Julius Bär

DISCLOSURE OBLIGATIONS REGARDING CAPITAL ADEQUACY AND LIQUIDITY JUNE 2017

JULIUS BAER GROUP LTD.

ACCORDING TO FINMA-CIRCULAR 2016/1
'DISCLOSURE BANKS'

DISCLOSURE OBLIGATIONS REGARDING CAPITAL ADEQUACY AND LIQUIDITY JUNE 2017 JULIUS BAER GROUP LTD.

CAPITAL RATIO
INTRODUCTION

Julius Baer Group Ltd. (the Group) is subject to the full disclosure requirements for capital adequacy according to the conditions defined in Circular 2016/1 respectively 2008/22 'Disclosure Banks' of the Swiss Financial Market Supervisory Authority (FINMA).

The required qualitative information is disclosed in the Annual Report 2016 (AR 2016) of Julius Baer Group Ltd. under 'Comment on risk and capital management' (AR 2016, page 96ff.). This specifically includes the description of the strategy, processes and organisation employed for managing credit risks or counterparty risks, risks in the trading book and banking book as well as operational risks.

In the section 'Credit risk' (AR 2016, page 98ff.), the risk practice and the practice in relation to collateral are explained. External ratings from Moody's, Standard & Poor's and Fitch are employed for determining the risk weighting of amounts due from banks and of the interest rate instruments reported under financial investments. The standardised approach and subsidiary approaches for calculating capital requirements for credit risks are described in the section 'Approaches used for calculating required capital' on page 9 of this document.

In the section 'Market risk (trading book)' (AR 2016, page 108ff.), the methods and processes employed for measuring and limiting market risks are explained.

For the trading book, the Group calculates the capital requirements based on its internal value at risk (VaR) model approach.

The assumptions applied for determining interest rate risk are described in the section 'Financing, liquidity and interest rate risks in the banking book' (AR 2016, page 112ff.). This section also contains an explanation of the methods used in practice to hedge or reduce the risks related to changes in interest rates. Figures quantifying the effect of a major change in interest rates in the banking book on interest earnings are also provided in the aforementioned section.

The standardised approach is used for calculating the capital adequacy for operational risks. Management and control of the operational risks are described in the section 'Operational risk' (AR 2016, page 116ff.).

The section 'Management of capital including regulatory capital' (AR 2016, page 119ff.) describes the capital management principles, the legal parameters and the consolidation scope used for calculating the required capital.

The capital ratios and capital components disclosed in the half-year report 2017, page 26, are supplemented in chapter 'Composition of capital', page 5ff. of this document, with the detailed disclosure of capital positions according to the table structure predetermined by FINMA.

CAPITAL COMPONENTS

BALANCE SHEET RECONCILIATION

In the half-year report 2017, the scope of consolidation used for the calculation of capital adequacy is identical to that applied for accounting purposes. Therefore the balance sheet according to the regulatory scope of consolidation is identical to the IFRS balance sheet. In the table below the line items of the balance sheet are expanded and referenced where relevant to display all components that are disclosed in the table as shown in the section 'Composition of capital', page 5ff.

Balance sheet reconciliation

Consolidated balance sheet[1]	**30.06.2017** According to the financial statement *CHF m*	References[2]
Assets		
Cash	12,085.3	
Due from banks	6,798.8	
Cash collateral on securities borrowed	56.2	
Due from customers	31,156.1	
Mortgages	9,577.3	
Trading assets	10,287.4	
Derivative financial instruments	2,035.0	
Financial assets designated at fair value	255.0	
Financial investments available-for-sale	16,335.5	
Investments in associates	29.4	9
Property and equipment	363.8	
Goodwill and other intangible assets	2,846.1	
of which goodwill	*2,066.9*	*5*
of which other intangible assets	*779.2*	*6*
Accrued income and prepaid expenses	337.2	
Deferred tax assets	26.9	
of which deferred tax assets on operating loss carryforwards	*21.6*	*7*
of which deferred tax assets on temporary differences	*5.3*	*10*
Other assets	960.8	
Total assets	**93,150.8**	

[1] The balance sheet positions are presented in accordance with the sample table as shown in the FINMA-Circular 2008/22, annex 2, I. a).
[2] For the reconciliation of individual balance sheet amounts the listed reference numbers in this table set a link to corresponding reference numbers in the table 'Composition of capital'.

