FINMA 'Disclosure – Banks' circular, which came into effect on 1 January 2015. Additional qualitative and quantitative information relating to the leverage ratio will be published in a separate disclosure report. This report will be available on the [www.juliusbaer.com](http://www.juliusbaer.com) website from the end of April 2017.



## INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

### 1 NET INTEREST AND DIVIDEND INCOME

	2016 CHF m	2015 CHF m	Change %
Interest income on amounts due from banks	41.1	38.3	7.2
Interest income on loans	522.2	444.5	17.5
Interest income on financial investments available-for-sale	252.3	191.4	31.8
Total interest income using the effective interest method	815.6	674.3	21.0
Dividend income on financial investments available-for-sale	7.3	10.3	-29.0
Interest income on trading portfolios	29.1	23.6	23.1
Dividend income on trading portfolios	191.9	139.1	38.0
Total interest and dividend income	1,043.9	847.2	23.2
Interest expense on amounts due to banks	13.9	8.7	59.9
Interest expense on amounts due to customers	51.2	49.5	3.5
Interest expense on debt issued	64.8	50.7	27.8
Interest expense on financial assets <sup>1</sup>	36.8	26.8	37.2
Total interest expense using the effective interest method	166.8	135.7	22.8
<b>Total</b>	<b>877.1</b>	<b>711.5</b>	<b>23.3</b>

<sup>1</sup> Interest expense on financial assets is related to negative effective interests on the respective financial instruments.

### 2 NET COMMISSION AND FEE INCOME

	2016 CHF m	2015 CHF m	Change %
Advisory and management commissions	950.5	857.8	10.8
Investment fund fees	179.0	227.3	-21.2
Fiduciary commissions	8.0	6.4	24.3
Total commission and fee income from asset management	1,137.6	1,091.5	4.2
Brokerage commissions and income from securities underwriting	538.8	551.6	-2.3
Commission income from credit-related activities	7.7	6.7	14.3
Commission and fee income on other services	87.1	82.3	5.8
Total commission and fee income	1,771.1	1,732.1	2.3
Commission expense	206.2	209.7	-1.7
<b>Total</b>	<b>1,564.9</b>	<b>1,522.4</b>	<b>2.8</b>

### 3 NET TRADING INCOME

	2016 CHF m	2015 CHF m	Change %
Debt instruments	50.1	30.0	67.1
Equity instruments	-166.6	-104.0	-60.2
Foreign exchange	449.0	509.8	-11.9
<b>Total</b>	<b>332.5</b>	<b>435.8</b>	<b>-23.7</b>

### 4 OTHER ORDINARY RESULTS

	2016 CHF m	2015 CHF m	Change %
Net gains/(losses) from disposal of financial investments available-for-sale	4.0	0.9	358.4
Impairment on financial investments available-for-sale	-1.6	-7.0	-
Income from investments in associates	40.4	5.9	584.0
Real estate income	5.5	5.3	4.1
Other ordinary income	30.4	20.2	50.7
Other ordinary expenses	0.8	0.5	63.5
<b>Total</b>	<b>77.9</b>	<b>24.7</b>	<b>215.1</b>

### 5 PERSONNEL EXPENSES

	2016 CHF m	2015 CHF m	Change %
Salaries and bonuses	1,106.6	988.8	11.9
Contributions to staff pension plans (defined benefits)	13.2 <sup>1</sup>	69.6	-81.0
Contributions to staff pension plans (defined contributions)	27.4	27.0	1.5
Other social security contributions	89.6	76.1	17.7
Share-based payments	70.8	60.0	18.0
Other personnel expenses	28.2	42.6	-33.7
Reimbursement of personnel expenses	-	-27.9 <sup>2</sup>	-
<b>Total</b>	<b>1,335.9</b>	<b>1,236.1</b>	<b>8.1</b>

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

<sup>2</sup> Represents a reimbursement from Bank of America in the amount of CHF 27.9 million for certain payments related to retention plans in the acquisition of Merrill Lynch's International Wealth Management (IWM) business.

## 6 GENERAL EXPENSES

	2016 CHF m	2015 CHF m	Change %
Occupancy expense	90.1	83.8	7.5
IT and other equipment expense	72.8	64.6	12.6
Information, communication and advertising expense	173.0	162.2	6.7
Service expense, fees and taxes	239.8	207.7	15.5
Valuation allowances, provisions and losses	40.4	574.6 <sup>1</sup>	-
Other general expenses	7.1	7.3	-2.8
<b>Total</b>	<b>623.2</b>	<b>1,100.2</b>	<b>-43.4</b>

<sup>1</sup> Including the provision in the amount of USD 547.25 million related to the agreement in principle with the US Attorney's Office for the Southern District of New York with respect to a resolution regarding Julius Baer's legacy US cross-border business (see Note 18).

## 7 INCOME TAXES

	2016 CHF m	2015 CHF m	Change %
Income tax on profit before taxes (expected tax expense)	165.6	30.5	442.2
Effect of tax rate differences in foreign jurisdictions	-6.2	-20.4	-
Effect of domestic tax rate differences	24.2	1.6	-
Income subject to a reduced tax rate	-81.5	-43.4	-
Effect of utilisation of prior-year losses	-0.8	-2.2	-
Effect from not capitalised losses	16.3	7.8	-
Adjustments related to prior years	-0.2	-8.3	-
Write-off of deferred tax assets	-	0.2	-
Non-deductible expenses	12.9	51.5	-
Other	0.2	-1.0	-
<b>Actual income tax expense</b>	<b>130.4</b>	<b>16.3</b>	<b>-</b>

The tax rate of Switzerland of 22% (2015: 22%) was applied as the basis for the above expected tax expenses. This tax rate reflects the Swiss weighted average rate from the operational companies excluding Julius Baer Group Ltd.

Unrecognised accumulated loss carryforwards in the amount of CHF 281.1 million (2015: CHF 242.9 million) exist in the Group that do not expire.

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INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

	2016 CHF m	2015 CHF m	Change %
Domestic income taxes	108.1	2.8	-
Foreign income taxes	22.4	13.5	65.5
<b>Total</b>	<b>130.4</b>	<b>16.3</b>	<b>701.4</b>

Current income taxes	122.0	76.5	59.4
Deferred income taxes	8.4	-60.3	-
<b>Total</b>	<b>130.4</b>	<b>16.3</b>	<b>701.4</b>

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

	Before-tax amount CHF m	Tax (expense)/ benefit CHF m	2016 Net-of-tax amount CHF m
<b>Items that may be reclassified to the income statement</b>			
Net unrealised gains/(losses) on financial investments available-for-sale	29.1	-9.3	19.8
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	8.1	-0.3	7.8
Translation differences	22.8	-	22.8
Realised (gains)/losses on translation differences reclassified to the income statement	-0.0	-	-0.0
<b>Items that will not be reclassified to the income statement</b>			
Remeasurement of defined benefit obligation	25.0	-6.1	18.9
<b>Other comprehensive income</b>	<b>84.9</b>	<b>-15.8</b>	<b>69.2</b>

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

## 8 EARNINGS PER SHARE AND SHARES OUTSTANDING

	2016	2015
<b>Basic earnings per share</b>		
Net profit (CHF m)	619.4	121.2
Weighted average number of shares outstanding	217,404,899	218,613,533
Basic earnings per share (CHF)	2.85	0.55

<b>Diluted earnings per share</b>		
Net profit (CHF m)	619.4	121.2
Less (profit)/loss on equity derivative contracts (CHF m)	-1.5	-0.1
Net profit for diluted earnings per share (CHF m)	617.9	121.1
Weighted average number of shares outstanding	217,404,899	218,613,533
Dilution effect	-48,478	-7,076
Weighted average number of shares outstanding for diluted earnings per share	217,356,421	218,606,457
Diluted earnings per share (CHF)	2.84	0.55

	31.12.2016	31.12.2015
<b>Shares outstanding</b>		
Total shares issued at the beginning of the year	223,809,448	223,809,448
Less treasury shares	6,346,886	5,269,422
<b>Total</b>	<b>217,462,562</b>	<b>218,540,026</b>

## INFORMATION ON THE CONSOLIDATED BALANCE SHEET

### 9A DUE FROM BANKS

	<b>31.12.2016</b> CHF m	31.12.2015 CHF m	Change CHF m
Due from banks	<b>11,391.0</b>	6,903.4	4,487.7
Allowance for credit losses	<b>-1.3</b>	-2.3	1.0
<b>Total</b>	<b>11,389.8</b>	6,901.1	4,488.7

Due from banks by type of collateral:

Securities collateral	<b>387.8</b>	1,024.6	-636.8
Without collateral	<b>11,001.9</b>	5,876.5	5,125.4
<b>Total</b>	<b>11,389.8</b>	6,901.1	4,488.7

### 9B LOANS

	<b>31.12.2016</b> CHF m	31.12.2015 CHF m	Change CHF m
Loans	<b>29,173.2</b>	27,913.7	1,259.6
Mortgages	<b>9,317.6</b>	8,549.9	767.7
Subtotal	<b>38,490.8</b>	36,463.5	2,027.3
Allowance for credit losses	<b>-71.8</b>	-82.6	10.8
<b>Total</b>	<b>38,419.0</b>	36,380.9	2,038.1

Loans by type of collateral:

Securities collateral	<b>22,964.8</b>	20,171.5	2,793.4
Mortgage collateral	<b>9,329.8</b>	8,640.2	689.6
Other collateral (mainly cash and fiduciary deposits)	<b>6,053.6</b>	7,450.7	-1,397.1
Without collateral	<b>70.8</b>	118.6	-47.8
<b>Total</b>	<b>38,419.0</b>	36,380.9	2,038.1

## 9C ALLOWANCE FOR CREDIT LOSSES

	Specific CHF m	2016 Collective CHF m	Specific CHF m	2015 Collective CHF m
Balance at the beginning of the year	<b>58.5</b>	<b>26.3</b>	29.0	22.8
Write-offs	<b>-27.3</b>	-	-2.5	-
Increase in allowance for credit losses	<b>15.6</b>	<b>3.9</b>	35.7	6.2
Decrease in allowance for credit losses	<b>-0.1</b>	<b>-4.4</b>	-3.6	-2.5
Translation differences and other adjustments	<b>0.4</b>	<b>-0.0</b>	-0.1	-0.1
<b>Balance at the end of the year</b>	<b>47.2</b>	<b>25.9</b>	58.5	26.3

## 9D IMPAIRED LOANS

	31.12.2016 CHF m	31.12.2015 CHF m	Change CHF m
Gross loans	<b>83.3</b>	72.2	11.1
Specific allowance for credit losses	<b>-47.2</b>	-58.5	11.3
<b>Net loans</b>	<b>36.2</b>	13.7	22.5

## 10 TRADING ASSETS AND LIABILITIES

	<b>31.12.2016</b> CHF m	31.12.2015 CHF m	Change CHF m
<b>Trading assets</b>			
Debt instruments	<b>1,415.0</b>	1,155.7	259.3
<i>of which quoted</i>	<b>1,337.4</b>	1,097.5	240.0
<i>of which unquoted</i>	<b>77.5</b>	58.2	19.3
Equity instruments	<b>5,846.9</b>	5,802.0	44.9
<i>of which quoted</i>	<b>5,466.0</b>	5,389.5	76.5
<i>of which unquoted</i>	<b>380.8</b>	412.5	-31.7
Precious metals (physical)	<b>398.8</b>	2,026.3	-1,627.5
<b>Total</b>	<b>7,660.7</b>	8,984.0	-1,323.3
<b>Trading liabilities</b>			
Short positions – debt	<b>48.0</b>	117.2	-69.3
<i>of which quoted</i>	<b>44.7</b>	116.2	-71.5
<i>of which unquoted</i>	<b>3.2</b>	1.0	2.3
Short positions – equity	<b>111.0</b>	73.6	37.4
<i>of which quoted</i>	<b>96.0</b>	54.0	41.9
<i>of which unquoted</i>	<b>15.0</b>	19.6	-4.5
<b>Total</b>	<b>159.0</b>	190.8	-31.8



## 11A FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	31.12.2016 CHF m	31.12.2015 CHF m	Change CHF m
<b>Money market instruments</b>	<b>3,785.0</b>	2,298.1	1,487.0
Government and agency bonds	3,477.0	3,560.1	-83.1
Financial institution bonds	6,295.5	6,187.1	108.4
Corporate bonds	4,500.0	4,387.7	112.4
Other bonds	43.5	42.3	1.2
<b>Debt instruments</b>	<b>14,316.0</b>	14,177.2	138.8
<i>of which quoted</i>	<i>13,259.3</i>	<i>13,210.8</i>	<i>48.5</i>
<i>of which unquoted</i>	<i>1,056.8</i>	<i>966.4</i>	<i>90.3</i>
<b>Equity instruments</b>	<b>165.5</b>	97.2	68.3
<i>of which quoted</i>	<i>26.0</i>	<i>15.7</i>	<i>10.3</i>
<i>of which unquoted</i>	<i>139.5</i>	<i>81.5</i>	<i>58.0</i>
<b>Total</b>	<b>18,266.6</b>	16,572.5	1,694.1

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

			31.12.2016 CHF m	31.12.2015 CHF m	Change CHF m
<b>Debt instruments by credit rating classes</b>	<b>Fitch, S&amp;P</b>	<b>Moody's</b>			
1-2	AAA – AA-	Aaa – Aa3	9,491.3	9,122.4	368.9
3	A+ – A-	A1 – A3	4,458.7	4,662.0	-203.3
4	BBB+ – BBB-	Baa1 – Baa3	266.7	286.6	-19.8
5-7	BB+ – CCC-	Ba1 – Caa3	52.1	42.9	9.3
8-9	CC – D	Ca – C	-	4.3	-4.3
Unrated			47.2	59.1	-12.0
<b>Total</b>			<b>14,316.0</b>	14,177.2	138.8

## 12 GOODWILL, INTANGIBLE ASSETS AND PROPERTY AND EQUIPMENT

	Goodwill CHF m	Customer relationships CHF m	Software CHF m	Total intangible assets CHF m	Bank premises CHF m	Other property and equipment CHF m	Total property and equipment CHF m
<b>Historical cost</b>							
Balance on 01.01.2015	1,680.3	1,287.7	479.0	3,446.9	403.2	193.2	596.4
Translation differences	-48.7	-20.0	-1.4	-70.1	-	-1.9	-1.9
Additions	-	-	81.4	81.4	4.1	20.4	24.5
Additions from business combinations	80.8	42.3	0.0	123.1	-	2.3	2.3
Disposals/transfers <sup>1</sup>	-	-	1.8	1.8	-	6.8	6.8
Balance on 31.12.2015	1,712.5	1,309.9	557.1	3,579.4	407.3	207.2	614.5
Translation differences	21.8	7.7	-0.0	29.5	-	-1.3	-1.3
Additions	-	-	139.1	139.1	4.2	29.6	33.8
Additions from business combinations	337.1	104.9	12.3	454.3	-	5.4	5.4
Disposals/transfers <sup>1</sup>	-	-	18.7	18.7	-	10.5	10.5
Balance on 31.12.2016	2,071.3	1,422.5	689.8	4,183.6	411.5	230.5	642.0

### Depreciation, amortisation and impairment

Balance on 01.01.2015	-	810.6	272.4	1,083.0	81.8	131.9	213.7
Translation differences	-	-2.7	-0.5	-3.1	-	-0.6	-0.6
Charge for the period	-	126.2	58.6 <sup>2</sup>	184.8	9.5	25.0 <sup>2</sup>	34.5
Disposals/transfers <sup>1</sup>	-	-	1.6	1.6	-	6.4	6.4
Balance on 31.12.2015	-	934.0	329.0	1,263.1	91.3	150.0	241.3
Translation differences	-	1.8	-0.1	1.7	-	-0.4	-0.4
Charge for the period	-	68.5	34.6 <sup>3</sup>	103.1	11.5	26.1 <sup>3</sup>	37.6
Disposals/transfers <sup>1</sup>	-	-	18.6	18.6	-	10.3	10.3
Balance on 31.12.2016	-	1,004.4	345.0	1,349.4	102.8	165.4	268.2

### Carrying value

Balance on 31.12.2015	1,712.5	375.9	228.0	2,316.4	316.0	57.2	373.2
<b>Balance on 31.12.2016</b>	<b>2,071.3</b>	<b>418.1</b>	<b>344.8</b>	<b>2,834.3</b>	<b>308.7</b>	<b>65.1</b>	<b>373.8</b>

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

<sup>2</sup> Includes impairment of CHF 2.9 million related to software and other property and equipment not used anymore

<sup>3</sup> Includes impairment of CHF 2.5 million related to software and other property and equipment not used anymore

In 2016, the Group adjusted the useful life of software up to a maximum of ten years. This change in estimate reduced the amortisation of software accordingly.

