Julius Bär

Business Review **2012**
Julius Baer Group

Key figures Julius Baer Group[1]

	2012 CHF m	2011 CHF m	Change in %
Consolidated income statement			
Operating income	1,737.4	1,752.7	-0.9
Adjusted operating expenses	1,216.1	1,279.1	-4.9
Profit before taxes	521.3	473.6	10.1
Adjusted net profit	433.0	400.5	8.1
excluding Germany settlement[2]	433.0	451.8	-4.2
Adjusted EPS (CHF)	2.14	1.93	11.1
excluding Germany settlement[2]	2.14	2.18	-1.5
Cost/income ratio[3]	71.0%	68.0%	-
Pre-tax margin (basis points)	28.8	28.2	-

	31.12.12	31.12.11	Change in %
Client assets (CHF bn)			
Assets under management	189.3	170.3	11.2
Average assets under management	181.1	167.7	8.0
Net new money	9.7	10.2	-
Assets under custody	87.6	87.8	-0.2
Total client assets	277.0	258.1	7.3
Consolidated balance sheet (CHF m)			
Total assets	54,867.7	52,928.7	3.7
Total equity	4,874.0	4,310.2	13.1
BIS total capital ratio	31.6%	23.9%	-
BIS tier 1 ratio	29.3%	21.8%	-
Return on equity (ROE)	12.9%	12.2%	-
Personnel			
Number of employees (FTE)	3,721	3,643	2.1
of whom Switzerland	*2,770*	*2,747*	*0.8*
of whom abroad	*951*	*896*	*6.1*
Capital structure			
Number of registered shares	216,707,041	206,630,756	-
Weighted average number of registered shares outstanding	201,938,401	207,601,874	-
Share capital (CHF m)	4.3	4.1	4.9
Book value per registered share outstanding (CHF)	23.1	21.9	5.4
Market capitalisation (CHF m)	7,006	7,592	-7.7

Bank Julius Baer & Co. Ltd. enjoys a solid A1 rating from Moody's.

Listing

Zurich, Switzerland	SIX Swiss Exchange, part of the Swiss Market Index SMI and the Swiss Leader Index SLI