Consolidated balance sheet[1]	**30.06.2017** According to the financial statement *CHF m*	References[2]
Liabilities and equity		
Due to banks	4,679.1	
Cash collateral on securities lent	1,410.4	
Due to customers	65,763.3	
Trading liabilities	195.3	
Derivative financial instruments	2,223.4	
Financial liabilities designated at fair value	11,201.7	
Debt issued	1,253.6	
of which tier 1 bond issued 2012 (Basel III-compliant capital instrument)	*249.8*	*8*
of which tier 1 bond issued 2014 (Basel III-compliant capital instrument)	*347.3*	*8*
of which tier 1 bond issued 2015 (Basel III-compliant capital instrument)	*321.7*	*8*
of which tier 1 bond issued 2016 (Basel III-compliant capital instrument)	*225.9*	*8*
Accrued expenses and deferred income	487.1	
Current tax liabilities	109.8	
Deferred tax liabilities	87.2	
of which deferred tax liabilities on goodwill	*0.0*	
of which deferred tax liabilities on other intangible assets	*44.1*	*6*
Provisions	23.0	
Other liabilities	289.4	
Total liabilities	87,723.3	
Share capital	4.5	1
Retained earnings	5,906.6	2
Other components of equity	-184.1	3
Treasury shares	-320.9	
Equity attributable to shareholders of Julius Baer Group Ltd.	5,406.1	
Non-controlling interests	21.4	4
Total equity	5,427.5	
Total liabilities and equity	**93,150.8**	

1 The balance sheet positions are presented in accordance with the sample table as shown in the FINMA-Circular 2008/22, annex 2, I. a).

2 For the reconciliation of individual balance sheet amounts the listed reference numbers in this table set a link to corresponding reference numbers in the table 'Composition of capital'.

Further details regarding tier 1 instruments can be found at www.juliusbaer.com/cap-instr

COMPOSITION OF CAPITAL

The table below provides the composition of capital as defined by the Basel Committee on Banking Supervision and FINMA. Reference is made to items reconciling to the balance sheet as disclosed in the section 'Balance sheet reconciliation'. Where relevant, the effect of the transition period under Basel III is disclosed as well. A positive amount in the column 'Effect of the transition period' reflects the excess amount compared to the full application of the Basel III requirements at the closing date 30 June 2017.

Composition of capital

No.[1]		**30.06.2017** Phase-in amounts *CHF m*	**30.06.2017** Effects of the transition period *CHF m*	References[R]
1	Directly issued qualifying common share capital	4.5		1
2	Retained earnings	5,906.6		2
3	Accumulated other comprehensive income	-184.1		3
5	Non-controlling interests	4.3	4.3	4
6	**Common equity tier 1 capital before adjustments[2]**	**5,731.3**	**4.3**	
8	Goodwill	-1,653.5	413.4	5
9	Other intangibles (net of related deferred tax liabilities)	-588.1	147.0	6
10	Deferred tax assets on operating loss carryforwards	-17.3	4.3	7
14	Gains and losses due to changes in own credit risk	0.8		
16	Net long position of treasury shares	-172.2		
	Proposed dividend for the financial year	-150.0		
26a	Unrealised gains on financial investments available-for-sale	-123.8		
26a	Defined benefit obligation relating to IAS19[3]	33.1	33.1	
28	**Total adjustments to common equity tier 1 capital**	**-2,671.0**	**597.8**	
29	**Common equity tier 1 capital**	**3,060.3**	**602.1**	

[1] Row numbers according to the sample table enclosed in the FINMA-Circular 2016/1, annex 2, table 2
[2] Before deduction of treasury shares of CHF 320.9 million and addition of CHF 17.1 million non-controlling interests (corresponds to Basel II phase-out percentage rate of 80%)
[3] 20% of remeasurement of defined benefit obligation of CHF 165.4 million according to half-year report 2017, page 7
[R] Comments to the references:
Reference 4: 20% of the balance sheet amount
Reference 6: Total of CHF 656.7 million (CHF 588.1 million, row 9, and CHF 68.6 million, row 37, reference 6) from capital components results in a difference of minus CHF 122.5 million to the corresponding balance sheet total. This is equal to the non-deducted amount from capital of capitalised software according to the phase-in ruling of 20% (CHF 78.4 million) and the direct deduction of deferred tax liabilities (CHF 44.1 million).
Reference 7: 80% of the balance sheet amount