	Balance on 01.01.2016 CHF m	Additions CHF m	Disposals CHF m	Translation differences CHF m	Balance on 31.12.2016 CHF m
<b>Goodwill</b>					
Julius Baer Private Banking	1,614.6	19.8	-	-	<b>1,634.4</b>
GPS	97.8	-	-	21.8	<b>119.6</b>
Kairos	-	317.3	-	-	<b>317.3</b>
<b>Total</b>	<b>1,712.5</b>	<b>337.1</b>	<b>-</b>	<b>21.8</b>	<b>2,071.3</b>

### Goodwill – Impairment testing

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

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

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

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

To each of these applicable key parameters, reasonably expected growth assumptions are applied in order to calculate the projected cash flows. However, the Group expects in the medium and long term a favourable development of the private banking activities which is reflected in the respective growth of the key parameters, but the Group cannot exclude short-term market disruptions. The Group also takes into consideration its relative strength as a pure private banking provider vis-à-vis its peers, which should result in a better-than-average business development in the respective market. Additionally, the estimates of the expected free cash flows take into account the projected investments which are necessary to maintain the level of economic benefits expected to arise from the underlying assets in their current condition. The resulting free cash flows are discounted to present value, using a pre-tax discount rate of 8.2% (2015: 8.9%) for Julius Baer Private Banking. For GPS, the pre-tax discount rate used is 21.6% (2015: 21.8%), for Kairos, the pre-tax discount rate used is 15.8%.

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

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

#### **Changes in key assumptions**

Deviations of future actual results achieved vs. forecast/planned key assumptions, as well as future changes of any of the key assumptions based on a future different assessment of the development of

relevant markets, and/or businesses, may occur. Such deviations may result from changes in products and client mix, profitability, required types and intensity of personnel resources, general and company-specific personnel cost development and/or changes in the implementation of known or addition of new business initiatives and/or other internal and/or external factors. These changes may cause the value of the business to alter and therefore either increase or reduce the difference between the carrying value in the balance sheet and the unit's recoverable amount or may even lead to a partial impairment of goodwill.

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

### 13 OPERATING LEASE COMMITMENTS

	<b>31.12.2016</b> CHF m	31.12.2015 CHF m
Not later than one year	<b>67.0</b>	62.6
Later than one year and not later than five years	<b>180.6</b>	168.9
Later than five years	<b>119.4</b>	78.5
<b>Subtotal</b>	<b>366.9</b>	310.0
Less sublease rentals received under non-cancellable leases	<b>23.0</b>	23.3
<b>Total</b>	<b>343.9</b>	286.6

Expenses for operating leases in the gross amount of CHF 67.3 million are included in operating expenses for the 2016 financial year (2015: CHF 59.7 million).

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

	Carrying value CHF m	<b>31.12.2016</b> Effective commitment CHF m	Carrying value CHF m	31.12.2015 Effective commitment CHF m
Securities	<b>976.2</b>	<b>976.2</b>	1,477.4	1,465.8
Other	<b>16.3</b>	<b>7.5</b>	16.3	14.4
<b>Total</b>	<b>992.4</b>	<b>983.6</b>	1,493.7	1,480.1

The assets are mainly pledged for Lombard limits at central banks, stock exchange securities deposits and collateral in OTC derivatives trading.

## 15 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

	2017 CHF m	2018 CHF m	2019 CHF m	2020 CHF m	2021 CHF m	2022– 2026 CHF m	un- assigned CHF m	31.12.2016 CHF m	31.12.2015 CHF m
Fixed rate	4,913.1	130.4	5.4	39.7	-	-	-	<b>5,088.6</b>	1,766.9
Interest rates (ranges in %)	0.1–76.8	1.05–13.0	3.0–5.4	1.2–2.2		-	-	-	-
Floating rate	1,125.8	321.5	254.4	145.0	267.1	370.9	871.1	<b>3,355.8</b>	2,496.2
<b>Total</b>	<b>6,038.9</b>	<b>451.9</b>	<b>259.8</b>	<b>184.7</b>	<b>267.1</b>	<b>370.9</b>	<b>871.1</b>	<b>8,444.4</b>	4,263.1

The table above indicates the maturities of the structured debt issues of Bank Julius Baer & Co. Ltd. with fixed interest rate coupons ranging from 0.1% up to 76.8%. The high and low coupons generally relate to structured debt issues prior to the separation of embedded derivatives. As a result, the stated interest rate generally does not reflect the effective interest rate paid to service the debt after the embedded derivative has been separated.

As the redemption amount on the structured debt issues is linked to changes in stock prices, indices, currencies or other assets, the Group cannot

determine the difference between the carrying amount and the amount the Group would be contractually required to pay at maturity to the holder of the structured debt issues.

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

## 16 DEBT ISSUED

	31.12.2016 CHF m	31.12.2015 CHF m
Money market instruments	78.8	0.1
Bonds	1,134.7	1,152.6
<b>Total</b>	<b>1,213.5</b>	<b>1,152.7</b>

### Bonds

Issuer/Year of issue	Stated interest rate %		Currency	Notional amount m	31.12.2016 Total CHF m	31.12.2015 Total CHF m
<b>Julius Baer Group Ltd.</b>						
2011 <sup>1</sup>	4.50	Lower tier 2 bond	CHF	250.0	-	244.6
<b>Julius Baer Group Ltd.</b>						
2012 <sup>2</sup>	5.375	Perpetual tier 1 subordinated bond	CHF	250.0	248.7	249.3
<b>Julius Baer Group Ltd.</b>						
2014 <sup>3</sup>	4.25	Perpetual tier 1 subordinated bond	CHF	350.0	346.7	343.9
<b>Julius Baer Group Ltd.</b>						
2015 <sup>4</sup>	5.90	Perpetual tier 1 subordinated bond	SGD	450.0	318.6	314.7
<b>Julius Baer Group Ltd.</b>						
2016 <sup>5</sup>	5.75	Perpetual tier 1 subordinated bond	SGD	325.0	220.6	-
<b>Total</b>					<b>1,134.7</b>	<b>1,152.6</b>

<sup>1</sup> Own bonds of CHF 2.9 million were offset with bonds outstanding in 2015.

The effective interest rate amounts to 4.89%.

<sup>2</sup> Own bonds of CHF 1.0 million are offset with bonds outstanding (2015: none).

The effective interest rate amounts to 5.59%.

<sup>3</sup> Own bonds of CHF 0.1 million are offset with bonds outstanding (2015: CHF 2.0 million).

The effective interest rate amounts to 4.41%.

<sup>4</sup> No own bonds are offset with bonds outstanding (2015: none).

The effective interest rate amounts to 6.128%.

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

The effective interest rate amounts to 5.951%.

### Lower tier 2 capital

Lower tier 2 capital consists of subordinated unsecured bonds ('bonds'), fully paid up and listed on the SIX Swiss Exchange. The bonds were issued by Julius Baer Group Ltd. (the 'Issuer') in December 2011 in the amount of CHF 250 million. From 1 January 2013 onwards, the proportion of the issued lower tier 2 capital which may be allocated, in the form of complementary (tier 2) capital, towards meeting the Group's capital adequacy requirements is reduced by 10% each year. These tier 2 bonds constitute valid and legally binding obligations of the Issuer enforceable in accordance with their terms and rank at least pari passu with all other unsecured and subordinated obligations of the Issuer. The maturity date of the bonds is 23 December 2021. From the issue date (23 December 2011) to the reset date (23 December 2016), the bonds pay a fixed rate of interest of 4.50% per annum and during the period (reset period) commencing on the reset date and ending on the maturity date (23 December 2021) a fixed rate of interest each year equal to the sum of the benchmark rate (i.e. the five-year CHF mid-market swap rate calculated on the basis of the rate displayed on ISDAFIX page CHFSFIX at 11:00 a.m. [CET] on the date falling five business days before the reset date) and a fixed margin of 3.815%. The interest is payable annually, in arrears and on a 30/360-day basis, on 23 December (the 'interest payment date'). Julius Baer Group Ltd. may redeem the bonds on the reset date (23 December 2016) and upon the occurrence of a capital event or a tax event as defined in the prospectus in whole but not in part at the par value per bond plus accrued but unpaid interest thereon, upon giving not less than 30 days' notice to the holders of the bonds.

The lower tier 2 capital was repaid on 23 December 2016 at nominal value plus accrued interest.

### Perpetual tier 1 subordinated bonds

The maturities of the perpetual tier 1 subordinated bonds issued by Julius Baer Group Ltd. are essentially perpetual. These bonds are unsecured, subordinate to all borrowings (with the exception of the remainder of the tier 1 capital), fully paid up, capable of sustaining losses and devoid of any voting rights. The bonds can first be redeemed, at the Issuer's discretion, five to six years after their

issue date, and at yearly intervals thereafter, provided the regulator approves such redemption. In addition, the bonds may also be redeemed upon a regulatory event or tax event, as described in the prospectus. In the case of a viability event occurring, i.e. at a point in time where there is a threat of insolvency ('Point of non-viability' or 'PONV'), as described in Article 29 of the Capital Adequacy Ordinance of the Swiss Financial Market Supervisory Authority FINMA (CAO), all monies (including par value and any interest) due on the bonds will automatically cease to be payable and the bonds will be completely written off (i.e. their value will be written down to zero). Should a trigger event occur – i.e. should tier 1 common equity (under Basel III) fall below 5.125% (2012 and 2014 issues) or 7.0% (2015 and 2016 issues) – the value of the bonds will be written down to ensure that the Write-Down Threshold Ratio which originally triggered the event is restored to a level equal to or exceeding its trigger level. Here, too, in a worst-case scenario, all monies due on the bonds will cease to be payable in their entirety. In the event of the monies payable on the bonds ceasing to be payable either in part or in full, no subsequent increase in the value of the bonds is envisaged or permitted. From the issue date to the reset date the bonds will pay interest at a fixed rate. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate and a margin. Interest on the bonds is payable, in arrears on a 30/360-day basis, until the bonds have either been redeemed or fully written off. Interest payments on the bonds are prohibited in the event of this being ordered by the regulator (FINMA) or should there be insufficient retained earnings on the balance sheet of Julius Baer Group Ltd. to finance the payment of interest on tier 1 capital and to make any distributions already planned in respect of the previous financial year. Once suspended, any interest payments will permanently cease to be payable. Such interest payments are not cumulative, nor will they be paid at any future date. In the event of interest payments on the bonds being suspended, the Board of Directors of Julius Baer Group Ltd. will not be permitted to recommend any dividend payments to the Annual General Meeting until such time as interest payments on the bonds are resumed. Moreover, in the event of interest payments on the



bonds being suspended, Julius Baer Group Ltd. will not repurchase any of its own shares, neither directly nor indirectly.

#### *2012 issue*

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

#### *2014 issue*

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

#### *2015 issue*

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

#### *2016 issue*

The perpetual tier 1 subordinated bond, which is denominated in SGD, was issued by Julius Baer Group Ltd. on 20 October 2016. The bonds can first be redeemed, at the Issuer's discretion, on 20 April 2022. From the issue date to the reset date (20 April 2022) the bonds will pay interest at a fixed rate of 5.75% per annum. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate (i.e. the five-year SGD swap offer rate) and a margin of 3.915%. Interest on the bonds is payable semi-annually in arrears on 20 April and 20 October in each year.

## 17A DEFERRED TAX ASSETS

	31.12.2016 CHF m	31.12.2015 CHF m
Balance at the beginning of the year	23.8	15.3
Income statement – credit	4.1	8.7
Income statement – charge	-3.6	-1.0
Acquisition of subsidiaries	5.2	0.1
Recognised directly in OCI	0.3	1.1
Translation differences and other adjustments	-1.1	-0.3
<b>Balance at the end of the year</b>	<b>28.8</b>	<b>23.8</b>

The components of deferred tax assets are as follows:

Operating loss carryforwards	21.6	18.9
Employee compensation and benefits	4.0	4.4
Financial investments available-for-sale	1.4	-
Property and equipment	0.3	0.1
Valuation adjustments on loans	1.5	0.5
<b>Total</b>	<b>28.8</b>	<b>23.8</b>

## 17B DEFERRED TAX LIABILITIES

	31.12.2016 CHF m	31.12.2015 CHF m
Balance at the beginning of the year	41.6	137.9
Income statement – charge	13.1	1.5
Income statement – credit	-4.1	-54.1
Acquisition of subsidiaries	9.1	0.0
Recognised directly in OCI	16.1	-38.3
Translation differences and other adjustments	2.1	-5.4
<b>Balance at the end of the year</b>	<b>77.8</b>	<b>41.6</b>

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

Provisions	1.7	1.4
Property and equipment	15.0	15.4
Financial investments available-for-sale	24.9	19.6
Intangible assets	49.6	47.7
Other	14.1	11.6
Deferred tax liability before set-off	105.3	95.7
Offset of pension liability taxes	-27.5	-54.1
<b>Total</b>	<b>77.8</b>	<b>41.6</b>

<sup>1</sup> The temporary differences associated with investments in subsidiaries do not lead to deferred tax liabilities, as the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

## 18 PROVISIONS

	Legal risks CHF m	Other CHF m	2016 Total CHF m	2015 Total CHF m
Balance at the beginning of the year	571.9	3.2	575.2	89.5
Utilised during the year	-563.6	-1.2	-564.8	-65.6
Provisions made during the year	19.3	0.9	20.1	534.1 <sup>1</sup>
Provisions reversed during the year	-5.2	-0.1	-5.3	-7.5
Acquisition of subsidiaries	1.2	-	1.2	0.4
Translation differences	-3.4	-	-3.4	24.2
<b>Balance at the end of the year</b>	<b>20.2</b>	<b>2.8</b>	<b>23.0</b>	<b>575.2</b>

<sup>1</sup> Including the provision in the amount of USD 547.25 million related to the agreement in principle with the US Attorney's Office for the Southern District of New York with respect to a resolution regarding Julius Baer's legacy US cross-border business.

### Maturity of provisions

Up to one year	10.6	0.5	11.1	553.7
Over one year	9.5	2.3	11.8	21.5

### Introduction

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

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

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

together with other circumstances materially adversely affect the Group's business, results of operations, financial condition and prospects.

### Legal proceedings/contingent liabilities

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

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

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

31 December 2016. The contingent liabilities might have a material effect on the Group or for other reasons might be of interest for investors and other stakeholders.

In 2010 and 2011, litigation was commenced against Bank Julius Baer & Co. Ltd. (the 'Bank') and numerous other financial institutions by the liquidators of the Fairfield funds (the 'Fairfield Liquidators'), having acted as feeder funds for the Madoff fraudulent investment schemes. In the direct claims against the Bank, the Fairfield Liquidators are seeking to recover a total amount of approximately USD 64 million in the courts of New York (including USD 17 million that relates to redemption payments made to clients of ING Bank (Suisse) SA, which merged with the Bank in 2010, and approximately USD 25 million that relates to redemption payments made to clients of Merrill Lynch Bank (Suisse) SA, which merged with the Bank in 2013, such claims being subject to acquisition-related representation and warranties provisions). The proceedings in the courts of the British Virgin Islands, where an amount of approximately USD 8.5 million have been claimed from the Bank, were finally dismissed in favour of the Bank with a ruling of the Privy Council, the highest court of appeals for the British Virgin Islands. In addition to the direct claims against the Bank, the Fairfield Liquidators have made combined claims in the amount of approximately USD 1.8 billion against more than 80 defendants. Only a fraction of this amount is sought against the Bank and its beneficial owners. The combined claims aggregate the damages asserted against all defendants, such that a reliable allocation of the claimed amounts between the Bank and the other defendants cannot be made at this time. Finally, in further proceedings, the trustee of Madoff's broker-dealer company (the 'Trustee') seeks to recover over USD 83 million in the courts of New York (including USD 46 million that relates to redemption payments made to clients of Merrill Lynch Bank (Suisse) SA, which merged with the Bank in 2013, such claims being subject to acquisition-related representation and warranties provisions), largely in relation to the same redemption payments which are the subject matter of the claims asserted by the Fairfield Liquidators. As most of the aforementioned litigation remains in the preliminary procedural stages, a meaningful

assessment of the potential outcome is not yet possible. The Bank is challenging these actions on procedural and substantive grounds and has taken further measures to defend and protect its interests. In addition, as the BVI Courts oversee the Fairfield Funds' liquidation proceedings, the Bank introduced an application challenging the Fairfield Liquidators' authority to pursue the US Litigation. The BVI trial court dismissed the application. The Bank and other defendants have appealed the dismissal and the argument is scheduled to be heard in 2017. Further, the Fairfield Liquidators sought, and ultimately obtained, sanction from the BVI Courts to proceed with the litigation in the United States. The Bank and other defendants are challenging this sanction decision as well. In view of this pending application in the BVI and as the Fairfield cases pending in the courts of New York remain in preliminary stages, a meaningful assessment of the potential outcome is not yet possible. Finally, it is also worth mentioning that in the proceedings initiated by the Trustee, the Bankruptcy Court in New York issued a ruling in November 2016, reconfirming the extraterritoriality principles set by the District Court for the Southern District of New York which stated that the US Bankruptcy Code does not apply extraterritorially to allow for the recovery of fund payments received by a foreign bank ('foreign transferee') from a foreign fund ('foreign transferor'). While this ruling is in favour of the Bank and the other defendants, it is expected that the Trustee will appeal the ruling.