Ticker symbols

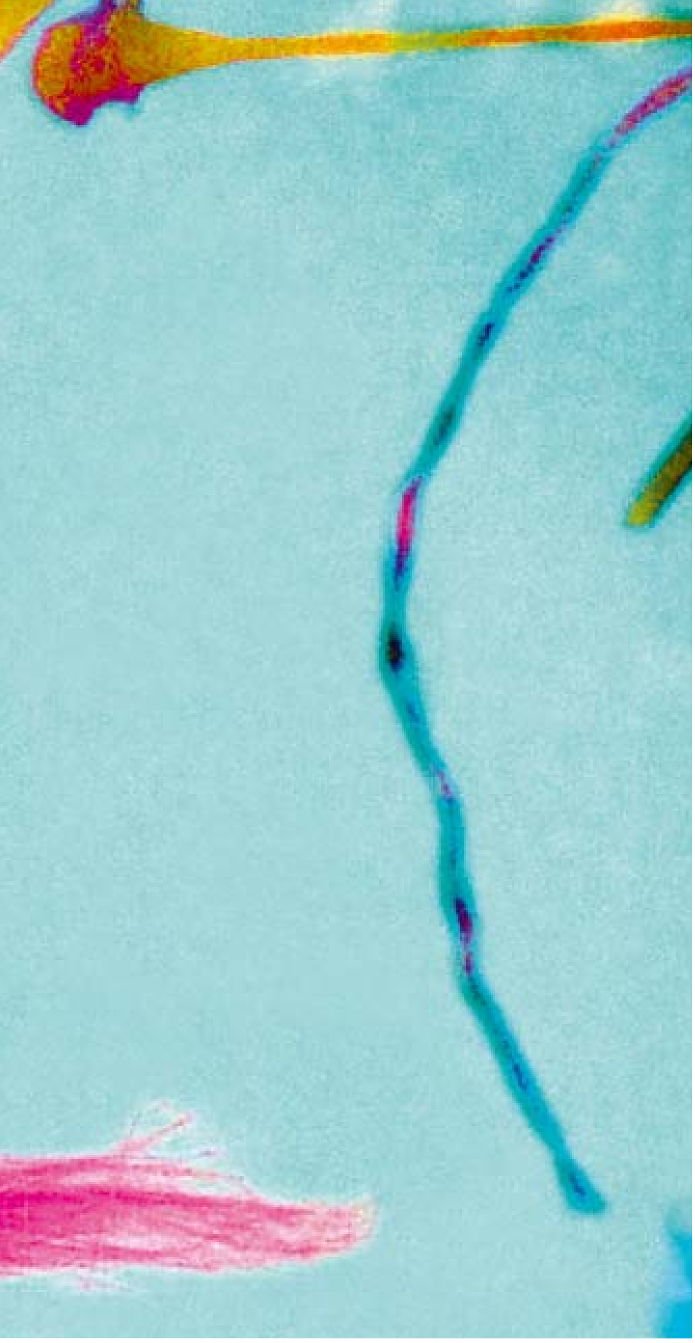
Bloomberg	BAER VX
Reuters	BAER.VX

Swiss securities number 10 248 496

[1] Adjusted results derived by excluding from the audited IFRS financial statements the integration and restructuring expenses and the amortisation of intangible assets related to previous acquisitions or divestitures as well as the impact of the cost reduction plan announced on 14 November 2011.

[2] On 14 April 2011, it was announced that German authorities and Julius Baer had agreed on a one-off payment by the latter of EUR 50 million to end the investigations against Julius Baer and unknown employees regarding tax matters in Germany.

[3] Calculated using adjusted operating expenses, excluding valuation allowances, provisions and losses.



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Front cover: *Japanese Grotto,* 2005; by Swiss artists Gerda Steiner and Joerg Lenzlinger, photo print on photo paper, 42 × 56 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

Dear Reader

2012 turned out to be an eventful year by any measure, with central bank liquidity playing a major role in stabilising financial markets and economies. But monetary instruments can only temporarily disguise the underlying structural problems, the ultimate solution of which requires continued strong political will and discipline. Against this backdrop of lower-for-longer levels of interest rates, economic growth and expected returns, we initiated Julius Baer's next phase of growth by acquiring Merrill Lynch's International Wealth Management (IWM) business outside the US from Bank of America.

This transaction represents a rare opportunity to acquire an international and focused wealth management business of significant size and will add substantial scale to our business. Post integration and on a pro forma basis, Julius Baer will be present in more than 25 countries and 50 locations, and the Group's exposure to growth markets will increase to more than half from about a third today. Following regulatory approvals in key IWM locations, the actual integration process started on 1 February 2013. It has been carefully prepared in the just over five months since the announcement (see details on page 9f.).

We also remained well in favour with clients by closely supporting them in navigating the difficult markets by continuing to provide them with well-founded investment perspectives and solutions. This competence, in addition to our solid financial foundation and well-recognised brand around the world, also made Julius Baer a natural choice for new clients, as evidenced by the substantial inflow of net new money of CHF 9.7 billion or 5.7% in 2012. Assets under management amounted to CHF 189 billion at the end of 2012, up 11% from the end of 2011. Total client assets, including assets under custody, totalled CHF 277 billion at the end of 2012. All in all, this translated into solid financial results for the year.

We successfully financed the IWM transaction in autumn 2012 through the placement of CHF 250 million in additional non-core tier 1 capital and a CHF 492 million rights issue. This contributed to the Group's BIS total capital ratio to temporarily increase to 31.6% and its BIS tier 1 ratio to 29.3% at the end of 2012. Together with the pre-existing excess capital, the Group's capital

“In 2012, we initiated Julius Baer’s next phase of growth.”

position is sufficient to support the acquisition of the envisaged assets under management. It is expected that Julius Baer’s total and tier 1 capital ratios will remain above the targeted levels of 15% and 12%, respectively, at all times throughout the integration process. Hence, the Board of Directors proposes to the Ordinary Annual General Meeting on 10 April 2013 an unchanged dividend of CHF 0.60 per share, resulting in an increased total dividend payout of CHF 130 million.