No.[1]		30.06.2017 Phase-in amounts *CHF m*	30.06.2017 Effects of the transition period *CHF m*	References[R]
30	Directly issued qualifying additional tier 1 instruments	1,144.7		8
32	*of which classified as liabilities under applicable accounting standards*	*1,144.7*		
33	Directly issued capital instruments subject to phase-out from additional tier 1 capital	0.0	0.0	
36	**Additional tier 1 capital before adjustments**	**1,144.7**	**0.0**	
37	Investments in own additional tier 1 instruments	0.0		8
	Regulatory adjustments of the tier 1 in respect of transitional agreements	-484.9	-484.9	
	of which goodwill	*-413.4*	*-413.4*	5
	of which other intangible assets (net of related deferred tax liabilities)	*-68.6*	*-68.6*	6
	of which share of investments in associates decucted from tier 1 capital	*-2.9*	*-2.9*	9
43	**Total adjustments to additional tier 1 capital**	**-484.9**	**-484.9**	
44	**Additional tier 1 capital**	**659.8**	**-484.9**	
45	**Tier 1 capital**	**3,720.0**	**117.2**	
47	Directly issued capital instruments subject to phase-out from tier 2 capital	0.0	0.0	
51	**Tier 2 capital before adjustments**	**0.0**	**0.0**	
52	Investments in own tier 2 instruments	0.0	0.0	
56	Additional adjustments (collective allowance plus 45% of unrealised gains on financial investments available-for-sale)	83.3		
	Regulatory adjustments of the tier 2 in respect of transitional agreements	-2.9	-2.9	
	of which share of investments in associates decucted from tier 2 capital	*-2.9*	*-2.9*	9
57	**Total adjustments to tier 2 capital**	**80.4**	**-2.9**	
58	**Tier 2 capital**	**80.4**	**-2.9**	
59	**Eligible capital**	**3,800.4**	**114.2**	
	Total amount with risk weight pursuant to the transitional arrangements (phase-in)		-36.3	
	of which software capitalised (intangibles)		*78.4*	
	of which investments in associates		*-14.7*	
	of which deferred tax assets		*4.3*	
	of which change of credit risk measurement of derivatives		*-104.3*	
60	**Total risk-weighted assets**	**20,564.2**	**-36.3**	

[1] Row numbers according to the sample table enclosed in the FINMA-Circular 2016/1, annex 2, table 2
[R] Comments to the references:
Reference 9: 20% transitional deducted, results in CHF 14.7 million (50% of total CHF 29.4 milion)

No.[1]		30.06.2017 Phase-in amounts *CHF m*	30.06.2017 Effects of the transition period *CHF m*	References[R]
	Capital ratios			
61	Common equity tier 1 ratio (row number 29, as a percentage of risk-weighted assets)	14.9%	2.9%	
62	Tier 1 ratio (row number 45, as a percentage of risk-weighted assets)	18.1%	0.6%	
63	Eligible capital ratio (row number 59, as a percentage of risk-weighted assets)	18.5%	0.6%	
64	Common equity tier 1 capital requirement according to BIS minimal standards: minimum requirement plus capital conservation and countercyclical buffer requirement (as a percentage of risk-weighted assets)	6.0%		
65	*of which capital conservation buffer*	*1.3%*		
66	*of which countercyclical buffer*	*0.2%*		
68	Common equity tier 1 capital available to cover minimum and buffer requirements according to BIS minimal standards after deduction of additonal tier 1 and tier 2 capital requirements which are filled by common equity tier 1 capital (as a percentage of risk-weighted assets)	14.9%		
68a	Regulatory requirement to common equity tier 1 capital according to annex 8 of the CAO plus the countercyclical buffer (as a percentage of risk-weighted assets)	8.0%		
68b	Common equity tier 1 capital available after deduction of additional tier 1 and tier 2 capital requirements which are filled by common equity tier 1 capital (as a percentage of risk-weighted assets)	14.3%		
68c	Regulatory requirement to tier 1 capital according to annex 8 of the CAO plus the countercyclical buffer (as a percentage of risk-weighted assets)	9.8%		
68d	Tier 1 capital available after deduction of tier 2 capital requirement which is filled by tier 1 capital (as a percentage of risk-weighted assets)	16.1%		
68e	Regulatory requirement to total capital according to annex 8 of the CAO plus the countercyclical buffer (as a percentage of risk-weighted assets)	12.2%		
68f	Available regulatory capital (as a percentage of risk-weighted assets)	18.5%		
	Amounts below the thresholds for deduction (before risk-weighting)			
72	Non-significant investments in the financial sector	201.6		
73	Significant investments in the financial sector	23.5		
75	Other deferred tax assets	5.3		10
	Applicable cap on the inclusion of provisions in tier 2			
76	Provisions eligible for inclusion in tier 2 capital in respect of exposures subject to standardised approach	27.6		
77	Cap on inclusion of provisions under standardized approach	175.9		