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

applicable and the documentation as well as the impact of respective waivers and the communicated bandwidths having been introduced some years ago, and implemented appropriate measures to address the matter.

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

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

In September 2014, the Bundesanstalt für vereinigungsbedingte Sonderaufgaben ('BvS') initiated legal proceedings in Zurich against Bank Julius Baer & Co. Ltd., claiming approximately CHF 97 million plus accrued interests since 1994.

BvS claims to be the German authority responsible for managing the assets of the former German Democratic Republic ('GDR'). BvS claims that the former Bank Cantrade Ltd., which the Bank acquired through its acquisition of Bank Ehinger & Armand von Ernst AG from UBS AG in 2005, allowed unauthorised withdrawals between 1990 and 1992 from the account of a foreign GDR trade company. The Zurich District Court has dismissed the claim on 9 December 2016. BvS has appealed such verdict. In addition, the claim has been notified by the Bank vis-à-vis the seller under the 2005 transaction agreement with regard to representations and warranties granted in respect of the acquired entities.

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

In April 2015, Bank Julius Baer & Co. Ltd. was served with 62 claims in Geneva totalling approximately CHF 20 million plus accrued interest. The claimants, being part of a larger group of former clients of an external asset manager claiming damages in a total amount of approximately CHF 40 million, argue lack of due diligence on the part of the Bank in the context of the late external asset manager allegedly having used his personal account and company account with the Bank for flow-through client transactions and pooling of client funds. On 16 October 2015, such claims have been formalised by 51 out of the 62 claimants, claiming a total amount of CHF 11.7 million plus accrued interest. In October 2016, the Bank was served with another claim by additional 15 claimants, claiming a total amount of CHF 4.5 million plus accrued interest. The Bank is contesting the claim and has taken appropriate measures to defend its interests.

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

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

In October 2015, Julius Baer International Ltd., UK, has been presented a complaint by three associated clients claiming failings with respect to the suitability of investments made on their behalf, obtaining appropriate instructions, the provision of appropriate information and the monitoring processes. As a consequence, the clients claimed a loss of approximately USD 37 million. In December 2016, the clients have provided Julius Baer International Limited and Bank Julius Baer & Co. Ltd. with a draft of their particulars of claim, specifying their claim to approximately USD 20.6 million. Julius Baer International Ltd. is handling and reporting this case in line with local rules and regulations.

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

## 19 SHARE CAPITAL

	Registered shares (CHF 0.02 par)	
	<i>Number</i>	<i>CHF m</i>
Balance on 01.01.2015	223,809,448	<b>4.5</b>
<i>of which entitled to dividends</i>	223,809,448	<b>4.5</b>
Balance on 31.12.2015	223,809,448	<b>4.5</b>
<i>of which entitled to dividends</i>	223,809,448	<b>4.5</b>
<b>Balance on 31.12.2016</b>	223,809,448	<b>4.5</b>
<i>of which entitled to dividends</i>	223,809,448	<b>4.5</b>

## ADDITIONAL INFORMATION

### 20 REPORTING BY SEGMENT

The Julius Baer Group engages exclusively in private banking activities primarily in Switzerland, Europe, Asia and South America. This focus on pure-play private banking includes certain internal supporting functions which serve entirely the core business activities. Revenues from private banking activities primarily encompass commissions charged for servicing and advising private clients as well as net interest income on financial instruments.

The Group's external segment reporting is based on the internal reporting to the chief operating decision maker, which is responsible for allocating resources and assesses the financial performance of the business. The Executive Board of the Group has been identified as the chief operating decision maker, as this board is responsible for the implementation of the overall strategy and the operational management of the whole Group. The Executive Board of the Group as at 31 December 2016 is composed of the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Risk Officer, Chief Communications Officer, General Counsel and Business Representative.

Various management reports with discrete financial information are prepared at regular intervals for various management levels. However, the Executive Board of the Group reviews and uses for its management decisions the consolidated financial reports on the level of the Group only.

In accordance with the applicable rules and based on the analysis of the relevant factors determining segments, the Group consists of a single reportable segment. This is in line with the strategy and business model of the Group and reflects the management structure and the use of information by management in making operating decisions. The acquired Merrill Lynch International Wealth Management business did not change the management structure, as it has been fully integrated into the existing structures of the Group. Although GPS and Kairos represent separate cash-generating units for the purpose of the goodwill impairment testing (refer to Note 12 for details), they do not constitute segments on their own.

Therefore, the Group does not disclose separate segment information, as the external reporting provided in these financial statements reflects the internal management accounting.

#### Entity-wide disclosures

	<b>31.12.2016</b>	31.12.2015	<b>2016</b>	2015	<b>2016</b>	2015
	Total assets CHF m	CHF m	Operating income CHF m	CHF m	Investments CHF m	CHF m
Switzerland	<b>80,573</b>	69,605	<b>1,865</b>	1,814	<b>119</b>	113
Europe (excl. Switzerland)	<b>25,080</b>	17,595	<b>465</b>	406	<b>462</b>	5
Americas	<b>1,338</b>	1,565	<b>106</b>	142	<b>3</b>	13
Asia and other countries	<b>20,599</b>	19,385	<b>560</b>	532	<b>48</b>	101
Less consolidation items	<b>31,383</b>	24,034	<b>143</b>	200		
<b>Total</b>	<b>96,207</b>	84,116	<b>2,852</b>	2,694	<b>633</b>	231

The information about geographical areas is based on the domicile of the reporting entity. This geographical information does not reflect the way the Group is managed.



## 21 RELATED PARTY TRANSACTIONS

	31.12.2016 CHF m	31.12.2015 CHF m
<b>Key management personnel compensation<sup>1</sup></b>		
Salaries and other short-term employee benefits	16.4	12.8
Post-employment benefits	0.8	0.6
Share-based payments	6.8	6.6
<b>Total</b>	<b>24.0</b>	<b>20.0</b>
<b>Receivables from</b>		
key management personnel	19.9	21.5
<b>Total</b>	<b>19.9</b>	<b>21.5</b>
<b>Liabilities to</b>		
key management personnel	16.6	7.9
own pension funds	8.2	7.2
<b>Total</b>	<b>24.8</b>	<b>15.1</b>
<b>Credit guarantees to</b>		
key management personnel	0.4	0.4
<b>Total</b>	<b>0.4</b>	<b>0.4</b>
<b>Income from services provided to</b>		
key management personnel	0.6	0.3
<b>Total</b>	<b>0.6</b>	<b>0.3</b>

<sup>1</sup> Key management personnel consists of the Board of Directors and the Executive Board of Julius Baer Group Ltd.

The Executive Board of the Group company consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Communications Officer, the Chief Operating Officer, the General Counsel, the Chief Risk Officer and the Business Representative in 2016.

The Executive Board of the Group company consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Communications Officer, the Chief Operating Officer, the General Counsel and the Chief Risk Officer in 2015.

For shareholdings of the Board of Directors and Executive Board, see section Financial Statements Julius Baer Group Ltd. 2016.

The loans granted to key management personnel consist of Lombard loans on a secured basis (through pledging of the securities portfolios) and mortgage loans on a fixed and variable basis.

The interest rates of the Lombard loans and mortgage loans are in line with the terms and conditions that are available to other employees, which are in line with the terms and conditions granted to third parties adjusted for reduced credit risk.

## 22 PENSION PLANS AND OTHER EMPLOYEE BENEFITS

The Group maintains various defined contribution and defined benefit pension plans in Switzerland and abroad. The pension plans in Switzerland have been set up on the basis of the Swiss method of defined contributions under the Swiss pension law. Employees and pensioners or their survivors receive statutorily determined benefits upon leaving the Group or retiring as well as in the event of death or invalidity. These benefits are the result of the conversion rate applied on the accumulated balance of the individual plan participant's pension account at the retirement date. The accumulated balance equals the sum of the regular employer's and employee's contribution that have been made during the employment period, including the accrued interest on these amounts. However, these plans do not fulfil all the criteria of a defined contribution pension plan according to IAS 19 and are therefore treated as defined benefit pension plans for the purpose of the Group's financial statements.

The pension obligations are largely covered through pension plan assets of pension funds that are legally separated and independent from the Group. In case the plans become significantly underfunded over an extended time period according to the Swiss pension law basis, the Group and the employees share the risk of additional payments into the pension fund. The pension funds are managed by a board of trustees consisting of representatives of the employees and the employer. Management of the pension funds includes the pursuit of a medium- and long-term consistency and sustainability between the pension plans' assets and liabilities, based on a diversified investment strategy correlating with the maturity of the pension obligations. The organisation, management, financing and investment strategy of the pension plans comply with the legal requirements, the foundation charters and the applicable pension regulations.

	2016 CHF m	2015 CHF m
<b>1. Development of pension obligations and assets</b>		
Present value of defined benefit obligation at the beginning of the year	-2,597.9	-2,417.7
Acquisitions	-10.2	-
Current service cost	-68.4	-63.3
Employees' contributions	-39.0	-34.6
Interest expense on defined benefit obligation	-21.5	-32.0
Past service cost, curtailments, settlements, plan amendments	57.9	-1.4
Benefits paid (including benefits paid directly by employer)	40.4	41.4
Transfer payments in/out	-0.5	-0.0
Experience gains/(losses) on defined benefit obligation	-18.3	-47.2
Actuarial gains/(losses) arising from change in demographic assumptions	4.9	75.9
Actuarial gains/(losses) arising from change in financial assumptions	-47.9	-124.4
Translation differences	13.1	5.5
Present value of defined benefit obligation at the end of the year	-2,687.3	-2,597.9
<i>whereof due to active members</i>	-1,701.3	-1,689.2
<i>whereof due to deferred members</i>	-83.4	-71.7
<i>whereof due to pensioners</i>	-902.6	-836.9
Fair value of plan assets at the beginning of the year	2,346.6	2,283.3
Acquisitions	6.6	-
Interest income on plan assets	20.2	30.9
Employees' contributions	39.0	34.6
Employer's contributions	106.1	78.7
Curtailments, settlements, plan amendments	-0.6	-2.9
Benefits paid by fund	-40.4	-41.4
Transfer payments in/out	0.5	0.0
Administration cost (excluding asset management cost)	-0.9	-0.9
Return on plan assets (excluding interest income)	85.8	-30.8
Translation differences	-12.5	-5.0
Fair value of plan assets at the end of the year	2,550.4	2,346.6
	31.12.2016 CHF m	31.12.2015 CHF m
<b>2. Balance sheet</b>		
Fair value of plan assets	2,550.4	2,346.6
Present value of defined benefit obligation	-2,683.9	-2,597.9
Present value of unfunded benefit obligation	-3.4	-
Net defined benefit asset/(liability)	-136.9	-251.3

	2016 CHF m	2015 CHF m
<b>3. Income statement</b>		
Current service cost	-68.4	-63.3
Interest expense on defined benefit obligation	-21.5	-32.0
Past service cost, curtailments, settlements, plan amendments	57.3 <sup>1</sup>	-4.3
Interest income on plan assets	20.2	30.9
Administration cost (excluding asset management cost)	-0.9	-0.9
Defined benefit cost recognised in the income statement	-13.2	-69.6
<i>whereof service cost</i>	-12.0	-68.5
<i>whereof net interest on the net defined benefit/(liability) asset</i>	-1.3	-1.1

<sup>1</sup> In 2016, the Group amended its defined benefit plans in Switzerland and therefore recalculated its defined benefit obligation (DBO). The amendments are related to a lower conversion rate, a higher pension age and higher savings contributions and resulted in a reduction of the defined benefit obligation by CHF 62.8 million, which was recognised in the income statement.

#### 4. Movements in defined benefit liability

Net defined benefit asset/(liability) at the beginning of the year	-251.3	-134.4
Acquisitions	-3.6	-
Translation differences	0.6	0.4
Defined benefit cost recognised in the income statement	-13.2	-69.6
Benefits paid by employer	0.0	0.0
Employer's contributions	106.1	78.7
Remeasurements of the net defined benefit liability/(asset)	24.5	-126.6
<b>Amount recognised in the balance sheet</b>	<b>-136.9</b>	<b>-251.3</b>

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

Actuarial gains/(losses) of defined benefit obligation	-61.3	-95.7
Return on plan assets (excluding interest income)	85.8	-30.8
<b>Total recognised in other comprehensive income</b>	<b>24.5</b>	<b>-126.6</b>

#### 5. Composition of plan assets

Cash	125.1	44.7
Debt instruments	776.6	747.2
Equity instruments	757.0	775.1
Real estate	408.0	344.9
Alternative investments	262.9	230.1
Other	220.6	204.6
<b>Total</b>	<b>2,550.4</b>	<b>2,346.6</b>

	2016 <i>in %</i>	2015 <i>in %</i>
<b>6. Aggregation of plan assets – quoted market prices in active markets</b>		
Cash	4.9	1.9
Debt instruments	29.2	30.5
Equity instruments	29.7	33.1
Real estate	7.2	7.5
Other	13.5	11.3
<b>Total</b>	<b>84.5</b>	<b>84.3</b>

	2016 <i>CHF m</i>	2015 <i>CHF m</i>
<b>7. Sensitivities</b>		
Decrease of discount rate -0.25%		
Effect on defined benefit obligation	-73.4	-72.7
Effect on service cost	-2.4	-2.3
Increase of discount rate +0.25%		
Effect on defined benefit obligation	69.4	68.7
Effect on service cost	2.2	2.1
Decrease of salary increase -0.25%		
Effect on defined benefit obligation	9.0	5.5
Effect on service cost	0.9	0.5
Increase of salary increase +0.25%		
Effect on defined benefit obligation	-9.2	-5.4
Effect on service cost	-0.9	-0.6
Life expectancy		
Increase in longevity by one additional year	53.3	49.6

### **Actuarial calculation of pension assets and obligations**

The latest actuarial calculation was carried out as at 31 December 2016. The actuarial assumptions are based on local economic conditions and are as follows for Switzerland, which accounts for about 96% (2015: 96%) of all benefit obligations and plan assets:

	2016	2015
Discount rate	<b>0.55%</b>	0.75%
Average future salary increases	<b>0.50%</b>	1.00%
Future pension increases	<b>0.00%</b>	0.00%
Duration (years)	<b>14</b>	15

### **Investment in Julius Baer Group Ltd. shares**

The pension plan assets are invested in accordance with local laws and do not include shares of Julius Baer Group Ltd.

### **Expected employer contributions**

The expected employer contributions for the 2017 financial year related to defined benefit plans are estimated at CHF 84.8 million.

### **Outstanding liabilities to pension plans**

The Group had outstanding liabilities to various pension plans in the amount of CHF 8.2 million (2015: CHF 7.2 million).

### **Defined contribution pension plans**

The Group maintains a number of defined contribution pension plans, primarily outside Switzerland. In the case of defined contribution pension plans, the pension expenses are charged to the income statement in the corresponding financial year. The expenses for contributions to these pension plans amounted to CHF 27.4 million for the 2016 financial year (2015: CHF 27.0 million).

