Julius Bär

CAPITAL ADEQUACY DISCLOSURE 2014

JULIUS BAER GROUP LTD.

according to FINMA Circular 2008/22
'Capital Adequacy Disclosure Banks'

Julius Bär
125
YEARS
1890 — 2015

CAPITAL ADEQUACY DISCLOSURE 2014 JULIUS BAER GROUP LTD.

INTRODUCTION

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

The required qualitative information is disclosed in the Annual Report 2014 (AR 2014) of Julius Baer Group Ltd. under 'Comment on risk and capital management' (page 64ff.). 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 2014, page 66ff.), 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 8 of this document.

In the section 'Market risk (trading book)' (AR 2014, page 76ff.), 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 employed for determining interest rate risk are described in the section 'Liquidity, financing and interest rate risks in the banking book' (AR 2014, page 80ff.). This section also contains an explanation of the methods used in practice to hedge or reduce the risks related to changes in interest rates. Quantitative figures on the income effect of a major change in interest rates in the banking book 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 2014, page 84f.).

The section 'Management of capital including regulatory capital' (AR 2014, page 86ff.) describes the capital management principles, the legal parameters and the consolidation scope used for calculating the required capital. The therein disclosed capital ratios and capital components are supplemented in chapter 'Composition of capital', pages 5ff. of this document, with the detailed disclosure of the capital positions following a table structure predetermined by FINMA.

CAPITAL COMPONENTS

BALANCE SHEET RECONCILIATION

In 2014, 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 lines in the balance sheet are expanded and referenced where relevant to display all components that are used in the table as shown in the section 'Composition of capital', page 5ff.

Balance sheet reconciliation

Consolidated balance sheet[1]	**31.12.2014** According to the financial statement *CHF m*	References[2]
Assets		
Cash	11,201.9	
Due from banks	8,922.6	
Loans	33,669.1	
Trading assets	7,424.2	
Derivative financial instruments	3,001.9	
Financial assets designated at fair value	121.8	
Financial investments available-for-sale	14,597.3	
Investments in associates	66.0	10
Property and equipment	382.7	
Goodwill and other intangible assets	2,363.9	
of which goodwill	*1,680.3*	*5*
of which other intangible assets	*683.6*	*6*
Accrued income and prepaid expenses	331.9	
Deferred tax assets	15.3	
of which deferred tax assets on operating loss carryforwards	*11.8*	*7*
of which deferred tax assets on temporary differences	*3.5*	*12*
Other assets	135.2	
Total assets	**82,233.8**	

[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]	**31.12.2014** According to the financial statement *CHF m*	References[2]
Liabilities and equity		
Due to banks	5,190.2	
Due to customers	61,820.5	
Trading liabilities	116.2	
Derivative financial instruments	3,014.9	
Financial liabilities designated at fair value	4,399.3	
Debt issued	1,059.8	
of which tier 1 bond issued 2012 (Basel III compliant capital instrument)	*247.8*	*8*
of which tier 1 bond issued 2014 (Basel III compliant capital instrument)	*345.0*	*8*
of which tier 1 preferred securities (phase-out capital instrument)	*225.0*	*9*
of which lower tier 2 capital (phase-out capital instrument)	*241.8*	*11*
Accrued expenses and deferred income	492.4	
Current tax liabilities	115.4	
Deferred tax liabilities	137.9	
of which deferred tax liabilities on goodwill	*0.0*	
of which deferred tax liabilities on other intangible assets	*61.5*	*6*
Provisions	89.5	
Other liabilities	459.9	
Total liabilities	**76,896.0**	
Share capital	4.5	1
Retained earnings	5,560.3	2
Other components of equity	-57.4	3
Treasury shares	-178.7	
Equity attributable to shareholders of Julius Baer Group Ltd.	5,328.7	
Non-controlling interests	9.1	4
Total equity	5,337.8	
Total assets	**82,233.8**	

[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 and tier 2 instruments can be found in the Regulatory disclosures section of www.juliusbaer.com.

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 phase-in arrangements 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 31 December 2014.