[1] Row numbers according to the sample table enclosed in the FINMA-Circular 2016/1, annex 2, table 2

[R] Comments to the references:
none

MINIMUM CAPITAL REQUIREMENT

Required capital (see table below) for credit risks arising from amounts due from banks, loans, financial investments and derivative financial instruments accounted for more than 69% of the total required capital at end of June 2017. Capital required for non-counterparty risk (2%) and market risk (6%) was of minor significance. The capital required to cover operational risk accounted for 23% of total required capital.

Capital required

	30.06.2017 Basel III phase-in *CHF m*	31.12.2016 Basel III phase-in *CHF m*
Credit risk	**1,125.8**	1,192.2
of which for equity securities in the banking book	***37.8***	*9.8*
Non-counterparty-related risk	**35.4**	40.5
Market risk	**100.2**	76.6
Operational risk	**383.7**	370.8
Total	**1,645.1**	1,680.1

CREDIT RISK

APPROACHES USED FOR CALCULATING REQUIRED CAPITAL

For calculating the required capital for credit risk, the Group uses the standardised approach SA-BIS according to the Swiss Capital Adequacy Ordinance (CAO). In the CAO and the circulars referred to therein, the calculation procedures are described in detail.

In addition, the following subsidiary approaches are used:

- Collateral is handled under the comprehensive approach, which means that the credit position is netted against the collateral provided. This takes into account add-ons or haircuts on the receivable and the collateral to reflect possible changes in value based on market developments. The resulting net unsecured position remains in the original position category and is risk weighted according to the criteria applicable to this category.
- Lombard loans are also handled under the comprehensive approach described above.
- The regulatory standard haircuts are used for collateral eligible under the comprehensive approach.
- Credit equivalents for derivatives are calculated using the mark-to-market method. The credit equivalent corresponds to the sum of the current replacement value and the add-on which is calculated on the basis of the notional amount of the contract.
- Securities lending, repo and repo-style transactions are handled in accordance with the comprehensive approach, under which capital is required to cover the difference between the margin provided less a haircut and the securities position plus a risk premium.
- The standard approach is used to quantify the risk of a loss due to credit value adjustments (CVAs) of derivatives based on counterparty credit risks.

CREDIT RISK BREAKDOWN

The credit risk breakdown by region, by sector, secured/not secured and by regulatory risk weightings, as presented numerically in the tables of the following sections, is provided before deduction of the eligible collateral and in accordance with Swiss disclosure requirements (FINMA circular 2008/22), which are based on the international guidelines contained in the Basel Committee on Banking Supervision's Basel III Accord. 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.

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

						30.06.2017
	Switzerland *CHF m*	Europe *CHF m*	Americas *CHF m*	Asia-Pacific *CHF m*	Other countries *CHF m*	**Total** *CHF m*
Due from banks	2,541	2,159	418	1,646	35	**6,799**
Loans	9,015	15,163	8,871	6,851	833	**40,733**
Financial assets designated at fair value	244	-	-	11	-	**255**
Financial investments available-for-sale	274	6,243	6,775	2,017	1,027	**16,336**
Investments in associates	-	-	29	-	-	**29**
Derivative financial instruments	831	1,069	493	326	34	**2,753**
Contingent liabilities	100	434	317	98	26	**975**
Irrevocable commitments	189	96	67	16	3	**371**
Securities lending and repo transactions	1,565	2,969	475	60	24	**5,093**
Total	14,759	28,133	17,445	11,025	1,982	**73,344**

