

Julius Bär

Business Review  
**First Half 2013**  
Julius Baer Group



# Key figures Julius Baer Group<sup>1</sup>

	H1 2013 <sup>2</sup> CHF m	H1 2012 <sup>3</sup> CHF m	H2 2012 <sup>3</sup> CHF m	Change to H1 2012 in %
<b>Consolidated income statement</b>				
Operating income	1,076.7	863.1	874.3	24.7
Adjusted operating expenses	758.0	613.8	614.8	23.5
Profit before taxes	318.8	249.4	259.5	27.8
Adjusted net profit	261.4	208.1	215.2	25.6
Adjusted EPS for the half year (CHF)	1.23	1.04	1.07	17.4
Cost/income ratio <sup>4</sup>	69.3%	72.3%	71.1%	-
Pre-tax margin (basis points)	30.1	28.2	28.0	-
	<b>30.06.13</b>	30.06.12	31.12.12	Change to 31.12.12 in %
<b>Client assets (CHF bn)</b>				
Assets under management	217.7	178.8	189.3	15.0
Average assets under management	211.5	176.6	185.3	14.1
Net new money (in period)	3.4	5.5	4.2	-
Assets under custody	85.9	90.1	87.6	-2.0
Total client assets	303.6	268.9	277.0	9.6
<b>Consolidated balance sheet (CHF m)</b>				
Total assets	67,241.0	54,178.3	54,820.7	22.7
Total equity	4,745.8	4,051.0	4,724.3	0.5
BIS total capital ratio	24.5%	23.6%	31.6%	-
BIS tier 1 capital ratio	22.9%	21.4%	29.3%	-
Return on equity (ROE) annualised	15.6%	13.4%	13.4%	-
<b>Personnel</b>				
Number of employees (FTE)	4,505	3,649	3,721	21.1
of whom Switzerland	3,165	2,716	2,770	14.3
of whom abroad	1,340	933	951	40.9
<b>Capital structure</b>				
Number of registered shares	223,809,448	196,390,756	216,707,041	-
Weighted average number of registered shares outstanding	213,295,009	199,361,969	201,959,293	-
Share capital (CHF m)	4.5	3.9	4.3	3.3
Book value per registered share outstanding (CHF)	22.5	22.0	22.4	0.6
Market capitalisation (CHF m)	8,256	6,728	7,006	17.8

Bank Julius Baer & Co. Ltd. is rated A1 by Moody's.

## Listing

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

## Ticker symbols

Bloomberg	BAER VX
Reuters	BAER.VX

<sup>1</sup>Adjusted results derived by excluding from the reviewed IFRS financial statements the integration and restructuring expenses, the amortisation of intangible assets related to previous acquisitions or divestments and in 2013 a CHF 28 million (net of taxes: CHF 22 million) provision in relation to the withholding tax treaty between Switzerland and the UK.

<sup>2</sup>The staggered integration of Merrill Lynch's International Wealth Management business outside the US started on 1 February 2013 and is reflected in the financial figures for 2013, making a direct comparison to the 2012 reporting period difficult.

<sup>3</sup>Revised accounting standards related to the Group's pension plan that became effective on 1 January 2013 and are described in the Group's Half-year Report 2013 resulted in restatement of certain expense and balance sheet items for the 2012 reporting period.

<sup>4</sup>Calculated using adjusted operating expenses, excluding valuation allowances, provisions and losses.



# Contents

- 2 Foreword
- 4 Financial performance in First Half 2013
- 11 Integration update
- 13 Business development in First Half 2013
- 22 Important dates and corporate contacts



**Front cover:** S. 7, 1998; by Swiss/Slovenian/Dutch artist Robert Suermond, acrylic on canvas, 180×190 cm; part of the Julius Baer Art Collection.

Julius Baer owns one of the largest corporate collections of Swiss contemporary art. As the works are not accessible to the public outside exhibitions, a fine and growing selection of them can be explored in the virtual museum at: [www.museum.juliusbaer.com](http://www.museum.juliusbaer.com)





## Dear Reader

The first six months of 2013 saw a gradual return of confidence in the stability and prospects of the global economy and the financial markets. The resulting strong performance of many investment categories, especially equities, was eventually hampered by rising doubts about the continuation of ultra-loose monetary policies around the globe. On the back of a recovery in client activity and better cost efficiency, our Group markedly improved its financial results in the first half of 2013. At the same time, the staggered integration of Merrill Lynch's International Wealth Management (IWM) business outside the US progressed successfully as planned.

Since the start of the integration process on 1 February 2013, including the milestone reached on 1 July 2013, a total of twelve IWM locations have entered the transfer process. This encompasses the biggest offices, such as in Switzerland, Uruguay, Singapore, Hong Kong and the UK, plus two locations that are new to our Group, namely Luxembourg and Spain. We reaffirm our goal to have 80% of the targeted IWM assets advised and reported from the Julius Baer platform by the end of 2013. Among the many key issues in a transaction of this size, the cultural alignment is of particular importance to us. About five months into the integration and following tremendous efforts for a smooth onboarding transition, we can proudly state we are making strong progress in forging one united team which shares the same client-centric dedication and firm commitment to our rapidly growing Group. Our aim is to ensure that the advantages from the IWM transaction as well as from the various cooperation agreements we have entered in recent years will benefit our growing clientele as swiftly and directly as possible. More details on the integration can be found on page 11f.

The transfer of the IWM businesses contributed CHF 24 billion to the rise in total assets under management (AuM) by CHF 28 billion or 15% to CHF 218 billion as at 30 June 2013. The remaining increase in AuM in the first six months of 2013 was driven by net new money inflows and an overall favourable currency

‘On the back of a recovery in client activity and better cost efficiency, our Group markedly improved its financial results in the first half of 2013.’

impact. Julius Baer continues to hold a positive view of the potential for inflows from the growth markets, which are expected to represent about half of the Group’s post-integration AuM. The Group’s total net new money in 2013 will be impacted, however, by the ongoing self-declarations by clients in a number of European countries, which Julius Baer continues to recommend. Total client assets, including assets under custody, amounted to CHF 304 billion by mid-year 2013.