Composition of capital

No.[1]		**31.12.2014** Phase-in amounts *CHF m*	**31.12.2014** Effects of the transition period *CHF m*	References[5]
1	Directly issued qualifying common share capital	4.5		1
2	Retained earnings	5,560.3		2
3	Accumulated other comprehensive income	-57.4		3
5	Non-controlling interests	7.3	7.3	4
6	**Common equity tier 1 capital before adjustments[2]**	**5,514.7**	**7.3**	
8	Goodwill	-1,093.5	586.8	5
9	Other intangibles	-297.3	324.8	6
10	Deferred tax assets on operating loss carryforwards	-2.4	9.4	7
14	Gains and losses due to changes in own credit risk	0.1		
16	Net long position in own shares	-143.1		
	Proposed dividend for the financial Year	-223.0		
26a	Unrealised gains on financial investments available-for-sale	-114.3		
26a	IAS19 revised relating to defined benefit obligation[3]	98.4	98.4	
28	**Total adjustments to common equity tier 1 capital**	**-1,775.1**	**1,019.4**	
29	**Common Equity tier 1 capital**	**3,739.6**	**1,026.7**	

[1] Row numbers according to the sample table enclosed in the FINMA-Circular 2008/22, annex 2, I. b)
[2] Before deduction of own shares of CHF 178.7 million and addition of CHF 1.8 million non-controlling interests (corresponds to Basel III phase-out percentage rate of 20%)
[3] 80% of remeasurement of defined benefit obligation of CHF 123.0 million according to AR 2014, page 51
[5] Comments to the references:
Reference 4 and 7: 80% of the balance sheet amount
Reference 6: Total CHF 324.8 million results from CHF 159.6 million deduction amount of the additional tier 1 capital plus CHF 165.2 million capitalised software (80% of the balance sheet amount of CHF 206.5 million, see AR 2014, page 98). The CHF 324.8 million plus the absolute amount of CHF 297.3 million other intangible assets plus CHF 61.5 million deferred tax liabilities result in CHF 683.6 million as disclosed in the balance sheet.

No.[1]		31.12.2014 Phase-in amounts *CHF m*	31.12.2014 Effects of the transition period *CHF m*	References[5]
30	Directly issued qualifying additional tier 1 instruments	594.1		8
32	*of which classified as liabilities under applicable accounting standards*	*594.1*		
33	Directly issued capital instruments subject to phase-out from additional tier 1	180.0	180.0	9
36	**Additional tier 1 capital before adjustments**[4]	**774.1**	**180.0**	
37	Investments in own additional tier 1 instruments	-1.3		8
	Regulatory adjustments of the tier 1 in respect of transitional agreements	-772.8	-772.8	
	of which goodwill	*-586.8*	*-586.8*	*5*
	of which other intangible assets (net of related deferred tax liabilities)	*-159.6*	*-159.6*	*6*
	of which share of investments in associates decucted from tier 1 capital	*-26.4*	*-26.4*	*10*
43	**Total adjustments to additional tier 1 capital**[4]	**-774.1**	**-772.8**	
44	**Additional tier 1 capital**	**0.0**	**-592.8**	
45	**Tier 1 capital**	**3,739.6**	**433.9**	
47	Directly issued capital instruments subject to phase-out from tier 2	198.2	198.2	11
51	**Tier 2 capital before adjustments**	**198.2**	**198.2**	
52	Investments in own tier 2 instruments	-5.3	-5.3	11
56	Additional adjustments (collective allowance plus 45% of unrealised gains on financial investments available-for-sale)	74.3		
	Regulatory adjustments of the tier 2 in respect of transitional agreements	-26.4	-26.4	
	of which share of investments in associates decucted from tier 2 capital	*-26.4*	*-26.4*	*10*
57	**Total adjustments to tier 2 capital**	**42.6**	**-31.7**	
58	**Tier 2 capital**	**240.8**	**166.5**	
59	**Eligible capital**	**3,980.4**	**600.4**	
	Total amount with risk weight pursuant the transitional arrangements (phase-in)		-226.8	
	of which software capitalised (intangibles)		*165.2*	
	of which investments in associates		*-132.0*	
	of which deferred tax assets		*9.4*	
	of which credit valuation adjustments exchange traded derivatives		*-269.4*	
60	**Total risk-weighted assets**	**16,977.7**	**-226.8**	

[1] Row numbers according to the sample table enclosed in the FINMA-Circular 2008/22, annex 2, I. b)

[4] In the AR 2014, page 88, an additional tier 1 capital of CHF 772.8 million is disclosed, because the shares of additional tier 1 capital instruments of CHF 1.3 million held in own books are directly deducted.

