Julius Bär

CAPITAL ADEQUACY DISCLOSURE 2013

JULIUS BAER GROUP LTD.

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

CAPITAL ADEQUACY DISCLOSURE 2013 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 2013 (AR 2013) of Julius Baer Group Ltd. under “Comment on risk and capital management” (page 65ff.). 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” (page 67ff., AR 2013), 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)” (page 77ff., AR 2013), 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” (page 81ff., AR 2013). 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 AR 2013, page 85ff.

The section “Management of capital including regulatory capital” (page 87ff., AR 2013) 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 2013, 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 following section "Composition of capital".

Balance sheet reconciliation

Consolidated balance sheet[1]	**31.12.2013** According to the financial statement *CHF m*	References[2]
Assets		
Cash	10,242.0	
Due from banks	11,455.4	
Loans	27,536.3	
Trading assets	5,853.5	
Derivative financial instruments	1,253.3	
Financial investments available-for-sale	13,125.3	
Investments in associates	102.6	10
Property and equipment	386.2	
Goodwill and other intangible assets	2,126.9	
of which goodwill	*1,446.9*	5
of which other intangible assets	*680.0*	6
Accrued income and prepaid expenses	272.2	
Deferred tax assets	15.6	7
Other assets	152.8	
Total assets	**72,522.1**	

[1] The balance sheet positions are presented in accordance to 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 following table "Composition of capital"

Consolidated balance sheet[1]	**31.12.2013** According to the financial statement *CHF m*	References[2]
Liabilities and equity		
Due to banks	7,990.5	
Due to customers	51,559.3	
Trading liabilities	198.6	
Derivative financial instruments	1,198.2	
Financial liabilities designated at fair value	4,797.5	
Debt issued	724.5	
of which tier 1 bond (Basel III compliant capital instrument)	*248.7*	8
of which tier 1 preferred securities (phase-out capital instrument)	*225.0*	9
of which lower tier 2 capital (phase-out capital instrument)	*242.1*	11
Accrued expenses and deferred income	451.9	
Current tax liabilities	59.6	
Deferred tax liabilities	142.8	
of which deferred tax liabilities on goodwill	*0.0*	
of which deferred tax liabilities on other intangible assets	*50.8*	
Provisions	72.1	
Other liabilities	288.5	
Total liabilities	**67,483.5**	
Share capital	4.5	1
Retained earnings	5,235.8	2
Other components of equity	-32.8	3
Treasury shares	-169.5	
Equity attributable to shareholders of Julius Baer Group Ltd.	5,038.0	
Non-controlling interests	0.6	4
Total equity	5,038.6	
Total assets	**72,522.1**	

[1] The balance sheet positions are presented in accordance to 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 following 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. For example the disclosed amount for capitalised software in the column "Effect of the transition period", line 9, has to be charged with 20% in the year 2014, with 40% in the year 2015, with 60% in the year 2016, with 80% in the year 2017 und with 100% in the year 2018.

Composition of capital

NR[1]		**31.12.2013** Phase-in amounts *CHF m*	**31.12.2013** Effects of the transition period *CHF m*	References
1	Directly issued qualifying common share capital	4.5		1
2	Retained earnings	5,235.8		2
3	Accumulated other comprehensive income	-32.8		3
5	Common share capital issued by subsidiaries and held by third parties	0.6	0.6	4
6	**Common equity tier 1 capital before regulatory adjustments[2]**	**5,208.1**	**0.6**	
8	Goodwill	-1,047.9	399.1	5
9	Other intangibles	-477.9	202.1	6
10	Deferred tax assets	0.0	15.6	7
14	Gains and losses due to changes in own credit risk	0.1		
16	Net long position in own shares	-165.8		
26	Planned dividend for the financial Year	-134.0		
26a	Unrealised gains related to financial investments available-for-sale	-100.1		
26b	IAS19 revised relating to pension liabilities	45.4	45.4	
28	**Total regulatory adjustments to common equity tier 1 capital**	**-1,880.2**	**662.2**	
29	**Common Equity tier 1 capital**	**3,327.9**	**662.8**	

[1] Row numbers according to FINMA-Circular 2008/22, Annex 2, I., table b.
[2] Before deduction of own shares of CHF 169.5 million