Julius Baer’s capital position remained very healthy in the first half of 2013, even allowing for the impact of the payments for the IWM assets transferred and booked with the Group during the reporting period. With a BIS total capital ratio of 24.5% and a BIS tier 1 capital ratio of 22.9% at mid-year 2013, the Group’s capital base continues to be comfortably strong to support its business activities and related challenges. Julius Baer’s total and tier 1 capital ratios are expected to remain above the targeted levels of 15% and 12%, respectively, at all times throughout the integration process.

Getting a complex integration process off to a smooth start while at the same time mastering a demanding business environment without sacrificing service quality is not something which can be taken for granted. It is tangible proof of our organisation’s inherent strengths and the full dedication of each and every employee. For this, they deserve our sincerest thanks. We would also like to thank our clients and shareholders for their continued trust and support.



Daniel J. Sauter  
*Chairman*



Boris F.J. Collardi  
*Chief Executive Officer*

# Financial performance in First Half 2013

Financial markets performed strongly in the first months of the year, driven by ample central bank liquidity and the growing risk appetite of market participants, but were eventually hampered by rising doubts about continuation of the ultra-loose monetary policies around the globe. On the back of improved client activity and better cost efficiency, adjusted net profit<sup>1</sup> increased by 26% to CHF 261 million. Assets under management (AuM) rose by CHF 28 billion or 15% to CHF 218 billion, driven by AuM of the IWM<sup>2</sup> businesses transferred to Julius Baer in the first six months of the year, net new money inflows as well as an overall favourable currency impact.

Total *client assets* amounted to CHF 304 billion, an increase of 10% since the end of 2012. *Assets under management* grew by 15%, or CHF 28 billion, to CHF 218 billion. This included approximately CHF 24 billion of AuM reported from IWM, of which CHF 12 billion were booked on the Julius Baer platforms and paid for. Outside the contribution from IWM, the increase in AuM was the result of net new money of CHF 3.4 billion, a positive currency impact of CHF 2 billion as well as CHF 0.2 billion from the acquisition of a 60% equity participation in TFM Asset Management Ltd., partly offset by the disposal on 31 May 2013 of our former Italian onshore subsidiary Julius Baer SIM SpA, with CHF 1 billion in



Dieter A. Enkelmann, Chief Financial Officer

AuM, as well as by a marginally negative market performance of CHF 1 billion. The market performance was impacted by several clients' exposure to underperforming asset classes such as emerging market securities and gold as well as by the global market corrections in June 2013, and occurred despite the fact that Julius Baer again achieved a clearly positive performance across practically all discretionary mandates it manages. Due to the Group's strong focus on the successful transfer and integration of the IWM businesses, the pace of stand-alone net hirings of RMs decelerated somewhat, which was one of the factors behind the year-on-year slowdown in the net new money rate to 3.6% (annualised). Net new money was driven by continued net inflows from the growth markets and from the local business in Germany, while the inflows in the cross-border European business were offset by tax-driven outflows. *Assets under custody* came to CHF 86 billion, compared to CHF 88 billion at the end of 2012.

<sup>1</sup> Cf. footnote 1 to the table on the next page

<sup>2</sup> Merrill Lynch's International Wealth Management business outside the US

## Consolidated income statement<sup>1</sup>

	H1 2013 <sup>2</sup> CHF m	H1 2012 <sup>3</sup> CHF m	H2 2012 <sup>3</sup> CHF m	Change to H1 2012 in %
Net interest and dividend income	274.8	322.7	235.8	-14.8
Net commission and fee income	598.8	470.7	509.8	27.2
Net trading income	184.5	52.2	120.6	253.4
Other ordinary results	18.7	17.5	8.0	6.4
<b>Operating income</b>	<b>1,076.7</b>	<b>863.1</b>	<b>874.3</b>	<b>24.7</b>
Personnel expenses	487.9	421.0	379.8	15.9
General expenses <sup>4</sup>	225.9	160.5	188.0	40.7
Depreciation and amortisation	44.1	32.2	47.0	37.0
<b>Adjusted operating expenses</b>	<b>758.0</b>	<b>613.8</b>	<b>614.8</b>	<b>23.5</b>
<b>Profit before taxes</b>	<b>318.8</b>	<b>249.4</b>	<b>259.5</b>	<b>27.8</b>
Income taxes	57.4	41.3	44.3	39.0
<b>Adjusted net profit</b>	<b>261.4</b>	<b>208.1</b>	<b>215.2</b>	<b>25.6</b>
Attributable to:				
Shareholders of Julius Baer Group Ltd.	261.1	207.9	214.8	25.6
Non-controlling interests	0.3	0.2	0.4	-
Adjusted EPS for the half year (CHF)	1.23	1.04	1.07	17.4
<b>Key performance ratios</b>				
Cost/income ratio <sup>5</sup>	69.3%	72.3%	71.1%	-
Gross margin (basis points)	101.8	97.7	94.3	-
Pre-tax margin (basis points)	30.1	28.2	28.0	-
Tax rate	18.0%	16.6%	17.1%	-

<sup>1</sup>Adjusted results derived by excluding from the reviewed IFRS financial statements the integration and restructuring expenses, the amortisation of intangible assets related to previous acquisitions or divestments and in 2013 a CHF 28 million (net of taxes: CHF 22 million) provision in relation to the withholding tax treaty between Switzerland and the UK.

<sup>2</sup>The staggered integration of Merrill Lynch's International Wealth Management business outside the US started on 1 February 2013 and is reflected in the financial figures for 2013, making a direct comparison to the 2012 reporting period difficult.

<sup>3</sup>Revised accounting standards related to the Group's pension plan that became effective on 1 January 2013 and are described in the Group's Half-year Report 2013 resulted in restatement of certain expense items for the 2012 reporting period.