We would like to sincerely thank former Chairman Raymond J. Baer for his nine years at the helm of Julius Baer during which he initiated and oversaw the Group’s profound transition from a traditional family business to today’s truly public company. He remains connected with our Group as Honorary Chairman. Our thanks also go to Peter Kuepfer who was an indispensable sparring partner as Independent Lead Director during his 13 years on the Board. With Gilbert Achermann and Andreas Amschwand, we welcomed two new members who ideally complement the skillset of the Board.

In summary, 2012 marked the start of another transformational phase for Julius Baer. Our goal is to create a new reference in private banking for sophisticated private clients around the world. We are convinced that this transaction, resulting in a stronger, enlarged and even more international Julius Baer Group, is the right step to succeed in a fundamentally changing industry environment and will benefit all stakeholders. The key drivers behind this exciting undertaking are our employees who successfully coped with a heavy workload to make the timely start of the integration possible. For this, they deserve our sincerest thanks. We would also like to thank our clients and shareholders for the trust they placed in us and look forward to their continued support.

Daniel J. Sauter
Chairman

Boris F.J. Collardi
Chief Executive Officer

Financial performance in 2012

Julius Baer's financial results in 2012 were mainly influenced by positive financial market performance and yet continued cautious client investment behaviour, which further weighed on profitability. Net new money inflows reached CHF 9.7 billion or 5.7% which helped lift assets under management to a new record high of CHF 189 billion. Adjusted net profit[1] including the 2011 Germany payment increased by 8% to CHF 433 million. Excluding this one-off impact, it decreased by 4%.

Dieter A. Enkelmann, Chief Financial Officer

Total *client assets* grew by 7% to CHF 277 billion. *Assets under management* increased by 11%, or CHF 19 billion, to CHF 189 billion. The increase in AuM was the result of a) a positive market performance of almost CHF 11 billion on the back of significant improvements across many investment categories, especially equities, b) net new money of CHF 9.7 billion and c) a negative currency impact of CHF 1 billion, mainly due to the decline in the value of the US dollar towards the end of the year. At 5.7%, the net new money growth rate was near the top end of the 4-6% target range. As in previous years, while all market regions contributed positively, the majority of inflows originated from the growth markets – Asia, Latin America, the Middle East, Russia and Central & Eastern Europe. The Group's local businesses in Germany and Switzerland also produced healthy inflows. *Assets under custody* ended the year at CHF 88 billion, unchanged from a year ago.

Operating income decreased by 1% to CHF 1,737 million as the increase in net commission and fee income and net interest and dividend income was offset by a decline in net trading income. Because average AuM (calculated on the basis of monthly AuM levels) went up by 8% to CHF 181 billion, the gross margin decreased from 105 bps in 2011 to 96 bps. *Net commission and fee income* went up by 4% to CHF 980 million, with the overall increase somewhat tempered by a further relative decline in client transaction volumes. *Net interest and dividend income* rose by 5% to CHF 559 million driven mainly by a continued increase in loan volumes as well as higher treasury income. *Net trading income* declined by 36% to CHF 173 million mainly as a result of a further decrease in client-driven FX trading following reduced volatility in the FX markets, especially in relation to the CHF/EUR exchange rate. *Other ordinary results* went up to CHF 26 million, after CHF 9 million in 2011.

[1] Cf. footnote to the table on the next page

Consolidated income statement[1]

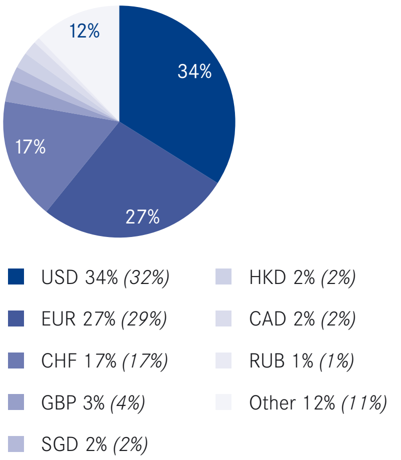
	2012 CHF m	2011 CHF m	Change %
Net interest and dividend income	558.5	532.6	4.9
Net commission and fee income	980.5	942.0	4.1
Net trading income	172.8	268.7	-35.7
Other ordinary results	25.6	9.4	-
Operating income	**1,737.4**	1,752.7	-0.9
Personnel expenses	788.4	787.4	0.1
General expenses[2]	348.5	425.4	-18.1
Depreciation and amortisation	79.2	66.3	19.5
Adjusted operating expenses	**1,216.1**	1,279.1	-4.9
Profit before taxes	**521.3**	473.6	10.1
Income taxes	88.3	73.1	20.8
Adjusted net profit	**433.0**	400.5	8.1
excluding Germany settlement[3]	433.0	451.8	-4.2
Attributable to:			
Shareholders of Julius Baer Group Ltd.	432.4	400.3	8.0
Non-controlling interests	0.6	0.2	-
Adjusted EPS (CHF)	2.14	1.93	11.1
excluding Germany settlement[3]	2.14	2.18	-1.5
Key performance ratios			
Cost/income ratio[4]	71.0%	68.0%	-
Gross margin (basis points)	95.9	104.5	-
Pre-tax margin (basis points)	28.8	28.2	-
Tax rate	16.9%	15.4%	-