## 23 SECURITIES TRANSACTIONS

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

	31.12.2016 CHF m	31.12.2015 CHF m
<b>Receivables</b>		
Receivables from cash provided in securities borrowing transactions	16.2	17.3
<i>of which recognised in due from banks</i>	16.2	17.3
Receivables from cash provided in reverse repurchase transactions	1.4	866.2
<i>of which recognised in due from banks</i>	1.4	646.0
<i>of which recognised in loans</i>	-	220.2
<b>Obligations</b>		
Obligations to return cash received in securities lending transactions	1,301.2	1,028.4
<i>of which recognised in due to banks</i>	1,301.2	1,028.4
Obligations to return cash received in repurchase transactions	248.3	307.7
<i>of which recognised in due to banks</i>	248.3	307.7
<b>Securities collateral</b>		
Own securities lent as well as securities provided as collateral for borrowed securities under securities borrowing and repurchase transactions	2,342.3	2,026.5
<i>of which securities the right to pledge or sell has been granted without restriction</i>	2,342.3	2,026.5
<i>of which recognised in trading assets</i>	1,543.2	1,580.1
<i>of which recognised in financial investments available-for-sale</i>	799.1	446.4
Securities borrowed as well as securities received as collateral for loaned securities under securities lending and reverse repurchase transactions	2,138.7	2,841.8
<i>of which repledged or resold securities</i>	2,032.3	1,432.3

The Group enters into fully collateralised securities borrowing and securities lending transactions and repurchase and reverse repurchase agreements that may result in credit exposure in the event that the counterparty may be unable to fulfil the contractual obligations. Generally, the transactions are carried out under standard agreements employed by market participants (e.g. Global Master Securities Lending Agreements or Global Master Repurchase

Agreements). The related credit risk exposures are controlled by daily monitoring and adjusted collateralisation of the positions. The financial assets which continue to be recognised are typically transferred in exchange for cash or other financial assets. The related liabilities can therefore be assumed to be approximately the same as the carrying amount of the transferred financial assets.

## 24 DERIVATIVE FINANCIAL INSTRUMENTS

### Derivatives held for trading

	Contract/ Notional amount CHF m	Positive replacement value CHF m	Negative replacement value CHF m
<b>Foreign exchange derivatives</b>			
Forward contracts	68,917.7	804.2	720.0
Futures	97.6	0.1	0.1
Cross-currency swaps	267.9	-	5.0
Options (OTC)	39,215.9	460.7	362.9
<b>Total foreign exchange derivatives 31.12.2016</b>	<b>108,499.1</b>	<b>1,264.9</b>	<b>1,088.0</b>
Total foreign exchange derivatives 31.12.2015	105,942.6	1,011.4	800.1
<b>Interest rate derivatives</b>			
Swaps	8,797.4	108.8	103.4
Futures	791.9	1.4	1.7
Options (OTC)	261.8	13.1	6.9
<b>Total interest rate derivatives 31.12.2016</b>	<b>9,851.1</b>	<b>123.2</b>	<b>112.0</b>
Total interest rate derivatives 31.12.2015	9,767.1	112.0	111.0
<b>Precious metals derivatives</b>			
Forward contracts	1,687.4	18.9	61.7
Futures	180.4	1.3	0.0
Options (OTC)	2,788.7	191.0	37.4
<b>Total precious metals derivatives 31.12.2016</b>	<b>4,656.5</b>	<b>211.2</b>	<b>99.1</b>
Total precious metals derivatives 31.12.2015	2,940.9	159.6	36.9
<b>Equity/indices derivatives</b>			
Futures	1,812.3	48.5	43.0
Options (OTC)	10,303.4	176.2	181.3
Options (traded)	9,525.9	853.2	670.4
<b>Total equity/indices derivatives 31.12.2016</b>	<b>21,641.6</b>	<b>1,077.9</b>	<b>894.7</b>
Total equity/indices derivatives 31.12.2015	19,738.1	895.2	1,361.1
<b>Other derivatives</b>			
Futures	144.1	0.5	2.7
<b>Total other derivatives 31.12.2016</b>	<b>144.1</b>	<b>0.5</b>	<b>2.7</b>
Total other derivatives 31.12.2015	127.8	10.3	-



**Derivatives held for trading (continued)**

	Contract/ Notional amount CHF m	Positive replacement value CHF m	Negative replacement value CHF m
<b>Credit derivatives</b>			
Credit default swaps	295.0	0.1	6.7
Total return swaps	66.5	2.3	0.2
Other credit derivatives	39.4	-	10.2
<b>Total credit derivatives 31.12.2016</b>	<b>401.0</b>	<b>2.4</b>	<b>17.1</b>
Total credit derivatives 31.12.2015	180.5	0.6	9.9
<b>Total derivatives held for trading 31.12.2016</b>	<b>145,193.5</b>	<b>2,680.1</b>	<b>2,213.5</b>
Total derivatives held for trading 31.12.2015	138,697.1	2,189.1	2,318.9

**Derivatives held for hedging**

<b>Derivatives designated as fair value hedges</b>			
Interest rate swaps	2,171.1	10.8	71.9
<b>Total derivatives held for hedging 31.12.2016</b>	<b>2,171.1</b>	<b>10.8</b>	<b>71.9</b>
Total derivatives held for hedging 31.12.2015	1,442.5	-	72.5
<b>Total derivative financial instruments 31.12.2016</b>	<b>147,364.6</b>	<b>2,690.9</b>	<b>2,285.3</b>
Total derivative financial instruments 31.12.2015	140,139.6	2,189.1	2,391.4

## 25A FINANCIAL INSTRUMENTS BY CATEGORY

### Financial assets

	Carrying value CHF m	31.12.2016 Fair value CHF m	Carrying value CHF m	31.12.2015 Fair value CHF m
<b>Cash, loans and receivables</b>				
Cash	13,599.5	13,599.5	9,185.7	9,185.7
Due from banks	11,389.8	11,395.5	6,901.1	6,909.0
Loans	38,419.0	38,873.2	36,380.9	36,850.6
Accrued income	282.8	282.8	326.9	326.9
<b>Total</b>	<b>63,691.1</b>	<b>64,151.0</b>	<b>52,794.7</b>	<b>53,272.2</b>
<b>Held for trading</b>				
Trading assets	7,261.8	7,261.8	6,957.7	6,957.7
Derivative financial instruments	2,680.1	2,680.1	2,189.1	2,189.1
<b>Total</b>	<b>9,941.9</b>	<b>9,941.9</b>	<b>9,146.8</b>	<b>9,146.8</b>
<b>Derivatives designated as hedging instruments</b>				
Derivative financial instruments	10.8	10.8	-	-
<b>Total</b>	<b>10.8</b>	<b>10.8</b>	<b>-</b>	<b>-</b>
<b>Designated at fair value</b>				
Financial assets designated at fair value	252.4	252.4	197.0	197.0
<b>Total</b>	<b>252.4</b>	<b>252.4</b>	<b>197.0</b>	<b>197.0</b>
<b>Available-for-sale</b>				
Financial investments available-for-sale	18,266.6	18,266.6	16,572.5	16,572.5
<b>Total</b>	<b>18,266.6</b>	<b>18,266.6</b>	<b>16,572.5</b>	<b>16,572.5</b>
<b>Total financial assets</b>	<b>92,162.8</b>	<b>92,622.7</b>	<b>78,710.9</b>	<b>79,188.4</b>

## Financial liabilities

	Carrying value CHF m	31.12.2016 Fair value CHF m	Carrying value CHF m	31.12.2015 Fair value CHF m
<b>Financial liabilities at amortised costs</b>				
Due to banks	10,076.8	10,076.9	4,672.0	4,672.3
Due to customers	67,495.2	67,496.9	64,781.4	64,782.8
Debt issued	1,213.5	1,254.0	1,152.7	1,191.8
Accrued expenses	187.7	187.7	154.4	154.4
<b>Total</b>	<b>78,973.2</b>	<b>79,015.5</b>	<b>70,760.4</b>	<b>70,801.3</b>
<b>Held for trading</b>				
Trading liabilities	159.0	159.0	190.8	190.8
Derivative financial instruments	2,213.5	2,213.5	2,318.9	2,318.9
<b>Total</b>	<b>2,372.4</b>	<b>2,372.4</b>	<b>2,509.7</b>	<b>2,509.7</b>
<b>Derivatives designated as hedging instruments</b>				
Derivative financial instruments	71.9	71.9	72.5	72.5
<b>Total</b>	<b>71.9</b>	<b>71.9</b>	<b>72.5</b>	<b>72.5</b>
<b>Designated at fair value</b>				
Financial liabilities designated at fair value	8,444.4	8,444.4	4,263.1	4,263.1
Other liabilities	41.2 <sup>1</sup>	41.2	24.5 <sup>2</sup>	24.5
<b>Total</b>	<b>8,485.6</b>	<b>8,485.6</b>	<b>4,287.6</b>	<b>4,287.6</b>
<b>Total financial liabilities</b>	<b>89,903.1</b>	<b>89,945.5</b>	<b>77,630.3</b>	<b>77,671.1</b>

<sup>1</sup> Relates to the deferred purchase price of Fransad Gestion SA, NSC Asesores, S.C., and GPS Investimentos Financeiros e Participações S.A., see Notes 26B and 27.

<sup>2</sup> Relates to the deferred purchase price of WMPartners Wealth Management Ltd., Fransad Gestion SA and NSC Asesores, S.C., see Notes 26B and 27.

The following methods are used in measuring the fair value of financial instruments in the balance sheet:

**Short-term financial instruments**

Financial instruments with a maturity or a refinancing profile of one year or less are generally classified as short-term. This applies for the balance sheet items cash and money market instruments. Depending on the maturity, it also includes the following: due from banks; loans; mortgages; due to banks; due to customers and debt issued. For short-term financial instruments which do not have a market price published by a recognised stock exchange or notable market (referred to hereinafter as a market price), the carrying value fundamentally approximates the fair value.

**Long-term financial instruments**

Depending on the maturity, these include the following balance sheet items: due from banks; loans; mortgages; due to banks; due to customers and debt issued. The fair value of long-term financial instruments which have a maturity or a refinancing profile of more than one year is derived by using the net present value method. Generally, the Libor rate is used to calculate the net present value of the loans and mortgages, as these assets are fully collateralised and therefore the specific counterparty risk has no material impact on the fair value measurement.

**Trading assets and liabilities, financial investments available-for-sale, derivative financial instruments and financial liabilities designated at fair value**

Refer to Note 25B for details regarding the valuation of these instruments.

## 25B FINANCIAL INSTRUMENTS – FAIR VALUE DETERMINATION

### Level 1

For trading assets as well as for certain financial investments available-for-sale and exchange-traded derivatives whose prices are quoted in an active market, the fair value is determined directly from the quoted market prices.

### Level 2

For financial instruments for which quoted market prices are not directly available or are not derived from active markets, fair values are estimated using valuation techniques or models based wherever possible on assumptions supported by observable market prices or rates existing on the balance sheet date. This is the case for the majority of OTC derivatives, most unquoted financial instruments, and other items that are not traded in active markets. The main pricing models and valuation techniques applied to these financial instruments include forward pricing and swap models using present-value calculations, and option models such as the Black-Scholes model. The values derived from applying these models and techniques are significantly impacted by the choice of the valuation model used and the underlying assumptions made, such as the amounts and timing of future cash flows, discount rates, volatility, or credit risk.

### Level 3

For certain financial instruments, neither quoted market prices nor valuation techniques or models based on observable market prices are available for determining the fair value. In these cases, fair value is estimated indirectly using valuation techniques or models based on reasonable assumptions reflecting market conditions.

*Financial investments available-for-sale:* The Group holds certain equity instruments, which are required for the operation of the Group and are reported as financial instruments available-for-sale, with changes in the fair value recognised in other comprehensive income. The determination of the fair value is based on the published net asset value of the investees. The net asset values are adjusted by management for any necessary impacts from events which may

have an influence on the valuation (adjusted net asset method). In 2016, dividends related to these investments in the amount of CHF 7.3 million have been recognised in the income statement.

*Financial instruments designated at fair value:* The Group issues to its private clients certain specific structured notes, which are intended to be fully invested in private equity investments. Since the notes may not be fully invested in private equity as from the beginning, the portion currently not yet invested is placed in money market instruments, short-term debt funds, or held in cash. Although the clients contractually bear all the related risks and rewards from the underlying investments, these financial instruments are not derecognised from the Group's balance sheet due to the strict derecognition criteria required by IFRS. Therefore, the private equity investments as well as the money market instruments are recorded as financial assets designated at fair value. Any changes in the fair value or any other income from the private equity investments, as well as any income related to the money market instruments, are recorded in the income statement. However, as the clients are entitled to all rewards related to the investments, these amounts net out in the respective line item in the income statement. Hence, any change in the valuation inputs has no impact on the Group's income statement or shareholders' equity.

To measure the fair values of the private equity investments, the Group generally relies on the valuations as provided by the respective private equity funds managing the investments. These funds in turn use their own valuation techniques, such as market approaches or income approaches, including their own input factors into the applied models. Therefore, the private equity investments are reported in level 3 of the fair value hierarchy, as the fair values are determined based on models with unobservable market inputs. The related issued notes are reported as financial liabilities designated at fair value and classified as level 3 instruments, due to the related private equity investments being part of the valuation of the notes.

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

	31.12.2016			
	Quoted market price Level 1 CHF m	Valuation technique market- observable inputs Level 2 CHF m	Valuation technique non-market- observable inputs Level 3 CHF m	<b>Total</b> CHF m
<b>Assets and liabilities measured at fair value</b>				
Trading assets – debt instruments	1,368.3	46.7	-	1,415.0
Trading assets – equity instruments	5,465.6	381.3	-	5,846.9
<b>Total trading assets</b>	<b>6,833.9</b>	<b>428.0</b>	<b>-</b>	<b>7,261.8</b>
Foreign exchange derivatives	8.6	1,256.3	-	1,264.9
Interest rate derivatives	1.4	132.7	-	134.1
Precious metal derivatives	1.3	209.9	-	211.2
Equity/indices derivatives	48.5	1,029.4	-	1,077.9
Credit derivatives	-	2.4	-	2.4
Other derivatives	0.5	-	-	0.5
<b>Total derivative financial instruments</b>	<b>60.2</b>	<b>2,630.7</b>	<b>-</b>	<b>2,690.9</b>
<b>Financial assets designated at fair value</b>	<b>128.3</b>	<b>29.2</b>	<b>94.8</b>	<b>252.4</b>
Financial investments available-for-sale – money market instruments	596.4	3,188.7	-	3,785.0
Financial investments available-for-sale – debt instruments	13,402.1	914.0	-	14,316.0
Financial investments available-for-sale – equity instruments	26.0	18.8	120.7	165.5
<b>Total financial investments available-for-sale</b>	<b>14,024.5</b>	<b>4,121.4</b>	<b>120.7</b>	<b>18,266.6</b>
<b>Total assets</b>	<b>21,046.9</b>	<b>7,209.3</b>	<b>215.5</b>	<b>28,471.7</b>
Short positions – debt instruments	44.6	3.4	-	48.0
Short positions – equity instruments	96.0	15.0	-	111.0
<b>Total trading liabilities</b>	<b>140.5</b>	<b>18.4</b>	<b>-</b>	<b>159.0</b>
Foreign exchange derivatives	6.4	1,081.6	-	1,088.0
Interest rate derivatives	1.7	182.1	-	183.8
Precious metal derivatives	0.0	99.0	-	99.1
Equity/indices derivatives	43.0	851.7	-	894.7
Credit derivatives	-	17.1	-	17.1
Other derivatives	2.7	-	-	2.7
<b>Total derivative financial instruments</b>	<b>53.8</b>	<b>2,231.5</b>	<b>-</b>	<b>2,285.3</b>
<b>Financial liabilities designated at fair value</b>	<b>-</b>	<b>8,180.8</b>	<b>263.6</b>	<b>8,444.4</b>
<b>Total liabilities</b>	<b>194.4</b>	<b>10,430.7</b>	<b>263.6</b>	<b>10,888.7</b>

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				31.12.2015
	Quoted market price Level 1 CHF m	Valuation technique market- observable inputs Level 2 CHF m	Valuation technique non-market- observable inputs Level 3 CHF m	Total CHF m
Assets and liabilities measured at fair value				
Trading assets – debt instruments	773.6	382.1	-	1,155.7
Trading assets – equity instruments	5,388.1	413.9	-	5,802.0
Total trading assets	6,161.7	795.9	-	6,957.7
Foreign exchange derivatives	5.0	1,006.4	-	1,011.4
Interest rate derivatives	2.2	109.8	-	112.0
Precious metal derivatives	1.0	158.6	-	159.6
Equity/indices derivatives	22.3	872.9	-	895.2
Credit derivatives	-	0.6	-	0.6
Other derivatives	10.3	-	-	10.3
Total derivative financial instruments	40.8	2,148.3	-	2,189.1
Financial assets designated at fair value	121.8	27.0	48.2	197.0
Financial investments available-for-sale – money market instruments	-	2,298.1	-	2,298.1
Financial investments available-for-sale – debt instruments	10,395.2	3,782.0	-	14,177.2
Financial investments available-for-sale – equity instruments	15.7	7.2	74.3	97.2
Total financial investments available-for-sale	10,410.9	6,087.3	74.3	16,572.5
Total assets	16,735.2	9,058.5	122.5	25,916.2
Short positions – debt instruments	81.2	36.0	-	117.2
Short positions – equity instruments	54.0	19.6	-	73.6
Total trading liabilities	135.2	55.6	-	190.8
Foreign exchange derivatives	4.8	795.2	-	800.1
Interest rate derivatives	3.4	180.0	-	183.5
Precious metal derivatives	0.0	36.9	-	36.9
Equity/indices derivatives	20.2	1,340.9	-	1,361.1
Credit derivatives	-	9.9	-	9.9
Other derivatives	0.0	-	-	0.0
Total derivative financial instruments	28.5	2,362.9	-	2,391.4
Financial liabilities designated at fair value	-	4,059.7	203.4	4,263.1
Total liabilities	163.7	6,478.2	203.4	6,845.3