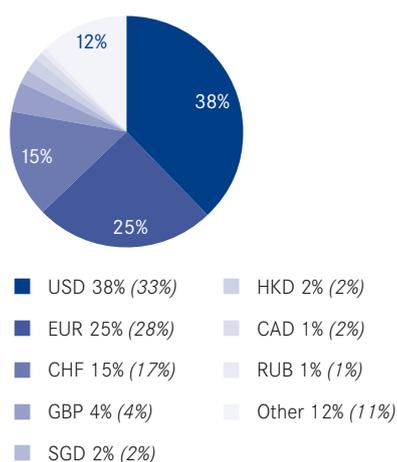
<sup>4</sup>Including valuation adjustments, provisions and losses

<sup>5</sup>Calculated using adjusted operating expenses, excluding valuation allowances, provisions and losses.

*Operating income* rose to CHF 1,077 million, a year-on-year increase of 25%, above the 20% year-on-year increase in average AuM (to CHF 212 billion). The gross margin (including the IWM businesses transferred in February, April and at the end of May 2013) improved to 102 bps (H1 2012: 98 bps, H2 2012: 94 bps). Excluding IWM, the gross margin was 103 bps, while the gross margin on the reported IWM AuM was 93 bps. In the second half of 2013, the weight of the IWM businesses in the overall gross margin calculation will increase significantly. *Net commission and fee income* went up by 27% to CHF 599 million, driven by the increase in average AuM and a recovery in client transaction volumes.

*Net interest and dividend income* declined by 15% to CHF 275 million as the benefit of the increase in loan volumes was more than offset by a year-on-year decrease in dividend income on trading portfolios from CHF 90 million to CHF 33 million. Excluding the latter, underlying net interest and dividend income increased by 4% to CHF 242 million. Including the aforementioned trading portfolios-related dividend income, underlying *net trading income* improved by 53% to CHF 218 million mainly as a result of an upturn in client-driven foreign exchange trading following higher volatility in the currency markets. Unadjusted net trading income more than tripled to CHF 184 million. *Other ordinary results* went up by 6% to CHF 19 million.

**Breakdown of assets under management by currency as at 30 June 2013**  
(30 June 2012)



Revised accounting standards related to the Group's pension plan (IAS 19 – Employee Benefits) that became effective on 1 January 2013 and are described in the Group's Half-year Report 2013 resulted in a restatement of certain expense and balance sheet items for the 2012 reporting period. The restatement increases reported operating expenses for the full year 2012 by CHF 12 million (H1 2012: increase of CHF 17 million, H2 2012: decrease of CHF 5 million) and reduces 2012 adjusted net profit by CHF 10 million (H1 2012: decrease of CHF 13 million, H2 2012: increase of CHF 3 million). In the first half of 2013, *adjusted operating expenses* increased by 23% to CHF 758 million from a restated level of CHF 614 million in the first half of 2012. The increase in expenses was partly attributable to

## Assets under management

	30.06.13 CHF bn	30.06.12 CHF bn	31.12.12 CHF bn	Change to 31.12.12 in %
<b>Client assets</b>				
Assets under management	217.7	178.8	189.3	15.0
<i>Change through net new money</i>	3.4	5.5	4.2	-
<i>Change through market and currency impacts</i>	1.4	3.0	6.3	-
<i>Change through acquisition</i>	24.5	-	0.6	-
<i>Change through divestment</i>	-1.0	-	-0.6	-
Assets under custody	85.9	90.1	87.6	-2.0
<b>Total client assets</b>	<b>303.6</b>	268.9	277.0	9.6
Average assets under management	<b>211.5</b>	176.6	185.3	14.1

the transfer of the IWM businesses in February, April and at the end of May 2013. The total number of employees increased by 23% year on year to 4,505 full-time equivalents (FTEs), including a net 553 from IWM. Out of the total staff, 138 FTEs are fully assigned to the IWM integration, and the expenses related to this group are therefore included in the IWM-related restructuring and integration expenses and consequently excluded from the adjusted results. The number of relationship managers grew by 165 to 966 FTEs, of which 157 from IWM. Mainly as a result of the increased headcount, the adjusted *personnel expenses* went up by 16% to CHF 488 million from a restated level of CHF 421 million a year ago. Adjusted *general expenses* went up by 41% to CHF 226 million, impacted by a shift from a CHF 11 million release to a CHF 12 million charge

for valuation allowances, provisions and losses. Excluding valuation allowances, provisions and losses, adjusted general expenses increased by 25% to CHF 214 million following the transfer of the IWM businesses and in line with the increase in operating income. Adjusted general expenses included CHF 16 million of costs related to the US tax situation, up from CHF 14 million a year ago.

As a result, the adjusted *cost/income ratio*<sup>1</sup> improved to 69% (H1 2012 restated: 72%; H2 2012 restated: 71%). Excluding the expenses related to the US tax situation, the adjusted cost/income ratio was 68%.

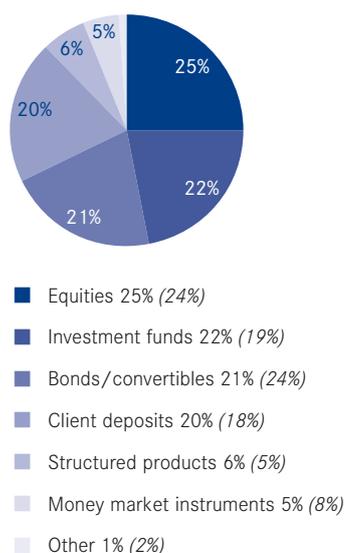
<sup>1</sup> Calculated using adjusted operating expenses, excluding valuation allowances, provisions and losses.

Adjusted *profit before taxes* went up by 28% to CHF 319 million from a restated level of CHF 249 million a year ago. The related income taxes increased from a restated level of CHF 41 million to CHF 57 million, representing a tax rate of 18%, up from a restated rate of 16.6%. *Adjusted net profit*<sup>1</sup> consequently increased by 26% to CHF 261 million from a restated level of CHF 208 million, and, following the higher share count after the capital increases in October 2012 and January 2013, adjusted *earnings per share* came to CHF 1.23, up by 17% from a restated level of CHF 1.04.