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

	Governments and agencies *CHF m*	Financial institutions *CHF m*	Private clients *CHF m*	Other *CHF m*	**30.06.2017** **Total** *CHF m*
Due from banks	-	6,799	-	-	**6,799**
Loans	653	13,941	16,049	10,090	**40,733**
Financial assets designated at fair value	-	255	-	-	**255**
Financial investments available-for-sale	5,031	9,456	-	1,849	**16,336**
Investments in associates	-	29	-	-	**29**
Derivative financial instruments	93	1,713	500	447	**2,753**
Contingent liabilities	18	395	410	152	**975**
Irrevocable commitments	2	255	91	23	**371**
Securities lending and repo transactions	367	4,211	251	264	**5,093**
Total	6,164	37,054	17,301	12,825	**73,344**

The collateral pledged to cover Lombard loans, OTC derivatives positions as well as 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

	Secured by recognised financial collaterals[1] *CHF m*	Not secured by recognised financial collaterals *CHF m*	**30.06.2017** **Total** *CHF m*
Due from banks	3,508	3,291	**6,799**
Loans	37,471	3,262	**40,733**
Financial assets designated at fair value	244	11	**255**
Financial investments available-for-sale	-	16,336	**16,336**
Investments in associates	-	29	**29**
Derivative financial instruments	1,713	1,040	**2,753**
Contingent liabilities	920	55	**975**
Irrevocable commitments	212	159	**371**
Securities lending and repo transactions	3,791	1,302	**5,093**
Total	47,859	25,485	**73,344**

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

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

Credit risk by regulatory risk weightings

								30.06.2017
	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	2,723	3,021	-	1,033	-	21	1	**6,799**
Loans	28,053	7	7,825	107	1,001	3,742	0	**40,733**
Financial assets designated at fair value	244	-	-	-	-	-	11	**255**
Financial investments available-for-sale	4,518	5,983	-	5,505	-	141	188	**16,336**
Investments in associates	-	-	-	-	-	-	29	**29**
Derivative financial instruments	1,713	592	-	259	12	178	-	**2,753**
Contingent liabilities	921	2	-	10	11	32	-	**975**
Irrevocable commitments	212	32	-	-	7	120	-	**371**
Securities lending and repo transactions	3,791	956	-	-	111	236	-	**5,093**
Total	42,175	10,593	7,825	6,914	1,140	4,468	229	**73,344**

USE OF EXTERNAL RATINGS

The Group uses the ratings of the agencies Moody's, Standard & Poor's and Fitch in accordance with the regulations of FINMA. The following table shows the receivables per counterparty category and split into risk weightings. The allocation is based on external ratings before the deduction of eligible collaterals.

Based on external ratings determined risk-weighted positions[1]

Counterparty	Rating	0% CHF m	20% CHF m	50% CHF m	100% CHF m	150% CHF m
						30.06.2017
Central governments and central banks	with rating	3,926.7	160.9	5.7		
	without rating				14.4	
BIS, IMF and multilateral development banks	with rating	346.1	90.4			
	without rating					
Public-sector entities	with rating		593.1	306.4		
	without rating		30.7		53.1	
Banks and securities traders	with rating		11,902.6	5,039.2	47.2	
	without rating		2,292.2	311.6	294.9	33.0
Corporates	with rating		2,070.7	2,059.1	71.5	
	without rating				4,998.8	166.5
Total	with rating	4,272.8	14,817.7	7,410.4	118.7	-
	without rating	-	2,322.9	311.6	5,361.2	199.5
Grand total		**4,272.8**	**17,140.6**	**7,722.0**	**5,479.9**	**199.5**

[1] Before taking into consideration risk-mitigating measures

EXPOSURES TO CENTRAL COUNTERPARTIES

The corresponding table will be published based on the year-end 2017 figures. It provides a comprehensive picture of the Group's exposures to central counterparties. In particular, the table includes all types of exposures (due to transactions, margins, contributions to default funds) and related risk weighted assets.

ADDITIONAL INFORMATION

In the following table the impaired loans are disclosed broken down by geographical region.