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

				31.12.2016
	Quoted market price Level 1 CHF m	Valuation technique market- observable inputs Level 2 CHF m	Valuation technique non-market- observable inputs Level 3 CHF m	Total CHF m
<b>Assets and liabilities disclosed at fair value</b>				
Cash	13,599.5	-	-	13,599.5
Due from banks	-	11,395.5	-	11,395.5
Loans	-	38,873.2	-	38,873.2
Accrued income	-	282.8	-	282.8
<b>Total assets</b>	<b>13,599.5</b>	<b>50,551.5</b>	<b>-</b>	<b>64,151.0</b>
Due to banks	-	10,076.9	-	10,076.9
Due to customers	-	67,496.9	-	67,496.9
Debt issued	1,254.0	-	-	1,254.0
Accrued expenses	-	187.7	-	187.7
Other liabilities	-	-	41.2	41.2
<b>Total liabilities</b>	<b>1,254.0</b>	<b>77,761.5</b>	<b>41.2</b>	<b>79,056.7</b>
				31.12.2015
	Quoted market price Level 1 CHF m	Valuation technique market- observable inputs Level 2 CHF m	Valuation technique non-market- observable inputs Level 3 CHF m	Total CHF m
<b>Assets and liabilities disclosed at fair value</b>				
Cash	9,185.7	-	-	9,185.7
Due from banks	-	6,909.0	-	6,909.0
Loans	-	36,850.6	-	36,850.6
Accrued income	-	326.9	-	326.9
<b>Total assets</b>	<b>9,185.7</b>	<b>44,086.5</b>	<b>-</b>	<b>53,272.2</b>
Due to banks	-	4,672.3	-	4,672.3
Due to customers	-	64,782.8	-	64,782.8
Debt issued	1,191.8	-	-	1,191.8
Accrued expenses	-	154.4	-	154.4
Other liabilities	-	-	24.5	24.5
<b>Total liabilities</b>	<b>1,191.8</b>	<b>69,609.5</b>	<b>24.5</b>	<b>70,825.8</b>



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

	<b>31.12.2016</b> CHF m	31.12.2015 CHF m
<b>Transfers from level 1 to level 2</b>		
Trading assets	1.3	121.7
Derivative financial instruments	-	106.2
Financial investments available-for-sale	-	2,187.0
Trading liabilities	-	4.7
Derivative financial instruments	-	313.0
Financial liabilities designated at fair value	-	321.5
<b>Transfers from level 2 to level 1</b>		
Trading assets	244.0	38.5
Financial investments available-for-sale	2,141.4	580.0
Trading liabilities	0.5	0.5

The transfers between level 1 and 2, and vice versa, occurred due to changes in the direct availability of quoted market prices. Transfers between the levels are deemed to have occurred at the end of the reporting period.

## 25D FINANCIAL INSTRUMENTS – OFFSETTING

As a private bank, the Group aims to enter into securities transactions and derivative financial instruments. In order to control the credit exposure and reduce the credit risk related to these transactions, the Group applies credit mitigation strategies in the ordinary course of business. The Group enters into master netting agreements with counterparties to mitigate the credit risk of securities lending and borrowing transactions, repurchase and reverse repurchase transactions and over-the-counter derivative transactions. Such arrangements include Global Master Securities Lending Agreements or Global Master Repurchase Agreements, as well as ISDA Master Agreements for derivatives.

The majority of exposures to securities transactions and over-the-counter derivative financial instruments are collateralised, with the collateral being prime financial instruments or cash.

However, under IFRS, to be able to offset transactions with the same counterparty on the balance sheet, the right of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable for all counterparties in the event of default, insolvency or bankruptcy. As the Group's arrangements may not fulfil the strict offsetting criteria as required by IFRS, the Group does not offset the respective amounts related to these transactions on the balance sheet. Consequently, the remaining credit risk on securities lending and borrowing as well as on repurchase and reverse repurchase transactions is fully mitigated.

*Securities transactions:* As the Group does not apply netting on its balance sheet, the cash collateral provided in securities borrowing and reverse repurchase transactions in the amount of CHF 17.6 million (2015: CHF 883.5 million) and the cash collateral received in securities lending and repurchase transactions in the amount of CHF 1,549.5 million (2015: CHF 1,336.1 million) as disclosed in Note 23 are not offset with the respective counterparty positions in the balance sheet.

*Derivative financial instruments:* The derivative financial instruments consist of over-the-counter as well as exchange-traded derivatives. The majority of over-the-counter derivatives in the total amount of CHF 1,786.1 million (positive replacement values) and CHF 1,567.4 million (negative replacement values) are subject to an enforceable netting agreement. Transactions with other banks are generally collateralised with other financial instruments (derivatives) which are recognised on the Group's balance sheet. With non-banking counterparties, the collateral recognised is generally cash balances. None of these balances related to the derivatives transactions are offset on the balance sheet. Additionally, there are derivative financial instruments in the amount of CHF 664.3 million (2015: CHF 462.9 million) which could be offset with the corresponding outstanding amount.

Refer to the Credit Risk section for further analysis of the Group's credit risk strategies and exposure.

## 26A COMPANIES CONSOLIDATED AS AT 31 DECEMBER 2016

### Listed company which is consolidated

	Place of listing	Head Office	Currency	Share capital <i>m</i>	Capitalisation as at 31.12.2016 <i>m</i>
Julius Baer Group Ltd.	SIX Swiss Exchange	Zurich	CHF	4.5	10,123

Swiss securities number: 10 248 496, Bloomberg: BAER VX, Reuters: BAER.VX

### Unlisted operational companies which are consolidated

	Head Office	Currency	Share capital <i>m</i>	Equity interest %
Bank Julius Baer & Co. Ltd.	Zurich	CHF	575.000	100
<i>Branches in Basle, Berne, Crans-Montana, Geneva, Guernsey, Hong Kong, Kreuzlingen, Lausanne, Lucerne, Lugano, Singapore, Sion, St. Gallen, St. Moritz, Verbier, Zug, Zurich</i>				
<i>Representative Offices in Abu Dhabi, Dubai, Istanbul, Moscow, Panama City, Santiago de Chile, Shanghai, Tel Aviv including</i>				
Bank Julius Baer Nominees (Singapore) Pte. Ltd.	Singapore	SGD	0.000	100
Arpese SA	Lugano	CHF	0.400	100
Bank Julius Bär Europe AG	Frankfurt	EUR	15.000	100
<i>Branches in Duesseldorf, Hamburg, Kiel, Mannheim, Munich, Stuttgart, Würzburg including</i>				
Julius Bär Capital GmbH	Frankfurt	EUR	0.026	100
Bank Julius Baer Luxembourg S.A.	Luxembourg	EUR	33.165	100
Bank Julius Baer (Monaco) S.A.M.	Monaco	EUR	60.000	100
Fransad Gestion SA	Geneva	CHF	1.000	100
Julius Baer Investment Ltd.	Zurich	CHF	0.100	100
<i>including</i>				
Julius Baer Consultores S.A.	Caracas	BSF	2.150	100
Julius Baer Trust Company (Singapore) Ltd.	Singapore	SGD	2.812	100

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	Head Office	Currency	Share capital m	Equity interest %
JB Participações Brasil Ltda.	São Paulo	BRL	394.016	100
<i>including</i>				
<i>GPS Investimentos Financeiros e Participações S.A.</i>	<i>São Paulo</i>	<i>BRL</i>	<i>0.280</i>	<i>100</i>
<i>including</i>				
<i>GPS Planejamento Financeiro Ltda.</i>	<i>São Paulo</i>	<i>BRL</i>	<i>0.207</i>	<i>100</i>
<i>Branches in Rio de Janeiro, Belo Horizonte</i>				
JB Participations Ltd.	Zurich	CHF	15.000	100
Julius Baer Advisory S.A.E.	Cairo	EGP	12.847	100
Julius Baer Advisory (Uruguay) S.A.	Montevideo	UYU	0.087	100
Julius Baer Agencia de Valores, S.A.U.	Madrid	EUR	0.902	100
Julius Baer Capital (Guernsey) I Ltd. (in liquidation)	Guernsey	CHF	0.000	100
Julius Baer (Chile) SpA	Santiago de Chile	CLP	498.928	100
Julius Baer Consultores (Peru) S.A.C.	Lima	PEN	4.164	100
Julius Baer Family Office & Trust Ltd.	Zurich	CHF	0.100	100
<i>including</i>				
<i>Julius Baer Trust Company (New Zealand) Limited</i>	<i>Auckland</i>	<i>CHF</i>	<i>0.105</i>	<i>100</i>
Julius Baer Fiduciaria S.p.A.	Milan	EUR	0.100	100
Julius Baer Financial Services (Channel Islands) Ltd.	Jersey	GBP	0.025	100
Julius Baer Financial Services (Israel) Ltd.	Tel Aviv	ILS	11.000	100
Julius Baer Gestión, SGIIC, S.A.U.	Madrid	EUR	2.100	100
Julius Baer International Advisory (Uruguay) S.A.	Montevideo	USD	1.600	100
Julius Baer International Limited	London	GBP	122.200	100
<i>Branch in Dublin</i>				
Julius Baer International Panama Inc.	Panama City	CHF	19.383	100
<i>including</i>				
<i>Julius Baer Bank &amp; Trust (Bahamas) Ltd.</i>	<i>Nassau</i>	<i>CHF</i>	<i>20.000</i>	<i>100</i>
<i>including</i>				
<i>Julius Baer Trust Company (Bahamas) Ltd. (in liquidation)</i>	<i>Nassau</i>	<i>CHF</i>	<i>2.000</i>	<i>100</i>

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	Head Office	Currency	Share capital m	Equity interest %
JULIUS BAER INTERNATIONAL SHARED SERVICES CENTER (URUGUAY) S.A.	Montevideo	UYU	1.340	100
Julius Baer Investment Advisory GesmbH	Vienna	EUR	0.050	100
Julius Baer Investment Services S.à r.l.	Luxembourg	EUR	1.250	100
Julius Baer Investments S.A.S. (in liquidation)	Paris	EUR	3.811	100
Julius Baer Investments (Panama) S.A.	Panama City	USD	22.630	100
Julius Bär Lizenzverwertungsgesellschaft AG	Zug	CHF	0.100	100
Julius Baer Portfolio Managers Limited	London	GBP	0.054	100
Julius Baer Trust Company (Channel Islands) Limited	Guernsey	CHF	0.065	100
Julius Baer Wealth Advisors (India) Private Limited <i>Branches in Bangalore, Chennai, Kolkata, New Delhi including</i>	Mumbai	INR	10,081.410	100
<i>Julius Baer Capital (India) Private Limited</i>	<i>Mumbai</i>	<i>INR</i>	<i>2,334.350</i>	<i>100</i>
Julius Bär Wealth Management AG <i>Branch in Tokyo</i>	Erlenbach	CHF	5.700	100
Julius Baer Wealth Management (Monaco) S.A.M.	Monaco	EUR	0.465	100
Julius Baer (Bahrain) B.S.C. (c)	Manama	BHD	1.000	100
Julius Baer (Lebanon) S.A.L.	Beirut	LBP	2,000.000	100
Julius Baer (Middle East) Ltd.	Dubai	USD	22.000	100
Julius Baer (Netherlands) B.V.	Amsterdam	EUR	0.000	100
Julius Baer (Uruguay) S.A.	Montevideo	UYU	25.169	100
Kairos Investment Management S.p.A. <i>including</i>	Milan	EUR	2.355	80
<i>KAIROS ASSET MANAGEMENT SA</i>	<i>Lugano</i>	<i>EUR</i>	<i>0.600</i>	<i>100</i>
<i>Kairos Investment Management B.V.</i>	<i>Amsterdam</i>	<i>EUR</i>	<i>1.000</i>	<i>100</i>
<i>– including Kairos Investment Management Limited</i>	<i>London</i>	<i>GBP</i>	<i>5.884</i>	<i>100</i>
<i>Kairos Julius Baer SIM S.p.A.</i>	<i>Milan</i>	<i>EUR</i>	<i>10.000</i>	<i>100</i>
<i>– Representative Offices in Rome, Turin</i>				
<i>Kairos Partners SGR S.p.A.</i>	<i>Milan</i>	<i>EUR</i>	<i>5.084</i>	<i>100</i>

	Head Office	Currency	Share capital <i>m</i>	Equity interest <i>%</i>
PINVESTAR AG	Zug	CHF	0.100	100
PT Julius Baer Advisors Indonesia (in liquidation)	Jakarta	IDR	6,725.000	100
URSA Company Ltd. (in liquidation)	Grand Cayman	CHF	0.500	100
WMPartners Wealth Management Ltd.	Zurich	CHF	1.000	100
Aktiengesellschaft formerly Waser Söhne & Cie, Werdmühle Altstetten	Zurich	CHF	2.260	100
LOTECO Foundation	Zurich	CHF	0.100	100

**Major changes in the companies consolidated:**

- Kairos Investment Management S.p.A., Milan, new
- GPS Investimentos Financeiros e Participações S.A., São Paulo, new 100%

- Commerzbank International S.A. Luxembourg, new and renamed into Bank Julius Baer Luxembourg S.A., Luxembourg

## 26B INVESTMENTS IN ASSOCIATES

	Head Office	Currency	Share capital <i>m</i>	Equity interest <i>%</i>
<b>Associates</b>				
NSC Asesores, S.C., Asesor en Inversiones Independiente	Mexico City	MXN	1.884	40
			<b>31.12.2016</b>	31.12.2015
			<i>CHF m</i>	<i>CHF m</i>
Balance at the beginning of the year			<b>90.3</b>	66.0
Additions			-	28.9
Disposals			<b>-99.8<sup>1</sup></b>	-
Income			<b>48.7<sup>2</sup></b>	5.9
Dividend paid			<b>-10.2</b>	-4.4
Translation differences			<b>0.4</b>	-6.1
<b>Balance at the end of the year</b>			<b>29.4</b>	90.3

<sup>1</sup> Relates to the increase of the Group's participation in Kairos, see Note 27.

<sup>2</sup> Includes the revaluation to fair value of Kairos.

The total comprehensive income of the associated companies amounts to CHF 3.6 million (2015: CHF 26.1 million for Kairos Investment Management SpA and NSC Asesores).

### NSC Asesores

On 6 November 2015, the Group acquired 40% of the Mexico-City-based NSC Asesores, S.C., Asesor en Inversiones Independiente, which is specialised in discretionary portfolio management and advisory services for high net worth individuals. The Group

paid half of the consideration in the amount of CHF 14.5 million in cash for this interest, which was fully funded by existing excess capital of the Group. The Group agreed on two additional payments on 6 November 2016 (CHF 7.1 million performed as agreed) and 2017, respectively, for the outstanding purchase price. The Group also received two options to acquire additional interests of 30% per option in NSC Asesores at a predetermined relative price. The options will be exercisable in 2018 and 2021, respectively.

## 26C UNCONSOLIDATED STRUCTURED ENTITIES

The Group is involved in the set-up and operation of a limited number of structured entities such as segregated portfolio companies, private equity feeder funds, umbrella funds and similar vehicles in the legal form of limited partnerships (L.P.), which are invested in segregated portfolios or feeder funds. All the L.P. serve as investment vehicles for the Group's clients. The Group generally acts as investment manager and custodian bank and also holds the management shares of the L.P. These shares are

equipped with voting rights, but do not provide any participating rights in the underlying investments. The Group receives a market-based fixed fee for its services and has no interests in the underlying segregated portfolios or feeder funds. Therefore, due to the missing exposure, or rights, to variable returns from its involvement with the segregated portfolios or feeder funds, the Group does not have control over the underlying investments, but only consolidates the limited partnerships.