NR[1]		31.12.2013 Phase-in amounts *CHF m*	31.12.2013 Effects of the transition period *CHF m*	References
30	Directly issued qualifying additional tier 1 instruments	248.0		8
32	*of which classified as liabilities under applicable accounting standards*	*248.0*		
33	Directly issued capital instruments subject to phase out from additional tier 1	202.5	202.5	9
36	**Additional tier 1 capital before regulatory adjustments**	**450.5**	**202.5**	
37	Investments in own additional tier 1 instruments	-0.1		8
	Regulatory adjustments of the tier 1 in respect of transitional agreements	-450.4	-450.4	
	of which goodwill	*-399.1*	*-399.1*	*5*
	of which share of investments in associates decucted from tier 1 capital	*-51.3*	*-51.3*	*10*
43	**Total regulatory adjustments to additional tier 1 capital**	**-450.5**	**-450.4**	
44	**Additional tier 1 capital**	**0.0**	**-247.9**	
45	**Tier 1 capital**	**3,327.9**	**414.9**	
47	Directly issued capital instruments subject to phase out from tier 2	222.2	222.2	11
51	**Tier 2 capital before regulatory adjustments**	**222.2**	**222.2**	
52	Investments in own tier 2 instruments	-4.5	-4.5	11
56	Additional adjustments (collective allowance plus 45% of unrealised gains on financial investments available-for-sale)	66.2		
	Regulatory adjustments of the tier 2 in respect of transitional agreements	-51.3	-51.3	
	of which share of investments in associates decucted from tier 2 capital	*-51.3*	*-51.3*	*10*
57	**Total regulatory adjustments to tier 2 capital**	**10.4**	**-55.8**	
58	**Tier 2 capital**	**232.6**	**166.4**	
59	**Eligible capital**	**3,560.5**	**581.3**	
	Total amount with risk weight pursuant the transitional arrangements (phase-in)		-314.9	
	of which software capitalised (intangibles)		*202.1*	
	of which investments in associates		*-256.6*	
	of which deferred tax assets		*15.6*	
	of which credit valuation adjustments exchange traded derivatives		*-276.0*	
60	**Total risk-weighted assets**	**15,908**	**-314.9**	

[1] Row numbers according to FINMA-Circular 2008/22, annex 2, I., table b.
Reference 5: The goodwill deduction from additional tier 1 capital of CHF 399.1 million is CHF 51.3 million lower as stated in the annual report 2013 on page 89 in the table "Capital components", because the deduction of investments in associates in the table above was carried out from additional tier 1 capital and not from common equity tier 1 as in the annual report.
Reference 8: CHF 0.8 million value share not considered in the capital calculation.
Reference 9: as of 1 January 2013 10% transitional deducted, results in CHF 22.5 million.
Reference 11: as of 1 January 2013 10% transitional deducted, results in CHF 24.4 million.

NR[1]		31.12.2013 Phase-in amounts *CHF m*	31.12.2013 Effects of the transition period *CHF m*	References
	Capital ratios			
61	Common equity tier 1 ratio (position 29, as a percentage of risk-weighted assets)	20.9%		
62	Tier 1 ratio (position 45, as a percentage of risk-weighted assets)	20.9%		
63	Eligible capital ratio (position 59, as a percentage of risk-weighted assets)	22.4%		
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)	3.6%		
65	*of which capital conservation buffer*	*0.0%*		
66	*of which capital conservation buffer*	*0.1%*		
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)	17.9%		
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)	7.9%		
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)	18.2%		
68c	Tier 1 regulatory minimum capital according to FINMA-Circular 11/2 plus the countercyclical buffer requirement (as a percentage of risk-weighted assets)	9.7%		
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)	20.0%		
68e	Eligible regulatory minimum capital according to FINMA-C 11/2 plus the countercyclical buffer requirement (as a percentage of risk-weighted assets)	12.1%		
68f	Eligible capital available (as a percentage of risk-weighted assets)	22.4%		
	Amounts below the thresholds for deduction (before risk-weighting)			
72	Non significant investments in the financial sector	103.3		
73	Significant investments in the financial sector			
	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	21.2		
77	Cap on inclusion of provisions under standardized approach	133.3		

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

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 on pages 68-71, 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 the balance sheet positions accrued income and prepaid expenses, deferred tax assets and other assets.

ADDITIONAL INFORMATION

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

Impaired loans by region

	31.12.2013 Gross loans CHF 1000	31.12.2013 Specific allowance CHF 1000	31.12.2012 Gross loans CHF 1000	31.12.2012 Specific allowance CHF 1000
Switzerland	**3,196**	**-3,196**	3,994	-4,001
Europe (excl. Switzerland)	**4,853**	**-3,046**	15,918	-4,845
Americas	**18,223**	**-18,193**	42,712	-39,610
Asia/Pacific	**6,447**	**-6,447**	6,350	-6,785
Other	**-**	**-**	1,647	-1,173
Total	**32,719**	**-30,882**	70,621	-56,414

The total of the notional amounts of credit derivatives in the banking book as at the end of 2013 is disclosed in the table below.

Credit derivatives

	31.12.2013 Protection sold CHF 1000	31.12.2013 Protection bought CHF 1000
Total notional amount credit default swaps	23,860	-
Total	**23,860**	**-**

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The Julius Baer Group
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40 locations worldwide.
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Lugano, Monaco, Montevideo,
Moscow, Singapore to Tokyo.

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