	31.12.12 CHF bn	31.12.11 CHF bn	Change %
Client assets			
Assets under management	189.3	170.3	11.2
Change through net new money	*9.7*	*10.2*	-
Change through market and currency impacts	*9.4*	*-9.5*	-
Change through acquisition	*0.6*	-	-
Change through divestment	*-0.6*	-	-
Assets under custody	87.6	87.8	-0.2
Total client assets	**277.0**	258.1	7.3
Average assets under management	**181.1**	167.7	8.0

[1]Adjusted results derived by excluding from the audited IFRS financial statements the integration and restructuring expenses and the amortisation of intangible assets related to previous acquisitions or divestitures as well as the impact of the cost reduction plan announced on 14 November 2011.
[2]Including valuation allowances, provisions and losses
[3]On 14 April 2011, it was announced that German authorities and Julius Baer had agreed on a one-off payment by the latter of EUR 50 million to end the investigations against Julius Baer and unknown employees regarding tax matters in Germany.
[4]Calculated using adjusted operating expenses, excluding valuation allowances, provisions and losses.

Adjusted operating expenses went down by 5% to CHF 1,216 million. Excluding the 2011 Germany payment, adjusted operating expenses were unchanged. The total number of employees at year-end was 3,721, up 2% from a year ago, and the number of relationship managers grew by 11 to 806. Helped by lower performance-related payment accruals, the adjusted *personnel expenses* remained at CHF 788 million. Adjusted *general expenses*, including valuation allowances, provisions and losses, fell by 18% from CHF 425 million to CHF 349 million. Excluding the 2011 Germany payment, the 2011 adjusted general expenses were CHF 360 million, so the year-on-year decline would have been 3%, despite the inclusion of CHF 38 million of expenses in 2012 related to the US tax situation.

Breakdown of assets under management by currency as at 31 December 2012
(31 December 2011)



As a result, the *adjusted cost/income ratio*[1] rose to 71%, compared to 68% in 2011. Excluding the aforementioned expenses related to the US tax situation, the adjusted cost/income ratio increased to 69%.

> "All in all, we achieved solid financial results in 2012, despite the continued challenging business environment."

Adjusted *profit before taxes* went up by 10% to CHF 521 million. The related income taxes increased from CHF 73 million to CHF 88 million, representing a tax rate of 16.9%, up from 15.4% in 2011. *Adjusted net profit*[2] consequently increased by 8% to CHF 433 million, and adjusted *earnings per share* (EPS) came to CHF 2.14, up by 11% from CHF 1.93 in 2011 (with the 2011 EPS restated in line with IFRS to reflect the change in the applicable number of shares resulting from the rights issue that was completed in October 2012). Excluding the 2011 Germany payment, adjusted profit before taxes declined by 3%, adjusted net profit by 4% and adjusted EPS by 1%.