As in previous years, in the analysis and discussion of the results in the Business Review, adjusted operating expenses exclude integration and

restructuring expenses (CHF 99 million, almost entirely related to IWM, up from CHF 1 million in the prior-year period) as well as the amortisation of intangible assets related to acquisitions (CHF 48 million, up from CHF 45 million a year ago). Additionally, concerning the guarantee payments that Swiss banks were obliged to provide under Swiss law as part of the withholding tax agreement between Switzerland and the UK, the Swiss Bankers Association stated on 5 July 2013 that it cannot be ruled out that none or only a small part will be recovered. A provision of CHF 28 million (net of taxes: CHF 22 million) has been taken to cover the expected payment in relation to this. This amount has also been excluded from the adjusted operating expenses. Including the above items, as presented in the IFRS results in the Group's Half-year Report 2013, net profit was CHF 114 million in the first half of 2013, down 30% from a restated CHF 162 million in the first half of 2012, as the strong improvement in operational performance was more than offset by the IWM-related integration and restructuring expenses and the UK withholding tax-related provision. On the same basis, and following the higher share count after the capital increases in October 2012 and January 2013, EPS decreased by 34% to CHF 0.53, from the restated CHF 0.81 a year ago.

**Breakdown of assets under management by asset mix as at 30 June 2013**  
(30 June 2012)



## Consolidated balance sheet

	30.06.13 <sup>1</sup> CHF m	30.06.12 <sup>2</sup> CHF m	31.12.12 <sup>2</sup> CHF m	Change to 31.12.12 in %
<b>Assets</b>				
Due from banks	11,522.8	8,946.9	6,023.8	91.3
Loans to customers <sup>3</sup>	22,908.7	18,044.3	19,783.3	15.8
Trading assets	4,777.7	3,771.2	4,122.9	15.9
Financial investments available-for-sale	12,998.0	13,230.5	11,775.4	10.4
Goodwill and other intangible assets	1,763.8	1,671.0	1,635.5	7.8
Other assets	13,270.0	8,514.4	11,479.9	15.6
<b>Total assets</b>	<b>67,241.0</b>	<b>54,178.3</b>	<b>54,820.7</b>	<b>22.7</b>
<b>Liabilities and equity</b>				
Due to banks	8,456.3	4,748.2	4,289.8	97.1
Deposits from customers	45,694.1	37,736.6	39,103.8	16.9
Financial liabilities designated at fair value	3,795.3	3,849.8	3,154.7	20.3
Other liabilities	4,549.5	3,792.7	3,548.0	28.2
Total liabilities	62,495.2	50,127.3	50,096.3	24.8
Equity attributable to shareholders of Julius Baer Group Ltd.	4,742.8	4,049.1	4,722.1	0.4
Non-controlling interests	3.0	1.9	2.3	30.4
Total equity	4,745.8	4,051.0	4,724.3	0.5
<b>Total liabilities and equity</b>	<b>67,241.0</b>	<b>54,178.3</b>	<b>54,820.7</b>	<b>22.7</b>
<b>Key performance ratios</b>				
Loan-to-deposit ratio	0.50	0.48	0.51	-
Leverage ratio <sup>4</sup>	22.5	22.8	17.7	-
Book value per registered share outstanding (CHF) <sup>5</sup>	22.5	22.0	22.4	0.6
Return on equity (ROE) annualised <sup>6</sup>	15.6%	13.4%	13.4%	-
<b>BIS statistics</b>				
Risk-weighted assets	15,218.2	12,934.9	12,451.1	22.2
Eligible tier 1 capital	3,487.9	2,765.9	3,645.0	-4.3
BIS total capital ratio	24.5%	23.6%	31.6%	-
BIS tier 1 capital ratio	22.9%	21.4%	29.3%	-

<sup>1</sup>The staggered integration of Merrill Lynch's International Wealth Management business outside the US started on 1 February 2013 and is reflected in the financial figures for 2013, making a direct comparison to the 2012 reporting period difficult.

<sup>2</sup>Revised accounting standards related to the Group's pension plan that became effective on 1 January 2013 and are described in the Group's Half-year Report 2013 resulted in restatement of certain balance sheet items for the 2012 reporting period.

<sup>3</sup>Mostly Lombard lending and mortgages to clients

<sup>4</sup>Total assets/tangible equity

<sup>5</sup>Based on total equity

<sup>6</sup>Adjusted net profit/average equity less goodwill

### Balance sheet and capital developments

From a restated level of CHF 54.8 billion at the end of 2012, *total assets* increased by 23% to CHF 67.2 billion.

‘Julius Baer’s total and tier 1 capital ratios are expected to remain above the targeted levels of 15% and 12%, respectively, at all times throughout the integration process.’

Over the same period, client deposits went up by CHF 6.6 billion to CHF 45.7 billion, and the total loan book by CHF 3.1 billion to CHF 22.9 billion (comprising CHF 16.7 billion of collateralised Lombard loans and CHF 6.2 billion of mortgages), resulting in a continued conservative loan-to-deposit ratio of 0.50. The strong increase in loans and deposits was partly the result of the acquisition last February 2013 of Geneva-based Merrill Lynch Bank (Suisse) S.A.

At the end of June 2013, total equity was unchanged from a restated level of CHF 4.7 billion at the end of 2012, while BIS total capital amounted to CHF 3.7 billion and BIS tier 1 capital to CHF 3.5 billion. With risk-weighted assets at CHF 15.2 billion, this resulted in a *BIS total capital ratio* (under the new Basel III framework) of 24.5% and a *BIS tier 1 capital ratio* of 22.9%. The capital position and ratios were supported by the pre-funding in the second half of 2012 of the acquisition and integration of IWM. Over the next 12 to 18 months, as further IWM client assets are transferred and paid for in stages and as the remaining projected IWM-related transaction, integration and restructuring costs are expensed, the Group’s total and tier 1 capital ratios are expected to decrease closer to the medium-term targeted levels.

# Integration update

The IWM<sup>1</sup> integration started with the Principal Closing of the transaction on 1 February 2013, including the acquisition of Merrill Lynch Bank (Suisse) S.A. in Geneva, incl. Zurich and Dubai. By 1 July 2013, a further nine IWM locations had entered the process of transferring to Julius Baer. With the integration well on track, we reaffirm our goal to have 80% of the targeted IWM assets reported and 70% booked by the end of 2013.