Impaired loans by region

		30.06.2017		31.12.2016
	Gross loans *CHF m*	Specific allowance *CHF m*	Gross loans *CHF m*	Specific allowance *CHF m*
Switzerland	**22.9**	**-9.3**	26.9	-8.2
Europe (excl. Switzerland)	**17.6**	**-5.1**	22.3	-4.9
Americas	**0.5**	**-0.5**	0.9	-0.9
Asia-Pacific	**2.4**	**-**	33.2	-33.2
Total	**43.4**	**-14.9**	**83.3**	**-47.2**

At the end of June 2017, the banking book did not contain any credit derivatives.

LEVERAGE RATIO
INTRODUCTION

In November 2014, FINMA published the 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. The 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-Circular 2016/1 ‘Disclosure Banks’.

COMPONENTS

The tier 1 leverage ratio was 4.0% at the end of June 2017. The difference of the total exposures of CHF 92,048 million (number 8 in the following table) to the total on-balance sheet exposures of CHF 93,151 million (number 1) was minus CHF 1,103 million. The difference is the total of the single amounts of the numbers 2 to 7 in the following table.

Summary comparison of accounting assets versus leverage ratio exposure measure

No.		**30.06.2017** *CHF m*
1	Total assets as per published financial statements	93,150.8
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation (margins 6–7 FINMA circular 15/3), and adjustments for assets that are deducted from tier 1 capital (margins 16–17 FINMA circular 15/3)	-2,867.6
3	Adjustments for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure (margin 15 FINMA circular RS 15/3)	-
4	Adjustments for derivative financial instruments (margins 21–51 FINMA circular 15/3)	178.2
5	Adjustments for securities financing transactions (margins 52–73 FINMA circular 15/3)	241.1
6	Adjustments for off-balance sheet items (conversion to credit equivalent amounts of off-balance sheet exposures) (margins 74–76 FINMA circular 15/3)	1,345.3
7	Other adjustments	-
8	**Leverage ratio exposure**	**92,047.8**

Detailed description of the components of the leverage ratio

No.		**30.06.2017** *CHF m*
	On-balance sheet exposures	
1	On-balance sheet items excluding derivatives and securities financing transactions (SFTs), but including collateral (margins 14–15 FINMA circular 15/3)	91,059.6
2	(Asset amounts deducted in determining Basel III Tier 1 capital) (margins 7 and 16–17 FINMA circular 15/3)	-2,867.6
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**88,192.0**
	Derivative exposures	
4	Positive replacement cost associated with all derivatives transactions including exposures resulting from CCP transactions net of eligible cash variation margin according to margins 22-23 and 34-35 FINMA circular 15/3	1,087.6
5	Add-on amounts for potential futures exposures (PFE) associated with all derivatives transactions (margins 22 and 25 FINMA circular 15/3)	1,635.6
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework (margin 27 FINMA circular 15/3)	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions according to margin 36 FINMA circular 15/3)	-453.8
8	(Exempted central counterparty (CCP) leg of client-cleared trade exposures) (margin 39 FINMA circular 15/3)	-289.9
9	Adjusted effective notional amount of all written credit derivatives (after deduction of negative replacement values) (margin 43 FINMA circular 15/3)	240.5
10	(Adjusted effective notional offsets (margins 44–50 FINMA circular 15/3) and add-on deductions for written credit derivatives according to margin 51 FINMA circular 15/3)	-6.9
11	**Total derivative exposures**	**2,213.2**
	Securities financing transaction exposures	
12	Gross SFT assets with no recognition of netting other than novation with QCCPs (margin 57 FINMA circular 15/3), including sales accounting transactions (margin 69 FINMA circular 15/3), removing certain positions according to margin 58 FINMA circular 15/3	56.2
13	(Netted amounts of cash payables and cash receivables of gross SFT assets) (margins 59–62 FINMA circular 15/3)	-5.3
14	Counterparty credit risk (CCR) exposure for SFT assets (margins 63–68 FINMA circular 15/3)	246.4
15	Agent transaction exposures (margins 70–73 FINMA circular 15/3)	-
16	**Total securities financing transaction exposures**	**297.3**
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount (before calculation of credit conversion factors)	1,914.8
18	(Adjustments for conversion to credit equivalent amounts) (margins 75–76 FINMA circular 15/3)	-569.5
19	**Total off-balance sheet items**	**1,345.3**
	Eligible capital and total exposures	
20	**Core capital (Tier 1 capital, margin 5 FINMA circular 15/3)**	**3,720.0**
21	**Total exposure**	**92,047.8**
	Leverage ratio	
22	**Basel III leverage ratio (margins 3–4 FINMA circular 15/3)**	**4.0%**

LIQUIDITY COVERAGE RATIO
INTRODUCTION

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. The management of the liquidity risks is described in the AR 2016 of the Group in the section Management of liquidity and financing risks (page 112ff.). Basel III regulations also require publication of the leverage ratio from 2015 onwards. This requirement is contained in the the FINMA-Circular 2016/1 'Disclosure Banks'.