[1] Calculated using adjusted operating expenses, excluding valuation allowances, provisions and losses.
[2] Cf. footnote to the table on the previous page

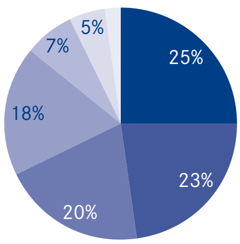
Consolidated balance sheet

	31.12.12 CHF m	31.12.11 CHF m	Change %
Assets			
Due from banks	6,023.8	10,048.1	-40.1
Loans to customers[1]	19,783.3	16,408.4	20.6
Trading assets	4,122.9	4,920.2	-16.2
Financial investments available-for-sale	11,775.4	12,168.0	-3.2
Goodwill and other intangible assets	1,635.5	1,706.9	-4.2
Other assets	11,526.9	7,677.1	50.1
Total assets	**54,867.7**	52,928.7	3.7
Liabilities and equity			
Due to banks	4,289.8	5,670.2	-24.3
Deposits from customers	39,103.8	34,841.2	12.2
Financial liabilities designated at fair value	3,154.7	3,494.6	-9.7
Other liabilities	3,445.4	4,612.5	-25.3
Total liabilities	49,993.7	48,618.4	2.8
Equity attributable to shareholders of Julius Baer Group Ltd.	4,871.8	4,308.3	13.1
Non-controlling interests	2.3	1.9	17.8
Total equity	4,874.0	4,310.2	13.1
Total liabilities and equity	**54,867.7**	52,928.7	3.7
Key performance ratios			
Loan-to-deposit ratio	0.51	0.47	-
Leverage ratio[2]	16.9	20.3	-
Book value per registered share outstanding (CHF)[3]	23.1	21.9	5.4
Return on equity (ROE)[4]	12.9%	12.2%	-
BIS statistics			
Risk-weighted assets	**12,451.1**	12,810.5	-2.8
Eligible tier 1 capital	**3,645.0**	2,788.5	30.7
BIS total capital ratio	**31.6%**	23.9%	-
BIS tier 1 ratio	**29.3%**	21.8%	-

[1]Mostly Lombard lending and mortgages to clients
[2]Total assets/tangible equity
[3]Based on total equity
[4]Adjusted net profit/average equity less goodwill

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 57 million in 2012, down from CHF 65 million in 2011) as well as the amortisation of intangible assets related to acquisitions (unchanged at CHF 90 million). Including these items, as presented in the IFRS results in the Annual Report, net profit was CHF 298 million in 2012, up 15% from CHF 258 million in 2011, and EPS increased by 19% to CHF 1.47, from the restated CHF 1.24 in 2011.

Breakdown of assets under management by asset mix as at 31 December 2012
(31 December 2011)



- Equities 25% *(25%)*
- Bonds/convertibles 23% *(23%)*
- Investment funds 20% *(19%)*
- Client deposits 18% *(18%)*
- Money market instruments 7% *(8%)*
- Structured products 5% *(5%)*
- Other 2% *(2%)*

Balance sheet and capital developments

Total assets increased by 4% to CHF 54.9 billion. Client deposits grew significantly by CHF 4.3 billion to a new high of CHF 39.1 billion, and the total loan book by CHF 3.4 billion also to a record high CHF 19.8 billion (comprising CHF 14.2 billion of collateralised Lombard loans and CHF 5.6 billion of mortgages), resulting in a loan-to-deposit ratio of 0.51. In 2012, the capital development benefitted from the year's earnings as well as the new additional tier 1 and equity capital raised for the acquisition of IWM. This benefit clearly outweighed the combined capital outlay for the completion of the share buyback programme early in 2012 and for the special dividend paid in April 2012. As a result, total equity increased by CHF 0.6 billion to CHF 4.9 billion, BIS total capital by CHF 0.9 billion to CHF 3.9 billion and BIS tier 1 capital by CHF 0.9 billion to CHF 3.6 billion. Risk-weighted assets declined by CHF 0.4 billion to CHF 12.5 billion. As a result, the *BIS total capital ratio* (under Basel 2.5) increased from 23.9% to 31.6% and the *BIS tier 1 ratio* from 21.8% to 29.3%. Over the next two years, as the IWM client assets are transferred (and paid for) in stages and as the projected IWM-related transaction, integration and restructuring costs are expensed, the Group's total capital and tier 1 ratios are expected to decrease to more normalised levels.

Integration update

Since Julius Baer announced the acquisition of Merrill Lynch's International Wealth Management (IWM) business outside the US from Bank of America on 13 August 2012, both entities have been busy preparing the integration of the two businesses. Following regulatory approvals in key IWM locations, the actual client onboarding started on 1 February 2013 and is expected to be completed by the end of 2014 or early 2015.