The Principal Closing on 1 February 2013 marked the start of the two-year business transfer and integration phase to be finalised by the end of January 2015. During this period, IWM entities, financial advisers (FAs), their client relationships and the related assets under management (AuM) will be transferred to Julius Baer in a staggered process covering more than 20 locations. By the end of the process, Julius Baer expects to have acquired between CHF 57 billion and CHF 72 billion.

On 1 February 2013, Merrill Lynch Bank (Suisse) S.A. in Geneva was acquired together with its branches in Zurich and Dubai. On 1 April 2013, IWM entities in Montevideo, Santiago de Chile, Monaco and Luxembourg entered the transfer process. At the end of May 2013, Hong Kong and Singapore entered the transfer process, followed on 1 July 2013 by the entities in London, Madrid as well as Tel Aviv. By mid-July 2013, CHF 47 billion IWM AuM were reported, of which CHF 19 billion were booked on Julius Baer platforms and paid for, and 272 IWM FAs had transferred to Julius Baer<sup>2</sup>. The estimate for the total IWM-related

transaction, restructuring and integration costs to be borne by Julius Baer has been increased from about CHF 400 million to about CHF 455 million, mainly due to higher estimated client onboarding costs.

The transaction is a combination of legal entity acquisitions and business transfers. In situations where legal entities have been acquired but the client custody is still on the platform of Bank of America Merrill Lynch (BAML), Julius Baer is allocated the full revenues in relation to these AuM and is charged with platform costs by BAML. The agreed transaction price is 1.2% of IWM AuM transferred, payable as and when these AuM are booked on one of

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1 single goal to offer you:

the **new** reference  
in **private** banking.

Julius Baer welcomes all clients of **Merrill Lynch's International Wealth Management** outside the US. Through the perfect combination of private client heritage and investment expertise the new reference in international private banking will be created. Be part of this next chapter of the leading Swiss Private Banking Group.

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**Julius Bär**  
Your private bank.

<sup>1</sup> Merrill Lynch's International Wealth Management business outside the US

<sup>2</sup> By 30 June 2013, 157 FAs with over CHF 24 billion AuM were transferred from IWM to Julius Baer.

the Julius Baer booking platforms. In the case of business transfers, the IWM AuM are transferred, booked and paid for in steps.

Asia represents more than a third and the UK about a fifth of the IWM businesses in terms of scope, so the successful start of the transfer of these two regions marks two crucial milestones in the overall integration process. Post integration, about a quarter of our total AuM are expected to be managed in our second home market, Asia, and the number of local employees is expected to have doubled, which would make Julius Baer a leading international wealth manager in the region. In London, the acquisition will elevate Julius Baer from a niche player to one of the bigger private banks, and in Latin America, Julius Baer will rank among the largest wealth managers in the region. With the new foothold in Madrid, we will gain a significant franchise in the local wealth management market.

A transaction of this size not only requires careful planning and disciplined implementation but also the full commitment and dedication of managers and employees from both IWM and Julius Baer. This includes comprehensive and targeted training programmes for the IWM staff ranging from company culture, business model and investment strategy to products, processes and compliance as well as specific requirements of the integration process.

The IWM transaction represents a rare opportunity to markedly increase our position in key growth markets, to gain access to additional markets and at the same time to further increase our advisory expertise globally. It will lay a solid foundation for future profitable growth. Adding our extensive product and services cooperation with Bank of America Merrill Lynch, we are well on our way to creating the new reference in private banking.

### IWM integration takes place in three waves

Wave 1 Started in February 2013; ongoing	Wave 2 Started in July 2013; ongoing	Wave 3 Expected to start early 2014
<b>Dubai</b> <sup>1</sup> <b>Geneva</b> <b>Hong Kong</b> <b>London</b> <b>Luxembourg</b> <sup>*</sup> <b>Monaco</b> <b>Montevideo</b> <b>Santiago de Chile</b> <b>Singapore</b> <b>Zurich</b>	Beirut <sup>*</sup> Dubai (other) <sup>2</sup> <b>Madrid</b> <sup>*</sup> Manama <sup>*</sup> Panama City <sup>*</sup> <b>Tel Aviv</b>	Amsterdam <sup>*</sup> Dublin <sup>*</sup> India <sup>*</sup> : Bangalore <sup>*</sup> Kolkata <sup>*</sup> Chennai <sup>*</sup> Mumbai <sup>*</sup> New Delhi <sup>*</sup> Milan Paris

Locations marked in bold already entered the transfer process.

<sup>1</sup> Merrill Lynch Bank (Suisse) S.A. branch Dubai in the United Arab Emirates (UAE)

<sup>2</sup> Dubai business clients

<sup>\*</sup>IWM locations where Julius Baer was not yet present.

# Business development in First Half 2013

The first six months of 2013 were marked by the beginning and rapid progress of the IWM integration<sup>1</sup>. As a result, the Group's exposure to markets in Latin America, Europe and Asia increased significantly and brought about organisational changes. In parallel, we continued to enhance and refine our service offering to meet the evolving demands of our increasingly international clientele.

Financial markets performed strongly in the first months of the year, driven by ample central bank liquidity and the growing risk appetite of market participants, but were eventually hampered by rising doubts about continuation of the ultra-loose monetary policies around the globe. The overall higher client activity kept our relationship managers (RMs) as well as research and market specialists busy. The dynamic market environment also provided us with a good opportunity to give the RMs and clients who had already transferred from IWM tangible evidence of the scope and quality of our product and service offering.

The ongoing integration of IWM is making Julius Baer a considerably larger and geographically even more diverse Group. Management was therefore realigned towards a more functional structure effective 1 January 2013. The Chief Operating Officer's area was split: Bernhard Hodler refocuses on the role of Chief Risk Officer, including

Legal, Compliance and Credit. The function of Chief Operating Officer (COO) was assumed by Gregory F. Gatesman, who joined from Merrill Lynch IWM on 1 February 2013 and also became COO of the Group.