## 27 ACQUISITIONS

Apart from the acquisition of Merrill Lynch's International Wealth Management business (see Note 30 for details), the following transactions were executed:

### Kairos (2016)

In November 2015, the Group agreed to exercise its option and to increase its stake in Kairos Investment Management S.p.A. by acquiring an additional 60.1% interest of the Milan-based company, following its initial purchase of 19.9% in 2013. The transaction was exercised on 1 April 2016. The Group paid the consideration for this additional interest in the amount of CHF 301.5 million in cash which was fully funded by existing excess capital of the Group. As part of the transaction, the Group realised a net gain in the amount of CHF 38.6 million on the revaluation to fair value of the 19.9% interest

previously held as an investment in associates, including foreign exchange translation losses, which was recognised in other ordinary results in 2016.

Kairos is specialised in wealth and asset management, including investment solutions and advice and fits into the Group's growth strategy. The Group and Kairos have agreed to pursue the listing of Kairos in a subsequent step through an offering of a minority percentage of Kairos' share capital. Kairos continues to operate under its brand.

For the 12 months ended 31 December 2016, Kairos recorded CHF 80.1 million operating income and CHF 22.7 million net profit. Since its acquisition on 1 April 2016, Kairos has contributed CHF 64.5 million operating income and CHF 18.8 million net profit to the Group's results.

The assets and liabilities of Kairos were recorded provisionally as follows:

	Fair value CHF m
<b>Purchase price</b>	
in cash	301.5
contribution of the 19.9% interest (at fair value)	99.8
<b>Total</b>	401.4
Due from banks	31.9
Deferred tax assets	5.2
All other assets	23.2
<b>Assets acquired</b>	60.3
Deferred tax liabilities	7.1
All other liabilities	37.3
<b>Liabilities assumed</b>	44.3
<b>Goodwill and other intangible assets and non-controlling interests</b>	
Goodwill	317.3
Customer relationships	89.4
Non-controlling interests	21.3
<b>Total</b>	385.4

**Julius Bär Wealth Management AG  
(formerly named TFM Asset Management AG)  
(2016)**

On 1 April 2016, the Group exercised its call option to acquire the outstanding 40% interest in its Japanese-market-focused subsidiary Julius Bär Wealth Management AG (JBWM), formerly named TFM Asset Management AG. The Group paid CHF 2.5 million in cash for this additional interest which was fully funded by existing excess capital of the Group. JBWM, a Switzerland-registered independent asset management company, specialises in discretionary asset management services for HNW Japanese and Swiss private clients and holds investment advisory and investment management licences granted by the Japanese FSA.

Changes in ownership interests while retaining control are accounted for as transactions with equity holders in their capacity as equity holders, i.e., the difference of CHF 2.1 million between the amount of the former non-controlling interest and the fair value of the consideration paid is recognised directly in equity (retained earnings). In addition, no changes in the carrying amount of assets, including goodwill, or liabilities are recognised.

**Commerzbank International S.A. Luxembourg/  
Bank Julius Baer Luxembourg S.A., Luxembourg  
(2016)**

On 4 July 2016, the Group acquired Commerzbank International S.A. Luxembourg, a fully licensed private bank. This transaction will significantly strengthen the Group's presence in Luxembourg and in addition will provide the Group with further strategic flexibility for its European business, also due to the included booking platform. The purchase price of CHF 84.9 million was paid in cash and fully funded by existing excess capital of the Group. The acquired entity has been renamed into Bank Julius Baer Luxembourg S.A., Luxembourg.

For the 12 months ended 31 December 2016, Commerzbank International S.A. Luxembourg/Bank Julius Baer Luxembourg S.A. recorded CHF 94.5 million operating income and CHF 63.5 million net profit. Since its acquisition on 4 July 2016, the entity has contributed CHF 14.9 million operating income and CHF –6.9 million net profit to the Group's results.

The assets and liabilities of Commerzbank International SA Luxembourg/Bank Julius Baer Luxembourg were recorded provisionally as follows:

	Fair value CHF m
<b>Purchase price</b>	
in cash	84.9
<b>Total</b>	84.9
Cash	272.9
Due from banks	637.8
Loans <sup>1</sup>	344.6
Software	1.9
All other assets	78.7
<b>Assets acquired</b>	1,335.8
Due to banks	27.2
Due to customers	1,249.1
Provisions	1.2
Deferred tax liabilities	2.0
All other liabilities	15.9
<b>Liabilities assumed</b>	1,295.5
<b>Goodwill and other intangible assets</b>	
Goodwill	19.0
Customer relationships	15.2
Software	10.3
<b>Total</b>	44.6

<sup>1</sup> At the acquisition date, the gross contractual amount of loans acquired was CHF 344.6 million.

**GPS Investimentos Financeiros e Participações S.A. (2016)**

On 25 March 2014, the Group acquired an additional 50% interest in São-Paulo-based GPS Investimentos Financeiros e Participações S.A., which includes GPS Planejamento Financeiro Ltda. and CFO Administração de Recursos Ltda. ('GPS'). This transaction increased the Group's participation in GPS to 80% from the 30% acquired in May 2011. On 25 March 2014, the Group paid half of the consideration in the amount of CHF 55.8 million in cash for this additional interest which was fully funded by existing excess capital of the Group. In addition, the Group agreed on two additional payments on 25 March 2015 and 10 December 2015, which were performed. As part of the transaction, the Group realised a net gain in the amount of CHF 14.8 million on the revaluation to fair value of the 30% interest previously held as an investment in associates, including foreign exchange translation losses, which was recognised in other ordinary results in 2014.

On 1 March 2016, the Group exercised the forward contract to acquire the remaining 20% interest of its Brazilian subsidiary GPS Investimentos Financeiros e Participações S.A. (GPS). The purchase price of CHF 28.6 million will be payable in four tranches, whereof the first tranche has been paid at acquisition date and was fully funded by existing excess capital of the Group. The outstanding amounts of the future instalments are recognised as a liability.

Changes in ownership interests while retaining control are accounted for as transactions with equity holders in their capacity as equity holders, i.e., the difference of CHF 21.5 million between the amount of the former non-controlling interest and the fair value of the consideration paid is recognised directly in equity (retained earnings). In addition, no changes in the carrying amount of assets, including goodwill, or liabilities are recognised.

GPS is specialised in discretionary portfolio management and advisory services. The acquisition supports the Group's strategic intention to build its wealth management business in one of the most attractive and promising domestic wealth management markets. GPS continues to operate under its brand.

The assets and liabilities of GPS were recorded as follows (unchanged since 2014):

	Fair value CHF m
<b>Purchase price</b>	
in cash	55.8
contribution of the 30% interest (at fair value)	66.9
deferred purchase price (liabilities)	55.8
<b>Total</b>	178.5
<b>Assets acquired</b>	
Due from banks	4.7
All other assets	7.3
<b>Total</b>	12.0
<b>Liabilities assumed</b>	
Deferred tax liabilities	18.5
All other liabilities	13.2
<b>Total</b>	31.7
<b>Goodwill and other intangible assets and non-controlling interests</b>	
Goodwill	151.4
Customer relationships	54.4
Non-controlling interests	7.6
<b>Total</b>	198.2

### Fransad Gestion SA (2015)

On 3 November 2015, the Group acquired the Swiss independent wealth manager Fransad Gestion SA which is based in Geneva. Fransad complements the Group's existing independent wealth management business and strengthens the Group's position in French-speaking Switzerland.

The purchase price of CHF 16.6 million, including the deferred portion due in March 2018, has been and will be paid in cash and is fully funded by existing excess capital of the Group.

The assets and liabilities of Fransad Gestion SA were recorded as follows:

	Fair value CHF m
<b>Purchase price</b>	
in cash	12.1
deferred purchase price (liabilities)	4.5
<b>Total</b>	16.6
Due from banks	3.9
All other assets	2.6
<b>Assets acquired</b>	6.5
All other liabilities	4.2
<b>Liabilities assumed</b>	4.2
<b>Goodwill and other intangible assets</b>	
Goodwill	5.9
Customer relationships	8.3
<b>Total</b>	14.3

## 28 SHARE-BASED PAYMENTS AND OTHER COMPENSATION PLANS

The programmes described below reflect the plan landscape as at 31 December 2016. All plans are reviewed annually to reflect any regulatory changes and/or market conditions. The Group's overall compensation landscape is described in the chapter Remuneration Report of this Annual Report.

The Group hedges its liabilities from share-based payments by purchasing the shares from the market on grant date through the LOTEKO Foundation. Until vesting, the granted shares are administered by the foundation.

### **Deferred variable compensation plans**

#### *Cash-based variable compensation –*

##### *Deferred Cash Plan*

The Deferred Cash Plan (DCP) promotes sound business activities by remaining subject to forfeiture while providing an inherently less volatile payout than shares. The DCP grant is made once a year as part of the annual variable compensation awarded to the individual concerned and participation is determined on an annual basis. These deferred cash awards vest in equal one-third tranches over a three-year plan period subject to continued employment. Where share-based plans are not permissible under local legislation, employee annual awards are fully deferred through the DCP.

#### *Equity-based variable compensation –*

##### *Premium Share Plan*

The Premium Share Plan (PSP) is designed to link a portion of the employee's variable compensation to the long-term success of the Group through its share price. A PSP grant is made once a year as part of the annual variable compensation awarded to the individual concerned and participation is determined on an annual basis. The employee is granted a number of shares equal in value to the deferred element. These shares vest in equal one-third tranches over a three-year plan period. At the end of the plan period, subject to continued employment, the employee then receives an additional share award representing a further one-third of the number of shares granted to him or her at the beginning of the plan period.

#### *Equity-based variable compensation –* *Equity Performance Plan*

The Equity Performance Plan (EPP) is a key part of the Julius Baer compensation model. One of the Compensation Committee's objectives was to create a robust long-term incentive mechanism for key employees. The EPP is an equity plan which seeks to create a retention element for key employees and to link a significant portion of the executive compensation to the future performance of the Julius Baer Group.

Eligibility for the EPP is based on various factors, which include nomination by the CEO, overall role within Julius Baer and total variable compensation. All members of the Executive Board, key employees, and employees defined as risk takers by virtue of their function within the organisation are considered for the EPP based on their specific role. The size of the grant awarded to each individual varies based on factors which include, but are not limited to, seniority, contribution to Julius Baer, defined total pay mix and level of responsibility.

The EPP is an annual rolling equity grant (made in February each year) that awards Performance Units to eligible executives subject to service and performance-based requirements. The EPP award reflects the value of the employee for the future success of the business and more closely links an individual's compensation to his or her contribution to the future performance of the Julius Baer Group.

The goal of the EPP is to incentivise participants in two ways:

- Firstly, by the nature of its construction, the ultimate value of the award to the participants fluctuates with the market value of Julius Baer shares.
- Secondly, the Performance Units are contingent on continued service and two key performance indicators (KPIs), cumulative Economic Profit (cEP) and relative Total Shareholder Return (rTSR). The service condition requires that the participant remains with Julius Baer for three

years after the grant (through a cliff-vesting mechanism). The performance of the two KPIs determines the number of shares the participant ultimately receives.

The number of shares delivered under the EPP is between 0% and 150% of the number of Performance Units granted in any given year (with each individual KPI being capped at a maximum multiplying factor of 200%). The cap serves to limit EPP awards so as to avoid any unforeseen outcome of the final EPP multiplier resulting in unintentionally high or excessive levels of compensation. A high level of performance is required to attain a maximum share delivery (creating a maximum uplift of 50% of the Performance Units granted), with low-level performance leading to potential nil compensation.

The KPI targets are set based on the strategic three-year budget/plan that is approved by the Board of Directors on an annual basis. Extremely high (and, thus, unrealistic) performance targets are avoided, so as not to incentivise excessive risk taking by executives and other managerial staff.

*Integration Incentive Award (for former Bank of America Merrill Lynch relationship managers)*

As part of Julius Baer's integration of Bank of America Merrill Lynch's IWM business, key relationship managers from IWM were offered participation in the Integration Incentive Award (a cash- and share-based plan) which was designed to incentivise individuals to join Julius Baer and move clients and assets to the Group. In 2015, new grants under the Integration Incentive Award were solely awarded in conjunction with the final transfer of the business in India.

The Integration Incentive Award plan runs for a maximum of five years, with cash being paid out on a rolling six-month basis over the first three years and shares being delivered to participants on the fourth and fifth anniversaries of the grant date. At the end of the plan period, subject to continued employment, the employee receives an additional share award representing one-third of the number of shares granted to him or her at the beginning of the plan period.

In the event of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested cash and/or shares are forfeited.

*Incentive Share Plan (ISP, applied as part of the variable compensation for 2012)*

At the start of the plan period, 15% to 40% (the maximum deferral percentage applies to variable compensation of CHF 1 million and above or the local currency equivalent) of the executives' variable incentive is deferred to the ISP and the employee is then granted a number of shares equal in value to the deferred element. These shares vest in equal one-third tranches over the three-year plan period, subject to continued employment.

Participants in the ISP 2012 are granted a pre-fixed number of incentive shares, which cliff-vest at the end of the three-year plan period, subject to continued employment. The number of incentive shares granted is determined based on the number of shares from bonus deferral: members of the Executive Board were eligible for twice the number of additional shares in comparison to participants who are not members of the Executive Board.

Until vested, the shares are subject to forfeiture in certain circumstances including resignation by the employee, termination for cause, substantial breaches of legal or regulatory requirements, financial losses and a variety of other events where the employee's behaviour has substantially contributed to a financial loss of the Group or caused reputational damage.

*Long-Term Incentive Plan (LTI)*

In certain specific situations the Group may also offer incentives outside the annual compensation cycle. Compensatory payments to new hires for deferred awards they have forfeited by resigning from their previous employer or retention payments to key employees during extraordinary or critical circumstances may be made by granting individuals an equity-based LTI.

An LTI granted in these circumstances generally runs over a three-year plan period. The Group currently operates two different vesting schedules for this plan: (1) three equal one-third tranches



vesting over a three-year period, (2) cliff-vesting of all granted shares in one single tranche at the end of a three-year period.

The shares are transferred to participants at the time of vesting, subject to continued employment and any other conditions set out in the plan rules. All grants made in 2015 and 2016 are free from restrictions upon vesting. In the event of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested shares are forfeited.

No LTI grants were awarded to members of the Executive Board in 2015 or 2016.

*Staff Participation Plan (SPP)*

The SPP is offered to most of the Group's global employee population. Some individuals or employees in specific locations are excluded from

participating because, for example, the employees concerned are participants in another Group equity-based plan or because the SPP cannot be offered in a particular jurisdiction for legal or regulatory reasons. Under this plan, eligible participants may voluntarily purchase Julius Baer shares at the prevailing market price and for every three shares so purchased they will receive one additional share free of charge. These free shares vest after three years, subject to continued employment. Purchases under the SPP only occur once a year.

The objective of this plan is to strengthen the employee's identification with the Group, to encourage entrepreneurial spirit, to generate greater interest in the business through ownership, and to provide employees with financial recognition for their long-term dedication to the Group.