On 13 August 2012, Julius Baer announced the acquisition of the IWM business outside the US, comprising USD 84 (CHF 81)[1] billion of assets under management (AuM) and over 2,000 employees including more than 500 financial advisors.

The transaction, a combination of legal entity acquisitions and business transfers, is expected to increase Julius Baer's existing AuM by up to CHF 72 billion to CHF 261 billion (end of December 2012). By implementing various profitability improvement measures, including restructurings, we expect the transaction to be at least EPS neutral in 2014 and are targeting an EPS accretion of 15% in 2015[2].

Following the Principal Closing on 1 February 2013, IWM's business activities will be transferred to Julius Baer in three waves (cf. page 10) subject to local regulatory approvals. With the largest and most complex transfers to materialise early, it is expected that 80% of the envisaged assets will be advised from the Julius Baer platform and reported there as AuM at the end of 2013.

Next phase of growth

This acquisition represents a rare opportunity to add a high-quality wealth management franchise of significant size and scope to our already broad global network. It takes us a major step forward in our growth strategy and will considerably strengthen our leading position in global wealth management. The transaction adds substantial scale and additional locations, primarily in growth markets but also selectively in Europe. Approximately two thirds of the assets managed by IWM stem from clients domiciled in growth markets in Asia (more than half), Latin America and the Middle East. Despite this expansion, we remain true to our motto of being 'big enough to matter yet small enough to care'.

While most of the IWM locations are in markets where we are already present, such as Geneva, London, Hong Kong, Singapore, Dubai and Montevideo, the acquisition will also add new offices in Bahrain, India, Ireland, Lebanon, Luxembourg, the Netherlands, Panama and Spain to our existing broad network.

Excellent strategic and cultural fit

Both from a strategic and cultural point of view, the two organisations are complementary as well as compatible. This is an important prerequisite for a successful future under the brand Julius Baer. Combining our two businesses with a clear focus on private clients will set a new reference in international private banking and create a powerful offering for all clients.

[1] As at 30 June 2012.

[2] Adjusted net profit excludes integration and restructuring expenses and amortisation of intangible assets.

Both entities are highly client-centric and advisory-oriented. IWM's client base shows characteristics and requirements similar to ours. IWM's strong wealth management competence will be complemented by Julius Baer's distinct private banking expertise, resulting in an enhanced value proposition for clients globally. In addition, a cooperation agreement including the provision of global equity research and certain products by Bank of America Merrill Lynch will further strengthen the offering of the enlarged Julius Baer Group.

Both Merrill Lynch's IWM and Julius Baer have excelled in nurturing long-term client relationships for decades. In combination with the international reach of the businesses and the open-mindedness it requires, this has created a very similar set of professional and cultural qualities.

Client onboarding has started

Since the IWM acquisition was announced, a large and diverse project team consisting of representatives from both Merrill Lynch and Bank of America together with Julius Baer has prepared the integration of the IWM business in order to allow for a smooth and timely transition starting in February 2013. By interacting very intensively on all levels, the employees from both entities have already started to get to know each other's business and services better, thus laying the perfect foundation for a common future.

On 1 February 2013, the first Merrill Lynch entity, Merrill Lynch Bank (Suisse) S.A. (MLBS) in Geneva and its branches in Zurich and Dubai, was transferred to Julius Baer. In summer 2013, MLBS will be legally merged into Bank Julius Baer & Co. Ltd.

IWM integration is expected to take place in three waves

Wave 1	Wave 2	Wave 3
Dubai[2]	Beirut*	Amsterdam*
Geneva[1]	Dubai (other)[2]	Dublin*
Hong Kong	Madrid*	India*:
London	Manama*	Bangalore*
Luxembourg*	Panama City*	Kolkata*
Monaco	Tel Aviv	Chennai*
Montevideo		Mumbai*
Santiago de Chile		New Delhi*
Singapore		Milan
Zurich[1]		Paris

*IWM locations where Julius Baer is not yet present.
[1]Acquired immediately at Principal Closing.
[2]Merrill Lynch Bank (Suisse) S.A. branch Dubai in the United Arab Emirates (UAE) together with Geneva and Zurich in Wave 1, migration of Dubai business clients in Wave 2.