On the regulatory side, the final withholding tax treaties between Switzerland and the United Kingdom as well as with Austria entered into force on 1 January 2013. The Bank's core banking system was upgraded to cope with these and possible similar future treaties. Following the initialled agreement on simplified implementation of the US tax legislation FATCA between Switzerland and the USA, the Bank launched a comprehensive IT project to ensure system compatibility by early 2014 when the treaty is expected to enter into force.

Julius Baer's compliance framework has been further enhanced to ensure the acceptance of only taxed assets, and the related training of client-facing staff continued, including certification programmes and corresponding refresher courses for all our core European markets.

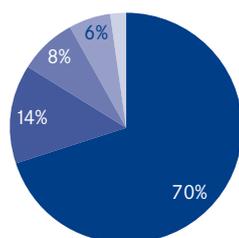
Self-declaration by clients continues to be the Group's recommended procedure. In that context, Julius Baer welcomes the new solution put forward by the Swiss Federal Council at the beginning of July 2013 for resolving the US tax dispute. This development will facilitate our own cooperation with the US authorities, which is already well advanced.

<sup>1</sup> Merrill Lynch's International Wealth Management business outside the US

## Our employees

The total number of employees (FTE) increased by 784 or 21% to 4,505 at the end of June 2013. 553 new colleagues joined Julius Baer from IWM in the first half of 2013, including 157 RMs. This brought the total number of Julius Baer RMs to 966 by mid-year 2013. Together with the RMs transferred on 1 July 2013, this number increased to well over 1,000 (pro forma) for the first time.

**Julius Baer employees (FTE) by geography as at 30 June 2013**  
(30 June 2012)



- Switzerland 70% (74%)
- Asia-Pacific 14% (15%)
- Rest of Europe 8% (8%)
- Latin America 6% (1%)
- Middle East and Africa 2% (2%)

RM performance continued to be assessed on an ongoing basis, thus ensuring a consistently high level of service excellence. In order to attract new talents at an early stage and retain them on a long-term basis, our programme for graduates was extended to recruit high-performing talents from the best universities around the world.

Given the rapidly growing local employee base in Asia as a result of the IWM integration, the decision was taken to also establish a local offshoot of the Julius Baer Academy, our dedicated education centre. In addition to supporting the ongoing IWM onboarding activities, its focus will be on combining the specific training needs and people development requirements into a comprehensive offering on the ground.

## Our business activities

### Switzerland

Since the beginning of 2013, the private banking business in Switzerland has been under the new leadership of Giovanni Flury, previously responsible for Italy. With offices in 15 locations,



<sup>1</sup> Since 1 February 2013

<sup>2</sup> Chief Operating Officer from 1 April 2011 to 31 January 2013

we have a vast network, which allows us to further exploit the attractive growth potential of our multifaceted home market, thereby leveraging the awareness the premium brand Julius Baer enjoys. Besides focusing on the financial centres of Zurich and Geneva, we aim at specifically increasing our market penetration in other geographic regions as well. As a result, we strengthened some of our smaller locations and broadened our scope to also include affluent clients with good growth potential. Our Lucerne office celebrated its 15th anniversary.

Merrill Lynch Bank (Suisse) S.A. in Geneva, with its branches in Zurich and Dubai, was acquired by Julius Baer Group on 1 February 2013 and legally merged into Bank Julius Baer & Co. Ltd. on 31 May 2013.

#### **Independent Asset Managers**

The business with Independent Asset Managers (IAMs), which has been headed by Yves Robert-Charrue since the beginning of 2013 together with the custody business, represents a core activity of Julius Baer and is becoming increasingly global. Leveraging our existing strong Swiss market standing, we started to expand our business activities in Asia, Latin America and other selected markets. To assure a consistent flow of timely investment ideas to our professional partners, we initiated a new global sales management approach. Acknowledging the growing importance of technology-based tools and processes, we continue to enhance the existing IT platform. Keeping IAMs informed about regulatory changes, including cross-border issues, was an ongoing priority of our risk management processes as well.



#### **Julius Baer Group corporate strategy**

Julius Baer is the leading Swiss private banking group. We strive to position our Group at the forefront of the global wealth management industry. Independent in all aspects of our business activities, we pursue a corporate strategy based primarily on five cornerstones:

- a pure business model dedicated to private banking
- a distinct value proposition and service excellence focus
- a truly open and managed product platform
- a client-centric management culture
- a strong brand name

These cornerstones are complemented by prudent financial and risk management, resulting in a very strong capital base and comparatively low risk profile. We aim at achieving sustainable and industry-leading profitable growth, thus remaining competitive and highly attractive for our clients, for the relationship managers taking care of them as well as for all our other employees.

Our strategic priorities centre on capturing the strong wealth creation dynamics of growth markets and on further penetrating the high wealth concentration of our core European markets, thus living up to our motto of being 'big enough to matter yet small enough to care'. In addition to fostering organic growth and broadening our base of highly qualified RMs, Julius Baer is also open to opportunistic acquisitions provided they offer a convincing strategic and cultural fit and are value-enhancing.

## Europe

The German domestic business continued to see healthy net new money inflows during the period under review. To further support this growth momentum, an additional team of RMs was hired for our office in Frankfurt. With the regulatory environment continuing to undergo substantial changes and given the past tax issues still pending with several jurisdictions, self-declaration remained an important topic among European clients. As a result of the IWM integration, Julius Baer now has additional offices in Luxembourg and Madrid and substantially increased its operations in London as well as in Monaco. As most of the European IWM locations transferring to Julius Baer will be booked on our European cross-border platform, the IWM acquisition will also increase the importance of Frankfurt as a booking centre.

In Italy, the Kairos transaction announced in November 2012 reached a major milestone with the approval received from the Bank of Italy (BoI) and was closed at the end of May 2013. As part of the transaction, our Italian asset management company, Julius Baer SIM SpA, was integrated into the subsequently renamed entity Kairos Julius Baer SIM SpA. Julius Baer holds a 19.9% stake in the parent company, Kairos Investment Management SpA, a leading independent Italian wealth manager. As a next step, the enlarged entity will endeavour to jointly develop a truly dedicated wealth management business, exploiting the synergies of the combined values of Kairos and Julius Baer and will also apply for a banking licence to the BoI in order to set up a new private bank in Italy. Julius Baer Fiduciaria is out of scope of this transaction.