Movements in shares/performance units granted under various participation plans are as follows:

		<b>31.12.2016</b>		31.12.2015
	Number of units	Number of units	Number of units	Number of units
	Economic Profit	Total Shareholder Return	Economic Profit	Total Shareholder Return
<b>Equity Performance Plan</b>				
Unvested units outstanding, at the beginning of the year	<b>554,532</b>	<b>554,532</b>	233,545	233,545
Granted during the year	<b>319,569</b>	<b>319,569</b>	322,455	322,455
Forfeited during the year	<b>-88,020</b>	<b>-88,020</b>	-1,468	-1,468
Unvested units outstanding, at the end of the year	<b>786,081</b>	<b>786,081</b>	554,532	554,532

	<b>31.12.2016</b>	31.12.2015
<b>Premium Share Plan</b>		
Unvested shares outstanding, at the beginning of the year	<b>1,148,056</b>	830,261
Granted during the year	<b>746,934</b>	734,474
Vested during the year	<b>-440,697</b>	-353,645
Forfeited during the year	<b>-95,400</b>	-63,034
Unvested shares outstanding, at the end of the year	<b>1,358,893</b>	1,148,056
Weighted average fair value per share granted (CHF)	<b>39.28</b>	43.84
Fair value of outstanding shares at the end of the year (CHF 1,000)	<b>61,463</b>	55,864

	<b>31.12.2016</b>	31.12.2015
<b>Incentive Share Plan</b>		
Unvested shares outstanding, at the beginning of the year	<b>472,545</b>	671,118
Vested during the year	<b>-472,545</b>	-190,629
Forfeited during the year	-	-7,944
Unvested shares outstanding, at the end of the year	-	472,545
Fair value of outstanding shares at the end of the year (CHF 1,000)	-	22,994

	Number of units Economic Profit	31.12.2015 Number of units Relative Share Price
<b>Incentive Share Plan</b>		
Unvested units outstanding, at the beginning of the year	125,781	125,781
Exercised during the year	-124,867	-124,867
Forfeited during the year	-914	-914
Unvested units outstanding, at the end of the year	-	-

	31.12.2016	31.12.2015
<b>Integration Incentive Award</b>		
Unvested shares outstanding, at the beginning of the year	714,609	751,893
Granted during the year	-	19,035
Forfeited during the year	-46,346	-56,319
Unvested shares outstanding, at the end of the year	668,263	714,609
Weighted average fair value per share granted (CHF)	-	46.79
Fair value of outstanding shares at the end of the year (CHF 1,000)	30,226	34,773

	31.12.2016	31.12.2015
<b>Long-Term Incentive Plan</b>		
Unvested shares outstanding, at the beginning of the year	376,041	390,647
Granted during the year	456,459	243,916
Vested during the year	-177,397	-197,535
Forfeited during the year	-74,842	-60,987
Unvested shares outstanding, at the end of the year	580,261	376,041
Weighted average fair value per share granted (CHF)	41.05	47.74
Fair value of outstanding shares at the end of the year (CHF 1,000)	26,245	18,298

	31.12.2016	31.12.2015
<b>Staff Participation Plan</b>		
Unvested shares outstanding, at the beginning of the year	110,266	113,384
Granted during the year	47,918	36,135
Vested during the year	-39,075	-36,099
Forfeited during the year	-3,503	-3,154
Unvested shares outstanding, at the end of the year	115,606	110,266
Weighted average fair value per share granted (CHF)	42.74	45.94
Fair value of outstanding shares at the end of the year (CHF 1,000)	5,229	5,366

Compensation expense recognised for the various participation plans are:

	31.12.2016 CHF m	31.12.2015 CHF m
<b>Compensation expense</b>		
Equity Performance Plan	22.6	13.1
Premium Share Plan	25.8	23.3
Incentive Share Plan	0.5	6.5
Integration Incentive Award	8.1	8.5
Long-Term Incentive Plan	12.0	6.9
Staff Participation Plan	1.8	1.6
<b>Total</b>	<b>70.8</b>	<b>60.0</b>

## 29 ASSETS UNDER MANAGEMENT

Assets under management include all bankable assets managed by or deposited with the Group for investment purposes. Assets included are portfolios of wealth management clients for which the Group provides discretionary or advisory asset management services. Assets deposited with the Group held for transactional or safekeeping/custody purposes, and where the Group does not offer advice on how the assets should be invested, are excluded from assets under management. In general, transactional or safekeeping/custody assets belong to banks, brokers, securities traders, custodians, or certain institutional investors. Non-bankable assets (e.g. art collections, real estate), asset flows driven more by liquidity requirements than investment purposes or assets primarily used for cash management, funding or trading purposes are also not considered assets under management.

Assets with discretionary mandate are defined as assets for which the investment decisions are made by the Group, and cover assets deposited with Group companies as well as assets deposited at third-party institutions. Other assets under management are defined as assets for which the investment decision is made by the client himself. Both assets with discretionary mandate and other assets under management take into account client deposits as well as market values of securities, precious metals, and fiduciary investments placed at third-party institutions.

When assets under management are subject to more than one level of asset management services, double counting arises within the total assets under management. Each such separate discretionary or advisory service provides additional benefits to the respective client and generates additional revenue to the Group.

Net new money consists of new client acquisitions, client departures and in- or outflows attributable to existing clients. It is calculated through the direct method, which is based on individual client transactions. New or repaid loans and related interest expenses result in net new money flows. Interest and dividend income from assets under management, market or currency movements as well as fees and commissions are not included in the net new money result. Effects resulting from any acquisition or divestment of a Group subsidiary or business are stated separately. Reclassifications between assets under management and assets held for transactional or safekeeping/custody purposes result in corresponding net new money in- or outflows.

Assets under management which are managed by or deposited with associates of the Group are not considered assets managed by or deposited with the Group and are therefore not included in the respective numbers.

Assets under management are disclosed according to the Guidelines of the Swiss Financial Market Supervisory Authority (FINMA) governing financial statement reporting.

**Assets under management**

	2016 CHF m	2015 CHF m	Change %
Assets with discretionary mandate	<b>54,904</b>	45,420	20.9
Other assets under management	<b>277,083</b>	253,589	9.3
Assets in collective investment schemes managed by the Group <sup>1</sup>	<b>4,174</b>	678	515.6
<b>Total assets under management (including double counting)</b>	<b>336,161</b>	299,687	12.2
<i>of which double counting</i>	<b>6,106</b>	4,884	25.0
Change through net new money	<b>11,865</b>	12,070	
Change through market and currency impacts	<b>13,395</b>	-10,413	
Change through acquisition	<b>11,267<sup>2</sup></b>	8,017 <sup>3</sup>	
Change through divestment	<b>-53</b>	-584 <sup>4</sup>	
Client assets	<b>391,620</b>	363,781 <sup>5</sup>	7.7

<sup>1</sup> Collective investment schemes in 2015 are related to GPS Investimentos Financeiros e Participações S.A., São Paulo, in 2016 additionally to Kairos Investment Management S.p.A., Milan.

<sup>2</sup> In April 2016, the Group increased its participation in Kairos Investment Management S.p.A., Milan, to 80%.  
In July 2016, the Group acquired Commerzbank International S.A. Luxembourg.

<sup>3</sup> In March 2015, the Group acquired the business of Leumi Private Bank Ltd.  
On 21 September 2015, the Group acquired the business of Merrill Lynch's International Wealth Management (IWM) in India.  
In November 2015, the Group acquired Fransad Gestion SA, Geneva.

<sup>4</sup> Relates to the asset outflow at Julius Baer Investments S.A.S., Paris, which was acquired as part of Merrill Lynch's International Wealth Management (IWM) business and that Group management decided to close.

<sup>5</sup> Excluding assets which were previously counted as assets under management and assets under custody.

### Breakdown of assets under management

	2016 %	2015 %
<b>By types of investment</b>		
Equities	27	27
Bonds (including convertible bonds)	19	19
Investment funds	24	23
Money market instruments	6	4
Client deposits	17	21
Structured products	5	5
Other	2	1
<b>Total</b>	<b>100</b>	<b>100</b>
<b>By currencies</b>		
CHF	11	12
EUR	22	21
USD	45	46
GBP	4	4
SGD	2	2
HKD	3	3
RUB	1	-
CAD	1	1
Other	11	11
<b>Total</b>	<b>100</b>	<b>100</b>

Client assets are defined as all bankable assets managed by or deposited with the Group companies for investment purposes and only those deposited assets held for transactional, safekeeping/custody or administrative purposes for which additional services, for example analysis and reporting or securities lending and borrowing, are provided.

Non-bankable assets (e.g. art collections, real estate), asset flows driven more by liquidity requirements than investment purposes, assets primarily used for cash management, funding or trading purposes or deposited assets held purely for transactional or safekeeping/custody purposes are excluded from client assets.

## 30 ACQUISITION OF MERRILL LYNCH'S INTERNATIONAL WEALTH MANAGEMENT BUSINESS

### Transaction summary

On 13 August 2012, the Group announced to acquire Merrill Lynch's International Wealth Management (IWM) business outside the US from Bank of America. The acquisition was structured as a combination of legal entity acquisitions and business transfers. Principal closing occurred on 1 February 2013. Since then, legal entity purchases and asset transfers have happened during the integration period which ended in the first quarter of 2015. However, the final transfers in India were completed in the second half of 2015.

The income and expenses related to the AuM which are booked with the Group were recorded according to the Group's accounting policies. In addition, the Group received from Merrill Lynch & Co., Inc. the revenues related to the AuM reported (i.e. the AuM transferred to the Group but not yet booked by the Group) and was charged with platform and other central service costs by Merrill Lynch & Co., Inc. These revenues were recognised in commission income with the related cost expensed through other general expenses. Any other expenses were also recorded according to the Group's accounting policies.

### Purchase price

The consideration payable in USD to Merrill Lynch & Co., Inc. was 1.2% of AuM, payable as and when AuM were transferred to a Julius Baer booking platform. In addition, the Group paid CHF-for-CHF for any net asset value of the companies and businesses that were transferred in the acquisition, as and when the companies and businesses to which the net asset value was attributable were transferred.

### Financing of the transaction

The Group put the following funding in place:

- the issuance of the consideration shares out of authorised share capital to Merrill Lynch & Co., Inc. in the amount of CHF 243 million at a predetermined share price;
- the issuance of shares through a public rights offering in the amount of CHF 492 million in October 2012;

- existing excess capital in the amount of CHF 488 million; and
- the issuance of perpetual tier 1 subordinated bonds in the amount of CHF 250 million in September 2012.

Consideration was transferred as follows:

- first USD 150 million in cash;
- subsequent USD 500 million payable 50% in cash and 50% in shares of Julius Baer Group Ltd.; and
- remainder in cash.

### Final status as at 31 December 2015

As at 31 December 2015, AuM in the amount of CHF 58.6 billion (fair value as of the respective acquisition date) have been booked with the Group, whereof CHF 2.3 billion have been reclassified to assets under custody.

The transaction resulted in the recognition of goodwill and intangible assets (customer relationships) in the amount of CHF 813.2 million. This amount consists of the following components:

- the contractual consideration of 1.2% of the AuM booked;
- adjustments due to the remeasurement to fair value of the assets acquired and the liabilities assumed in the process of the purchase price allocation;
- the increase in the fair value as compared to the contractually agreed value of USD 35.20 for the shares of Julius Baer Group Ltd. provided as part of the consideration; and
- foreign exchange fluctuations.

Therefore, the purchase price of CHF 982.1 million was paid for goodwill and intangible assets and net asset values of the acquired legal entities.

The legal entities as well as the business acquired have been fully integrated into the existing Group structure (including rebranding of the continued legal entities).



The assets and liabilities of the acquired IWM entities and businesses were recorded as follows:

	Fair value CHF m
<b>Purchase price</b>	
in cash	690.5
in shares of Julius Baer Group Ltd.	291.6
<b>Total</b>	982.1
<b>Assets acquired</b>	
Cash	271.5
Due from banks	8,298.0
Loans <sup>1</sup>	4,000.5
Deferred tax assets	0.1
All other assets	158.3
<b>Total</b>	12,728.4
<b>Liabilities assumed</b>	
Due to banks	3,589.5
Due to customers	8,726.5
Deferred tax liabilities	26.6
All other liabilities	217.0
<b>Total</b>	12,559.5
<b>Goodwill and other intangible assets related to legal entity acquisitions and to business transfers</b>	
Goodwill	481.0
Customer relationships	332.2
<b>Total</b>	813.2

<sup>1</sup> At the acquisition dates, the gross contractual amount of loans acquired was CHF 4,000.5 million.

### 31 REQUIREMENTS OF SWISS BANKING LAW

The Group is subject to supervision by the Swiss Financial Market Supervisory Authority (FINMA), which requires Switzerland-domiciled banks using International Financial Reporting Standards (IFRS) as their primary accounting standard to provide a narrative explanation of the major differences between IFRS and Swiss GAAP. Swiss GAAP is based on the regulations of the Swiss Code of Obligation, on Swiss Banking Law and the Ordinance thereto, and on the guidelines of the FINMA Circular 2015/1 'Accounting Banks'.

The following main differences exist between IFRS and Swiss GAAP (true and fair view) which are relevant to the Group:

Under IFRS, changes in the fair value of financial investments available-for-sale are directly recognised in equity. Under Swiss GAAP, such investments are recorded at the lower of cost or market, with changes in value where required recorded in the income statement.

Under IFRS, all income and expenses are attributed to ordinary business operations. Under Swiss GAAP, income and expenses are classified as extraordinary, if they are from non-operating transactions and are non-recurring.

Under IFRS, goodwill is not amortised but must be tested for impairment annually and a write-off is made if the recoverable amount is less than the carrying amount. Under Swiss GAAP, goodwill is amortised over its useful life, generally not exceeding five years (in justified cases up to twenty years), and tested for impairment.

Swiss GAAP allows the application of IAS 19 for the accounting for defined benefit plans. However, the remeasurement of the net defined benefit liability is recognised in the income statement and comprises movements in actuarial gains and losses and return on plan assets (excluding net interest cost). Under IFRS, these components are recognised directly in equity.

### 32 EVENTS AFTER THE BALANCE SHEET DATE

There are no events to report that had an influence on the balance sheet or the income statement for the 2016 financial year.

# REPORT OF THE STATUTORY AUDITOR TO THE ANNUAL GENERAL MEETING OF JULIUS BAER GROUP LTD., ZURICH



## Statutory Auditor's Report

To the General Meeting of Julius Baer Group Ltd., Zurich

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of Julius Baer Group Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated income statement and statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 78 to 188) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

#### Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters



Goodwill impairment testing



Litigation and regulatory proceedings



Valuation of financial instruments



Impairment of loans

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



## Goodwill impairment testing

### Key Audit Matter

As at 31 December 2016, the Group recognises goodwill of CHF 2,071.3m arising from a number of historic and recent acquisitions.

Due to the significance of the Group's recognised goodwill and the inherent uncertainty of forecasting and discounting future cash flows, this is deemed to be a significant area of judgment.

Goodwill impairment testing is performed at the level of cash generating units ('CGUs') and relies on estimates of value-in-use based on discounted future cash flows.

Uncertainty is typically highest for those CGUs where headroom between value-in-use and carrying value is limited and where the value-in-use is most sensitive to estimates of future cash flows and other key assumptions.

### Our response

Our procedures included the assessment of the Group's process and key controls for the testing of goodwill impairment, including the assumptions used.

We tested key assumptions forming the Group's value-in-use calculations, including the cash flow projections and discount rates. We assessed the reasonableness of cash flow projections and compared key inputs, such as the discount rates and growth rates, to externally available industry, economic and financial data and the Group's own historical data and performance.

With the assistance of our own valuation specialists, we critically assessed the assumptions and methodologies used to determine the value-in-use for those CGUs where significant goodwill was found to be sensitive to changes in those assumptions. On an overall basis, we also evaluated the aggregate values-in-use determined by the Group to its market capitalisation.

Additionally, we considered whether the Group's disclosures of the application of judgment in estimating key assumptions and the sensitivity of the results of those estimates adequately reflect the risk associated with goodwill impairment.

For further information on goodwill impairment testing, also refer to note 12 to the consolidated financial statements on pages 132 to 134.



## Litigation and regulatory proceedings

### Key Audit Matter

As at 31 December 2016, the Group recognizes provisions for legal risks of CHF 20.2m arising from litigation and regulatory proceedings (together 'legal and regulatory matters').

The Group is involved in a number of legal and regulatory matters which could have a material effect on the Group but do not qualify for the recognition of a provision. These matters are disclosed as contingent liabilities.

The recognition and measurement of provisions and the measurement and disclosure of contingent

### Our response

Our procedures included the assessment of key controls over the identification, evaluation and measurement of potential obligations arising from legal and regulatory matters.

We paid particular attention to significant matters that experienced notable developments or that emerged during the period. For matters identified, we considered whether an obligation exists, the appropriateness of provisioning and/or disclosure based on the facts and circumstances available.

In order to assess the facts and circumstances, we obtained and assessed the relevant regulatory and litigation documents and interviewed the Group's internal and external legal counsels. We also critically



liabilities in respect of legal and regulatory matters requires significant judgment.

assessed the assumptions made and key judgments applied and considered possible alternative outcomes.

Additionally we considered whether the Group's disclosures of the application of judgment in estimating provisions and contingent liabilities adequately reflected the uncertainties associated with legal and regulatory matters.

For further information on litigation and regulatory proceedings, also refer to note 18 to the consolidated financial statements on pages 141 to 144.



#### Valuation of financial instruments

##### Key Audit Matter

As at 31 December 2016, the Group reports financial assets of CHF 28,471.7m and financial liabilities of CHF 10,888.7m measured at fair value representing 29.6% and 12.0% of total assets and total liabilities respectively.

Due to the significance of such financial instruments to the balance sheet and the degree of complexity involved, there is estimation uncertainty with regard to the valuation of financial instruments.

The fair value of financial instruments that are traded in an active market is determined based on quoted market prices. The exercise of judgment and the use of estimates and assumptions is in particular required for instruments where observable market prices or market parameters are not available. For such instruments the fair value is determined through the use of valuation techniques or models applied by the Group.

##### Our response

Our procedures included the assessment of key controls over the identification, measurement and management of valuation risk, as well as evaluating the methodologies and input parameters used by the Group in determining fair values.