Business development in 2012

Julius Baer's growth strategy stayed well on track despite a demanding economic, regulatory and business environment in 2012. The preparations for the integration of Merrill Lynch's International Wealth Management (IWM) business[1] required substantial planning efforts but never distracted us from providing our clients with an impeccable private banking experience.

2012 turned out to be an eventful year by any measure, with central bank liquidity playing a major role in stabilising financial markets and economies. Yet uncertainty prevailed and continued to weigh on investors' risk appetite and on profitability. The continued demand for expert guidance provided our relationship managers and investment professionals with ample opportunities to demonstrate the Bank's advisory excellence. This was also reflected in the *Best Global Private Bank 2012* award which Julius Baer received from the international magazine *Global Finance* at the end of October.

Strategy and structure

Julius Baer is the leading Swiss private banking group. We strive to position our Group, with Bank Julius Baer & Co. Ltd. (Bank) as its main operating entity, 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 actively 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. As evidenced by the Bank's more than 120 years of corporate history, we aim at sustainable and industry-leading profitable growth. We consider this an essential precondition for remaining competitive and thus highly attractive for our clients, for the relationship managers taking care of them as well as for all 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 relationship managers, Julius Baer is also open to opportunistic acquisitions provided they offer a convincing strategic and cultural fit and are value-enhancing. On 13 August 2012, we announced our intention to acquire IWM. Following regulatory approvals in key IWM locations, the actual integration process started on 1 February 2013.

[1] Outside the US

Integrating IWM will result in Julius Baer becoming a larger and even more geographically diverse Group. Therefore, the management structure was realigned effective 1 January 2013. The Chief Operating Officer's area was split: Bernhard Hodler will refocus 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[1], who joined from Merrill Lynch IWM and also became COO of the Group.

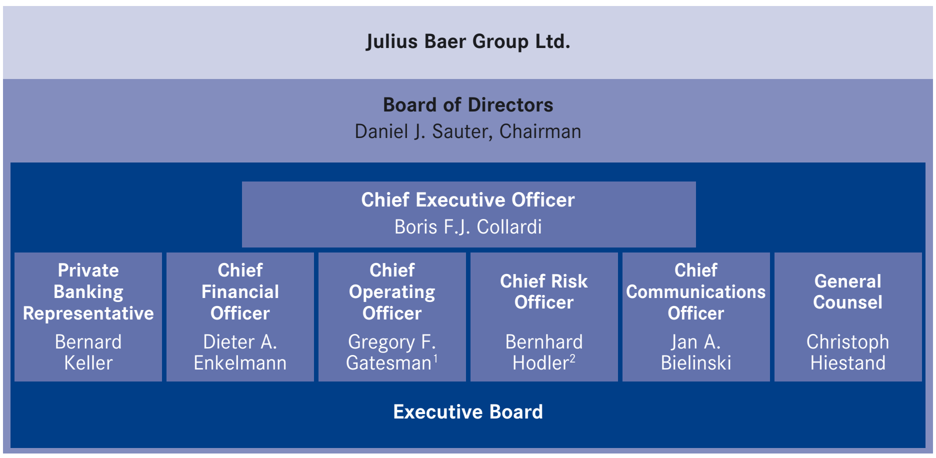
On the regulatory side, the final withholding tax agreements between Switzerland and the United Kingdom and Austria entered into force on 1 January 2013. The Bank's core banking system was upgraded to cope with these and possible similar future treaties. Following the initialled agreement on the simplified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

As to the ongoing discussions between the US and Switzerland on tax matters, we are actively supporting the efforts of the Swiss government to find a solution for the financial industry while also cooperating with the US authorities within the confines of applicable laws.

The Group also continued to enhance its compliance framework as well as the training of client-facing staff, including certification programmes for all our core European markets.

Our employees

The total number of employees amounted to 3,721 at the end of December 2012, up 2% from a year ago. Attracting and retaining highly qualified relationship managers remained a key cornerstone of our Group's growth strategy. While their performance continued to be assessed on an ongoing basis, their total number rose to 806, up from 795 at the end of 2011.