### Russia, Central & Eastern Europe

As a result of our increased efforts to promote our service and product offering, this large region saw very good client activity and healthy net new money inflows. Responding to this favourable development, we strengthened our dedicated desks in Singapore, Geneva and Zurich by hiring additional RMs. Our Vienna office was relocated to new premises.

### Asia

In our second home market, we steadily increased our core franchise areas of Investment Advisory, Portfolio Management as well as Wealth & Tax Planning, resulting in increased assets under management and improved profitability. Furthermore, the inaugural Alpha Conference, an investment fund summit with key fund houses hosted by our Investment Solutions Group Asia, raised considerable interest among clients and prospects alike.

At the end of May 2013, the first batch of IWM asset transfers started in Singapore and Hong Kong. The transfer of these two businesses to our existing entities is expected to double our assets under management as well as our local staff base in Asia, thereby significantly strengthening our already very solid position in this important region.

The third edition of the *Julius Baer Wealth Report: Asia* provided yet another exclusive analysis of the HNWI landscape in this region. With the Lifestyle Index having been expanded to include additional cities in North- and South-East Asia, the report underpins our confidence that Asia will remain a significant driver of value creation in the longer term. In light of

Performance of Julius Baer registered share (indexed)



### Julius Baer on the stock exchange

The Julius Baer Group, headquartered in Zurich, is one of the leading publicly listed financial companies in Switzerland. Bank Julius Baer & Co. Ltd., the renowned Swiss private bank with origins dating back to 1890, is the Group's largest company and main operating entity. It is complemented by a number of specialised companies essential to providing our international clientele with a full array of state-of-the-art wealth management services.

Julius Baer Group Ltd.'s shares are listed on the SIX Swiss Exchange. They are a constituent of the Swiss Leader Index (SLI) and the Swiss Market Index (SMI), which comprises the 20 largest and most liquid blue chip companies traded on the SIX Swiss Exchange. At 30 June 2013, the market capitalisation of the Group's shares was CHF 8.3 billion.

The international rating agency Moody's assigns a solid A1 long-term obligations rating and the highest possible short-term debt rating of Prime-1 to Bank Julius Baer & Co. Ltd.

further developing our strategy for capturing the wealth creation dynamics in the Greater China region, we are currently looking into additional cooperation opportunities together with our strategic partner, Bank of China.

Besides focusing on our strategic markets of Indonesia and India as well as on other promising markets in the region, Julius Baer started to tap the onshore business in Japan by acquiring a 60% stake in TFM Asset Management Ltd., a Swiss-registered independent asset management company with an office in Tokyo. It holds investment advisory and investment management licences from the Japanese FSA and concentrates predominantly on serving Japanese high net worth private clients. With the transaction closed in April 2013, Julius Baer has an option to take full ownership in three years' time.

#### **Eastern Mediterranean, Middle East & Africa**

Despite a difficult environment in some countries within the Middle East, we noticed a very good business momentum during the period under review. Besides hiring additional high-potential RMs for our various locations, we successfully increased our market penetration and aligned the management structures to accommodate for a larger local franchise in light of the upcoming integration of the IWM businesses in this geographic area.

At the same time, we pursued our preparatory work for possible local strategic initiatives expected to be launched in 2014 for Turkey, Saudi Arabia and South Africa. Furthermore, we are aiming to enhance our offering in order to meet specific client require-

ments of this region and in particular Sharia-compliant investment solutions.

Following the opening of the representative office in Tel Aviv in March 2012, we became operative this year with our financial advisory unit in Israel, Julius Baer Financial Services (Israel) Ltd. Our presence in this significant market will further increase following the transfer of the IWM Israeli business, which started on 1 July 2013.

#### **Latin America**

Our business in Latin America continued to grow steadily during the period under review. The transfer of the IWM businesses in Montevideo and Santiago de Chile began in April 2013, and we have thus expanded our business significantly on this fast growing continent and are now among the largest wealth managers in Uruguay. As a result of continuously building up our client relationships, we saw healthy net new money inflows in the region. At the beginning of the year, we held the eighth annual Julius Baer conference at Uruguay's famous seaside resort of Punta del Este, with José María Aznar, former Prime Minister of Spain, attending as keynote speaker.

#### **Julius Baer's scope of investment, advisory and execution competence**

Closely supporting our clients in navigating the difficult markets by continuing to provide them with well-founded investment perspectives and solutions was again a key differentiating factor in the first half of 2013.

The Investment Solutions Group (ISG) is Julius Baer's investment and service competence centre. It provides Julius

Baer's clients and RMs with investment opinions, advice and tools as well as products based on our truly open, managed product platform.

In order to address the increased need for timely and specific product and securities recommendations, we established the Investment Consulting & Services unit. It complements the existing value-adding chain to optimally support clients in their individual investment decisions according to their required scope and intensity. In parallel, ISG's service model was realigned to ensure a smooth onboarding of our IWM colleagues.

#### **Research, Investment Consulting and Advisory**

Reacting to a stabilising world economy and a potential yield normalisation, financial markets again provided plenty of opportunities for our Research analysts to give timely and forward-looking investment views and opinions. Furthermore, the newly launched *Next Generation* podcasts inform the audience about current and future topics in the world of finance.

Against this backdrop, Investment Advisory Mandates remained well in favour with clients, as did the Investment Service Mandates with risk monitoring adapted to smaller portfolios.

In June 2013, Julius Baer held its latest *Next Generation* investment conference, bundling all three topics of growth, planet and people into an exploration of the event's theme: 'From insight to action – how can investments help change the world?'. Renowned international speakers including Kofi Annan as well as Julius Baer experts addressed



#### **IWM integration: Julius Baer scales up in growth markets**

The dynamics of the world economy have shifted to growth markets at an increasing pace in recent years. Julius Baer started to raise its international presence to participate in this genuine creation of financial wealth in early 2006. The acquisition of IWM represents another quantum leap. Following its integration, our exposure to growth markets will significantly increase to approximately 50% – from about one third at present and less than 10% in 2005.