For the Group's fair value models, we involved our own valuation specialists to assess the appropriateness of the models and inputs. We further compared observable inputs against independent sources and externally available market data and re-performed independent valuations for a sample of instruments with the assistance of our own valuation specialists.

Additionally, we assessed whether the fair value determination is appropriately disclosed.

For further information on the valuation of financial instruments, also refer to notes 25B and 25C to the consolidated financial statements on pages 159 to 163.



#### Impairment of loans

##### Key Audit Matter

As at 31 December 2016, the Group reports loans of CHF 38,490.8m representing 40.0% of total assets and records allowances for credit losses of CHF 71.8m.

Loans are measured at amortised cost considering any impairment losses. The impairment of loans is estimated through the application of judgment and use of assumptions. This particularly applies to the

##### Our response

Our procedures included the assessment of key controls over the approval, recording and monitoring of loans and an evaluation of the methodologies, inputs and assumptions used by the Group to assess the adequacy of impairment allowances for individually assessed loans.

For a sample of loans with specific allowances for credit losses we evaluated the Group's individual





specific allowances measured on an individual basis for credit losses established for impaired loan amounts.

The portfolios which give rise to the greatest uncertainty are typically those with concentration risks in collaterals that are potentially more sensitive to global economic trends.

impairment assessment and specifically challenged the Group's assumptions used, including the value of realisable collateral and the estimated recoverability. Based on a retrospective review, we further critically assessed whether the Group revised its estimates and assumptions for specific allowances established in prior year.

We also tested a sample of individually significant exposures which had not been identified as potentially impaired by the Group and assessed whether appropriate consideration was given to the collectability of future cash flows and the valuation of the underlying collaterals.

For further information on impairment of loans, also refer to notes 9B, 9C and 9D to the consolidated financial statements on pages 128 to 129.

#### **Other Information in the Annual Report**

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Responsibility of the Board of Directors for the Consolidated Financial Statements**

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

#### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



### Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

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

Philipp Rickert  
Licensed Audit Expert  
Auditor in Charge

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

Cataldo Castagna  
Licensed Audit Expert

Zürich, 31 January 2017



## IV. FINANCIAL STATEMENTS JULIUS BAER GROUP LTD. 2016

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## INCOME STATEMENT

	2016 CHF m	2015 CHF m
Interest income	37.6	21.4
Interest expense	46.8	49.4
Result from interest	-9.2	-28.0
Income from participations	457.7	115.4
Revaluation of participations	12.9	6.0
Depreciation of participations	99.7	131.3
Result from participations	371.0	-9.9
Other ordinary income	101.3	104.9
Other ordinary expense	15.2	-
<b>Operating income</b>	<b>447.9</b>	<b>67.0</b>
Personnel expenses	16.0	15.7
General expenses	23.5	25.1
<b>Operating expenses</b>	<b>39.5</b>	<b>40.8</b>
<b>Gross profit</b>	<b>408.3</b>	<b>26.2</b>
Extraordinary income	0.0	2.7
Taxes	2.4	6.6
<b>Net profit</b>	<b>406.0</b>	<b>22.3</b>

## BALANCE SHEET

	31.12.2016 CHF m	31.12.2015 CHF m
<b>Assets</b>		
Due from banks	772.1	604.6
Other assets	33.5	27.9
Accrued income and prepaid expenses	263.7	123.7
<b>Total current assets</b>	<b>1,069.2</b>	<b>756.3</b>
Other financial investments	480.3	480.3
Participations	4,132.4	3,749.5
<b>Total non-current assets</b>	<b>4,612.7</b>	<b>4,229.8</b>
<b>Total assets</b>	<b>5,681.9</b>	<b>4,986.0</b>
Due from Group companies	1,270.3	1,085.5
<b>Liabilities and equity</b>		
Interest-bearing liabilities	564.0	-
Accrued expenses and deferred income	36.5	35.6
<b>Total short-term liabilities</b>	<b>600.5</b>	<b>35.6</b>
Debt issued	1,145.2	1,167.5
Other liabilities	15.0	21.6
<b>Total long-term liabilities</b>	<b>1,160.2</b>	<b>1,189.1</b>
<b>Total liabilities</b>	<b>1,760.8</b>	<b>1,224.7</b>
Share capital	4.5	4.5
Statutory capital reserve	1,851.9	2,098.0
<i>of which tax-exempt capital contribution reserve</i>	<b>1,851.9</b>	2,098.0
Statutory retained earnings reserve	271.1	230.2
<i>of which reserve for treasury shares</i>	<b>270.2</b>	229.4
Voluntary retained earnings reserve	1,386.1	1,403.8
Profit carried forward	1.7	2.5
Net profit	406.0	22.3
<b>Total equity</b>	<b>3,921.1</b>	<b>3,761.3</b>
<b>Total liabilities and equity</b>	<b>5,681.9</b>	<b>4,986.0</b>
Due to Group companies	564.0	-

## NOTES

	31.12.2016 CHF m	31.12.2015 CHF m
<b>Contingent liabilities</b>		
Surety and guarantee obligations and assets pledged in favour of third parties	<b>2,759.1</b>	2,455.1

## BASIS OF ACCOUNTING

The stand-alone financial statements of Julius Baer Group Ltd. are prepared in accordance with the guidelines of the Swiss Code of Obligations.

The financial statements 2015 were prepared for the first time according to the revised Swiss Code of Obligation.

## PARTICIPATIONS

Refer to the consolidated financial statements, Note 26A, for a complete list of the participations.

The participations are measured based on the principle of individual evaluation. For the material or strategic participations, a multiple method based on prices to assets under management is applied. For smaller participations, the net asset value according to IFRS is used.

Income from participations is recorded based on an economic standpoint, i.e. at the same time as the corresponding income is recorded at the subsidiary.

## STATUTORY CAPITAL RESERVE

The statutory capital reserve represents the additional proceeds (premium) received from the issue of shares by Julius Baer Group Ltd. The redemption of this statutory capital reserve is exempt from taxation, similar to the share capital.

## TREASURY SHARES

In the statutory financial statements of Julius Baer Group Ltd., treasury shares held by Julius Baer Group Ltd. itself are deducted directly from equity. For treasury shares held by other Group companies, a reserve for treasury shares is stated in equity.

While Julius Baer Group Ltd. did not hold any treasury shares in 2016 and 2015, different Group entities held 6,346,886 treasury shares in 2016 (2015: 5,269,422).

## DEBT ISSUED

Refer to the consolidated financial statements, Note 16, for a complete list of the debt issued.

Debts issued are recorded at nominal value. Any agios are recognised in other liabilities and amortised up to the maturity date or the first possible redemption date, respectively.

## AUTHORISED CAPITAL

Refer to consolidated financial statements, Note 19.

## NOTES

## FEES PAID TO AUDITOR

	2016 CHF m	2015 CHF m
<b>Fees paid to auditor</b>		
Audit services	1.2	1.3
Other services	0.1	0.3
<b>Total</b>	<b>1.3</b>	<b>1.5</b>

## SHARE-BASED PAYMENTS

	Number Equity securities	2016 Value Equity securities CHF m	Number Equity securities	2015 Value Equity securities CHF m
<b>Equity plans</b>				
Total granted during the year	34,750	1.4	27,052	1.4
of which members of executive bodies	33,975	1.4	25,870	1.3
of which employees	775	0.0	1,182	0.1

	Number Units	2016 Value Units CHF m	Number Units	2015 Value Units CHF m
<b>Plans based on units</b>				
Total granted during the year	45,806	1.7	53,669	2.1
of which members of executive bodies	40,131	1.5	48,249	1.9
of which employees	5,675	0.2	5,420	0.2

## NOTES

## FULL-TIME EQUIVALENTS

The annual average number of full-time equivalents for the reporting year, as well as the previous year, did not exceed 50.

## SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

There are no events to report that had an influence on the balance sheet or income statement for the 2016 financial year.

SIGNIFICANT SHAREHOLDERS/  
PARTICIPANTS

Based on notifications received by Julius Baer Group Ltd., each of the following shareholders/participants held 3% or more of the voting rights in Julius Baer Group Ltd. as at 31 December 2016<sup>1</sup>:

Shareholder/participant <sup>3</sup>	Disclosure of purchase positions <sup>2</sup>	Disclosure of sale positions <sup>2</sup>
MFS Investment Management <sup>4</sup>	9.98%	
Harris Associates L.P. <sup>5</sup>	4.95%	
BlackRock, Inc. <sup>6</sup>	4.51%	0.0400%
Bank of America Corporation <sup>7</sup>	3.76%	
Wellington Management Group LLP <sup>8</sup>	3.06%	
Invesco Ltd. <sup>9</sup>	3.02%	

<sup>1</sup> The percentage holding of voting rights as well as the other terms as used herein have to be defined and read in the context of the relevant and applicable stock exchange rules. Please note that the above figures are based on reports made before respectively after the following events: a) capital increase by way of rights offering completed on 17 October 2012 with the issuance of 20,316,285 newly registered shares of Julius Baer Group Ltd.; b) capital increase out of authorised share capital completed on 24 January 2013 with the issuance of 7,102,407 newly registered shares of Julius Baer Group Ltd.

<sup>2</sup> Equity securities, conversion and share purchase rights (Art. 15 para. 1 a SESTO-FINMA), granted (written) share sale rights (Art. 15 para. 1 b SESTO-FINMA) and financial instruments (Art. 15 para. 1 c and para. 2 SESTO-FINMA).  
Share sale rights (specifically put options) and granted (written) conversion and share purchase rights as well as financial instruments that provide for or permit cash settlement as well as other differential transactions (such as contracts for difference and financial futures).  
The implementing provisions on disclosure law have been integrated into the new FINMA Financial Market Infrastructure Ordinance (FMIO-FINMA), which has entered into force on 1 January 2016. Purchase positions must be disclosed pursuant to art. 14 para. 1 a FMIO-FINMA and sales positions pursuant to art. 14 para. 1 b FMIO-FINMA.

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

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

<sup>5</sup> Harris Associates L.P., Chicago/USA (reported on 30 November 2016)

<sup>6</sup> BlackRock, Inc., New York/USA, and its subsidiaries (reported on 22 July 2016)

<sup>7</sup> Bank of America Corporation, Charlotte/USA, and its directly and indirectly held subsidiaries (reported on 16 August 2012)

<sup>8</sup> Wellington Management Group LLP, Boston/USA (reported on 22 November 2016)

<sup>9</sup> Invesco Ltd., Hamilton/Bermuda (reported on 25 January 2016)

## SHAREHOLDINGS OF THE BOARD OF DIRECTORS AND EXECUTIVE BOARD

Number of shares

### Shareholdings of the members of the Board of Directors<sup>1</sup>

Daniel J. Sauter – Chairman	<b>2016</b>	<b>172,495</b>
	2015	155,128
Gilbert Achermann	<b>2016</b>	<b>9,705</b>
	2015	7,715
Ann Almeida (joined the Board in 2016)	<b>2016</b>	<b>-</b>
	2015	n.a.
Andreas Amschwand	<b>2016</b>	<b>9,705</b>
	2015	7,715
Heinrich Baumann	<b>2016</b>	<b>15,432</b>
	2015	13,442
Paul Man Yiu Chow (joined the Board in 2015)	<b>2016</b>	<b>1,990</b>
	2015	-
Claire Giraut	<b>2016</b>	<b>18,995</b>
	2015	17,005
Gareth Penny	<b>2016</b>	<b>20,105</b>
	2015	20,715
Charles G. T. Stonehill	<b>2016</b>	<b>20,365</b>
	2015	18,375
<b>Total</b>	<b>2016</b>	<b>268,792</b>
<b>Total</b>	2015	240,095

<sup>1</sup> Including shareholdings of related parties

None of the Board members held any option positions on Julius Baer Group Ltd. shares as at year-end 2016 and 2015.

Share ownership guidelines for the members of the Board of Directors and the members of the Executive Board were introduced with effect from 2014.

The Chairman of the Board of Directors is required to build up and maintain 25,000 vested shares of Julius Baer Group Ltd., the other members of the Board 7,500 each, respectively.

The targeted number of Julius Baer Group Ltd. shares has to be built up over a period of three years following election (and reached at year-end of the respective year) and maintained until the Board member leaves the Board of Directors.

Board members who were elected and/or re-elected in 2014 (i.e. all Board members except for Paul Man Yiu Chow and Ann Almeida) are required to reach the targeted number of shares by year-end 2017. Paul Man Yiu Chow is required to reach the targeted number of shares by year-end 2018 and Ann Almeida by year-end 2019, respectively.

Number of shares

**Shareholdings of the members of the Executive Board<sup>1</sup>**

Boris F.J. Collardi, Chief Executive Officer	<b>2016</b>	<b>260,253</b>
	2015	205,882
Dieter A. Enkelmann, Chief Financial Officer	<b>2016</b>	<b>86,000</b>
	2015	87,719
Jan A. Bielinski, Chief Communications Officer	<b>2016</b>	<b>34,896</b>
	2015	33,511
Giovanni M.S. Flury, Business Representative (member of the Executive Board January–December 2016)	<b>2016</b>	-
	2015	n.a.
Gregory F. Gatesman, Chief Operating Officer (left the Executive Board at the end of 2016)	<b>2016</b>	-
	2015	6,000
Christoph Hiestand, General Counsel	<b>2016</b>	<b>14,100</b>
	2015	9,469
Bernhard Hodler, Chief Risk Officer	<b>2016</b>	<b>30,000</b>
	2015	43,632
<b>Total</b>	<b>2016</b>	<b>425,249</b>
Total	2015	386,213

<sup>1</sup> Including shareholdings of related parties

None of the members of the Executive Board held any option positions on Julius Baer Group Ltd. shares as at year-end 2016 and 2015.

Share ownership guidelines for the members of the Board of Directors and the members of the Executive Board were introduced with effect from 2014.

The CEO is required to build up and maintain 100,000 vested shares of Julius Baer Group Ltd., the other members of the Executive Board the lower of 2.5 times the base salary or 30,000 shares.

The targeted number of Julius Baer Group Ltd. shares has to be built up over a period of three years (and reached at year-end of the respective year) and maintained until the Executive Board member leaves his/her current position and/or the Julius Baer Group.



## PROPOSAL OF THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING ON 12 APRIL 2017

The Board of Directors proposes to the Annual General Meeting that the disposable profit for the 2016 financial year of CHF 407,660,882, consisting of net profit for the financial year in the amount of CHF 405,992,557 plus CHF 1,668,325 of profit carried forward, be distributed as follows:

- Allocation to voluntary retained earnings reserve:  
CHF 400,000,000
- Profit carried forward:  
CHF 7,660,882
- Dividend of CHF 1.20  
per share at CHF 0.02 par value
- Total dividends on the 223,809,448 shares  
entitled to dividends:  
CHF 268,571,338  
Total distribution, fully charged to statutory  
capital reserve

## DIVIDENDS

## DIVIDENDS

	Gross CHF	35% withholding tax CHF	Net CHF
<b>On approval of this proposal, the dividends amount to:</b>			
Dividend per share	1.20	-	1.20

The dividends will be paid from 18 April 2017.

On behalf of the Board of Directors

The Chairman



Daniel J. Sauter

# REPORT OF THE STATUTORY AUDITOR TO THE ANNUAL GENERAL MEETING OF JULIUS BAER GROUP LTD., ZÜRICH



## Statutory Auditor's Report

To the General Meeting of Julius Baer Group Ltd., Zurich

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Julius Baer Group Ltd., which comprise the balance sheet as at 31 December 2016, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 196 to 202) for the year ended 31 December 2016 comply with Swiss law and the company's articles of incorporation.

#### Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority



#### Valuation of participations

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



## Valuation of participations

### Key Audit Matter

As at 31 December 2016, the Company reports participations of CHF 4,132.4m. Participations consist of a portfolio of subsidiaries in the banking and financial services industry.

Participations are valued at a maximum of the acquisition costs less necessary value adjustments, taking into account the general principle of individual valuation. Participations are subject to annual impairment testing.

Although these participations are not considered to represent a higher risk of a material misstatement, their valuation is of significance due to their materiality in the context of the financial statements as a whole.

### Our response

Our procedures included the assessment of the investment valuation process. We evaluated the valuation methodology applied by referencing to accounting standards and industry practice and tested the techniques used to determine the value in use of the participations.

For the most significant participations where valuation methodologies were used, we recalculated the valuations and agreed the data inputs with available market information. For less significant participations where we had indications of possible impairment, we assessed their recoverability by comparing the carrying amount to their net asset value.

For further information on participations, also refer to the notes to the financial statements on page 198.

### Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Philipp Rickert  
Licensed Audit Expert  
Auditor in Charge

Cataldo Castagna  
Licensed Audit Expert

Zürich, 31 January 2017

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