COMPONENTS

In the following table the LCR figures are disclosed as 3-month average values per quarter. The total of the high-quality liquid assets (number 1 in the following table) increased in the second quarter compared to the previous quarter value. Simultaneously the total of net average cash outflows (number 22) increased more significantly in the second quarter. The changes resulted in a lower liquidity coverage ratio, but still significantly above the regulatory required minimum ratio of 80% valid as at 30 June 2017 (100% is required from 2019 onwards).

Information to the liquidity coverage ratio

		Q1 2017 3-month average		Q2 2017 3-month average	
No.		Unweighted value *CHF m*	Weighted value *CHF m*	Unweighted value *CHF m*	Weighted value *CHF m*
A.	**High-quality liquid assets (HQLA)**				
	Cash and balances with central banks		8,066.4		9,291.3
	Securities category 1 and category 2		6,369.2		6,319.8
1	**Total high-quality liquid assets (HQLA)**		**14,435.6**		**15,611.0**
B.	**Cash outflows**				
2	Retail deposits	35,399.2	4,927.4	37,338.5	5,146.6
3	*of which stable deposits*	*3,380.6*	*169.0*	*3,449.9*	*172.5*
4	*of which less stable deposits*	*32,018.6*	*4,758.4*	*33,888.6*	*4,974.1*
5	Unsecured wholesale funding	35,867.7	22,367.5	35,230.8	22,154.0
6	*of which operational deposits (all counterparties)*	-	-	-	-
7	*of which non-operational deposits (all counterparties)*	*32,654.6*	*19,154.3*	*31,739.0*	*18,662.1*
8	*of which unsecured debts*	*3,213.2*	*3,213.2*	*3,491.8*	*3,491.8*
9	Secured wholesale funding		1,526.8		1,383.1
10	Additional cash outflows	4,868.8	4,406.4	5,095.6	4,561.4
11	*of which outflows related to derivatives and other transactions*	*4,086.9*	*4,086.9*	*4,355.4*	*4,355.4*
12	*of which outflows related to loss of funding on debt products*	-	-	-	-
13	*of which committed credit and liquidity facilities*	*782.0*	*319.6*	*740.2*	*206.0*
14	Other contractual funding obligations	780.6	745.4	928.7	751.2
15	Other contingent funding obligations	8,014.9	138.0	7,632.2	141.5
16	**Total cash outflows**		**34,111.5**		**34,137.8**
C.	**Cash inflows**				
17	Secured lending (e.g. reverse repurchase transactions)	673.7	667.9	853.8	845.0
18	Income from fully performing exposures	30,946.9	18,012.2	26,594.4	15,744.6
19	Other cash inflows	7,227.3	7,227.3	7,210.0	7,210.0
20	**Total cash inflows**[1]	**38,847.9**	**25,208.6**	**34,658.2**	**23,451.0**
	Liquidity coverage ratio				
21	Total high-quality liquid assets (HQLA)		14,435.6		15,611.0
22	Total net cash outflows		8,902.9		10,686.7
23	**Liquidity coverage ratio (in %)**		**162.1%**		**146.1%**

[1] After applying the cap on cash inflows at max. 75% of total cash outflows, calculated on a monthly basis

JULIUS BAER GROUP LTD.
Bahnhofstrasse 36
P.O. Box
8010 Zurich
Switzerland
Telephone +41 (0) 58 888 1111
Fax +41 (0) 58 888 5517
www.juliusbaer.com

The Julius Baer Group
is present in more than
50 locations worldwide,
including Zurich (Head Office),
Dubai, Frankfurt, Geneva,
Hong Kong, London, Luxembourg,
Milan, Monaco, Montevideo,
Moscow, Mumbai,
Singapore and Tokyo.

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