[5] Comments to the references:
Reference 9: as at 1 January 2014 20% transitional deducted, results in CHF 45.0 million
Reference 10: 80% of the balance sheet amount
Reference 11: as at 1 January 2014 20% transitional deducted, results in CHF 48.8 million

No.[1]		31.12.2014 Phase-in amounts *CHF m*	31.12.2014 Effects of the transition period *CHF m*	References[5]
	Capital ratios			
61	Common equity tier 1 ratio (row number 29, as a percentage of risk-weighted assets)	22.0%		
62	Tier 1 ratio (row number 45, as a percentage of risk-weighted assets)	22.0%		
63	Eligible capital ratio (row number 59, as a percentage of risk-weighted assets)	23.4%		
64	Common equity tier 1 capital requirement according to capital adequacy ordinance (CAO): minimum requirement plus capital conservation and countercyclical buffer requirement (as a percentag of risk-weighted assets)	4.2%		
65	*of which capital conservation buffer*	*0.0%*		
66	*of which countercyclical buffer*	*0.2%*		
68	Common equity tier 1 capital available to cover minimum and buffer requirements according to CAO 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)	19.4%		
68a	Common equity tier 1 regulatory minimum capital according to FINMA-Circular 11/2 plus the countercyclical buffer requirement (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)	19.2%		
68c	Tier 1 regulatory minimum capital according to FINMA-Circular 11/2 plus the countercyclical buffer requirement (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)	21.0%		
68e	Eligible regulatory minimum capital according to FINMA-C 11/2 plus the countercyclical buffer requirement (as a percentage of risk-weighted assets)	12.2%		
68f	Eligible capital available (as a percentage of risk-weighted assets)	23.4%		
	Amounts below the thresholds for deduction (before risk-weighting)			
72	Non significant investments in the financial sector	97.9		
73	Significant investments in the financial sector	13.2		
75	Other deferred tax assets	3.5		12
	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	22.8		
77	Cap on inclusion of provisions under standardized approach	152.6		

[1] Row numbers according to the sample table enclosed in the FINMA-Circular 2008/22, annex 2, I. b)

[5] Comments to the references:
none

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 under the comprehensive approach, at 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 annual report 2014 on pages 67 to 70, is provided before deduction of the eligible collateral. All positions subject to capital adequacy requirements and exposed to credit risk are disclosed, with the exception of financial assets designated at fair value which are directly offset against identical financial liabilities designated at fair value and the balance sheet positions accrued income and prepaid expenses, deferred tax assets and other assets.

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 the 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]

						31.12.2014
Counterparty	**Rating**	0% *CHF m*	20% *CHF m*	50% *CHF m*	100% *CHF m*	150% *CHF m*
Central governments and central banks	with rating	2,099.3	265.8	66.1	-	-
	without rating	8.1	-	-	1.4	-
BIS, IMF and multilateral development banks	with rating	914.5	155.6	0.2	-	-
	without rating	-	-	-	-	-
Public-sector entities	with rating		638.4	69.0	13.8	-
	without rating		25.3	12.2	-	-
Banks and securities traders	with rating		11,882.0	4,171.1	268.5	5.6
	without rating		544.4	744.3	21.1	23.1
Corporates	with rating		1,746.1	1,830.2	152.1	4.3
	without rating		-	-	3,627.6	17.3
Total	with rating	3,013.8	14,687.9	6,136.6	434.4	9.9
	without rating	8.1	569.7	756.5	3,650.1	40.4
Grand total		**3,021.9**	**15,257.6**	**6,893.1**	**4,084.5**	**50.3**

[1] Before taking into consideration risk-mitigating measures

ADDITIONAL INFORMATION

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

Impaired loans by region

	31.12.2014 Gross loans *CHF m*	**31.12.2014** Specific allowance *CHF m*	31.12.2013 Gross loans *CHF m*	31.12.2013 Specific allowance *CHF m*
Switzerland	**3.9**	**-3.9**	3.2	-3.2
Europe (excl. Switzerland)	**13.7**	**-3.4**	4.9	-3.1
Americas	**0.3**	**-0.3**	18.2	-18.2
Asia and other countries	**36.2**	**-21.4**	6.4	-6.4
Total	**54.1**	**-29.0**	32.7	-30.9

The total of the notional amounts of credit derivatives in the banking book is disclosed in the table below.

Credit derivatives

	31.12.2014 Protection sold *CHF m*	**31.12.2014** Protection bought *CHF m*	31.12.2013 Protection sold *CHF m*	31.12.2013 Protection bought *CHF m*
Notional amount credit default swaps	**35.2**	**-**	23.9	-
Notional amount total return swaps	**-**	**13.8**	-	-
Total	**35.2**	**13.8**	23.9	-

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 some
50 locations worldwide.
From Zurich (Head Office),
Dubai, Frankfurt, Geneva,
Hong Kong, London,
Lugano, Monaco, Montevideo,
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