Out of the total IWM AuM envisaged to be transferred to Julius Baer, around two thirds are from clients domiciled in growth markets, i.e. in Asia (representing over half), Latin America and the Middle East. Post integration, about a quarter of our total AuM will be managed in Hong Kong and Singapore, making us a leading international wealth management player in our second home market. Our acquisition of the substantial IWM business in Uruguay will turn us into one of the largest wealth managers in Latin America. This enhanced status will be complemented by the new location in Panama City, which we plan to develop into an administrative hub for the region.

All in all, this increased exposure to growth markets is a significant step forward in our growth strategy and will contribute to further profitable growth for our Group in the future.

a large group of highly interested clients in Zurich. The presentations were supported by dedicated research and investment material, including a mobile app.

#### **Managed accounts and solutions**

Discretionary solutions remained very popular with clients as both multi-asset-class and single-asset-class solutions recorded healthy net inflows.

The Bank further strengthened its investment fund-related offering, drawing on an actively monitored universe of nearly 350 funds from more than 80 different providers. This offering is complemented by investment solutions derived from our *Next Generation* approach, i.e. identifying tangible investment opportunities of the future. Expanding this offering to also include hedge funds, private equity, real estate and real assets gives our clients access to exclusive investment opportunities.

#### **Wealth & Tax Planning**

Given the evolving and increasingly complex regulatory and tax framework, particularly in Europe, requests for holistic wealth assessment and planning continued to rise. Our Wealth & Tax Planning unit met this demand by offering a comprehensive range of services and products, either by providing in-house expertise and solutions or through our unique and growing global network of external partners. Our capacity was further strengthened by several colleagues joining from IWM in various locations in Europe, Asia and Latin America. In the UK, a licence was granted allowing us to also advise on domestic pension products.

#### **Markets**

The Markets unit focuses on trade execution and product structuring as well as on foreign exchange (FX), precious metals and securities trading services for the Group's private banking clients and certain direct client segments. The overall favourable market environment in the period under review was marked by significantly higher volatility in FX and precious metals and resulted in increased client activity across the board. The renminbi booking platform in Switzerland, launched in 2011, continued to gain traction among clients. Revitalised interest in structured products caused volumes in these instruments to rise further. This was additionally helped by our upgraded web-based distribution channel, *Derivative Toolbox*, which is also available to third-party banks in Switzerland, thus generating additional volumes.

#### **Custody**

Julius Baer is also a leading dedicated provider of global custody services in Switzerland, with CHF 86 billion of assets under custody by the end of June 2013. The Julius Baer Custodian Team provides best-in-class services to pension funds, corporations, family offices and investment funds, including private label funds. It enjoys an excellent reputation in its well-defined areas of specialised expertise covering the full range of international securities administration, portfolio analysis and tailored reporting. Leveraging our profound global custody know-how and excellent service offering, we are currently investing in further strengthening our already solid market position in Asia out of Singapore.

## Julius Baer community engagement

Through the Julius Baer Foundation, we participate in international projects for the benefit of children and young adults by providing long-term support to various projects in Europe, Asia, Africa and Latin America<sup>1</sup>. As a new initiative in Switzerland in cooperation with Dancing Classrooms, the Foundation supports dance lessons for primary school children, thereby facilitating social interaction between children from different backgrounds (cf. box). Other projects in cooperation with various charity organisations include, among others, aid for the victims of the Fukushima earthquake in Japan, supporting young people during personal development crises and giving delinquent juveniles a second chance.

In Asia, we continued to sponsor the Sovereign Asian Art Prize and brought the Verbier Festival Chamber Orchestra to China for the first time. In Switzerland, we continued backing Live at Sunset and the Swiss Photo Award and started supporting the Orpheum Foundation to foster young soloists. We sponsored polo cups in Dubai, Sylt and the UK. In Germany, we entered a new sponsoring agreement with the Städel Museum. And in the UK, we began cooperation with the British Museum.

<sup>1</sup> [www.juliusbaer.com/donations](http://www.juliusbaer.com/donations)



### Julius Baer supports Dancing Classrooms in Switzerland

The population in Switzerland has grown strongly, also through immigration. People from many different countries and cultures live here. Hence, it is vital at an early age to acquire social skills for peaceful coexistence. Dancing Classrooms helps kids to develop these skills in a playful way: the organisation teaches school children of all social classes and backgrounds ballroom dancing. These lessons are a way getting them to overcome social barriers, learn about respect, cooperate and accept others, and improve their self-confidence. At the end of the course, the elegantly dressed kids present their skills to relatives, friends and teachers.

Dancing Classrooms is a US-based non-profit organisation which the Julius Baer Foundation has supported since 2012. Since being introduced in Switzerland in 2011, Dancing Classrooms has seen a steady increase in the number of participants.

### Origins and scope of the Julius Baer Foundation

The Julius Baer Foundation was established in 1965 on the occasion of the 75th anniversary of the Bank. Over the years, both the scope of activities and the geographic reach have changed. Today, the topic of youth is the main guiding principle, inspiring projects in Switzerland and around the world. The foundation currently supports twelve charity projects in nine countries. More information can be found at [www.juliusbaer-foundation.org](http://www.juliusbaer-foundation.org)

## **Important dates**

Publication of Interim Management Statement: 15 November 2013

Publication of 2013 annual results: 3 February 2014

Ordinary Annual General Meeting: 9 April 2014

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This brief report is intended for informational purposes only and does not constitute an offer of products/services or an investment recommendation. We also caution readers that risks exist that predictions, forecasts, projections and other outcomes described or implied in forward-looking statements will not be achieved.

This brief report also appears in German. The English version is prevailing.

The Half-year Report 2013 of Julius Baer Group Ltd. is available at [www.juliusbaer.com](http://www.juliusbaer.com).



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The Julius Baer Group is present in over 40 locations worldwide. From Zurich (Head Office), Dubai, Frankfurt, Geneva, Hong Kong, London, Lugano, Madrid, Monaco, Montevideo, Moscow, Shanghai to Singapore.