[1]As of 1 February 2013
[2]Chief Operating Officer a.i. from 1 to 31 January 2013

In order to improve the ability of the Bank's Swiss pension scheme to handle the risk of rising life expectancy and to keep it attractive also for the younger generation of Julius Baer employees, the conversion rates were reduced effective 1 January 2012. To compensate for this effect, the savings contributions have been increased, with the larger part borne by the company. In addition, an old age pension (AVS) bridging the gap between the official-state and contractual retirement age was introduced effective 1 April 2012.

Our business activities

Switzerland

Building on the product and service platform dedicated to the particular requirements of Swiss-domiciled clients, the Bank launched several cooperative initiatives in 2012. With the foundations market still being a fairly untapped area, we entered into an exclusive agreement with a consulting company which helps clients in setting up philanthropic foundations. The Bank acts as financial adviser for the related endowments by providing investment advisory services or comprehensive mandate solutions. Other initiatives focus on executives who intend to relocate to Switzerland, whereby the Bank acts as the preferred financial services provider.

In the context of the strategic collaboration agreement between Bank of China and the Julius Baer Group announced in July 2012, Bank of China (Suisse) SA was successfully integrated into Bank Julius Baer & Co. Ltd. at the end of the year. Moreover, Lugano saw the addition of a large team of experienced relationship managers, and the St. Moritz branch moved into brand new premises in November 2012.

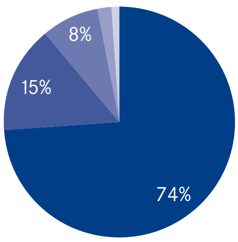
Independent Asset Managers

In further strengthening our market positioning with Independent Asset Managers (IAMs), our new IT platform for this important client segment was rolled out successfully. Used by 70% of our IAM clients at year-end, it will help to manage costs in the future by increasing self-service, decentralised order entry and straight-through processing. Keeping IAMs informed about regulatory changes, including cross-border issues, was an ongoing priority also of our risk management processes. In light of the expected industry consolidation, succession planning was intensively discussed with IAMs.

Europe

Following the rapid growth of the Bank's local business activities in Germany, the Board of Bank Julius Bär Europe AG was enlarged and further strengthened at the beginning of the year. We remained successful in attracting both new clients and relationship managers,

Julius Baer employees (FTE) by geography as at 31 December 2012
(31 December 2011)



- Switzerland 74% *(76%)*
- Asia-Pacific 15% *(14%)*
- Rest of Europe 8% *(7%)*
- Middle East and Africa 2% *(1%)*
- Latin America 1% *(2%)*

resulting in strong net new money inflows. As one of the consequences, the Hamburg branch relocated into more attractive and larger premises in the city centre. Furthermore, the mortgage offering launched in 2011 to enhance the comprehensive range of products and services in Germany saw good demand from clients.

In Italy, the agreement reached in November 2012 to jointly create a leading domestic wealth management player by cooperating with Kairos Investment Management SpA (Kairos), a leading independent wealth manager, marked an important milestone for Julius Baer, which in turn will acquire 19.9% of Kairos.

Responding to the growing business in the Nordic region and the UK, the Bank welcomed new relationship managers for several of these markets. They mainly serve these markets out of Zurich, though the London team focuses on the domestic UK business. Meanwhile, Geneva is gaining in importance as a vital hub to support growth in various other European markets.

Russia, Central & Eastern Europe

This large region saw very positive business momentum, resulting in healthy net new money inflows across all locations and teams in 2012. Responding to this development, additional relationship managers were hired in Zurich, Geneva, Singapore and Vienna, and an array of possibilities for cooperation agreements is currently being explored in various countries to further expand the Bank's business, parallel to the development of the IAM segment. As a result of these efforts, for the third time in a row Julius Baer was named the *European Private Bank of the Year (outside of Russia)* at the *Spear's Russia Wealth Management Awards 2012*.

SPEAR'S 12
Russia Wealth Management Awards
in cooperation with PBWM.ru

ASIAN PRIVATE BANKER
AWARDS FOR
DISTINCTION 2011

Best Boutique Private Bank in Asia

Best Private Bank
External Asset Manager's Choice

ASSET ASIAN AWARDS 2012
TRIPLE A
The Asset

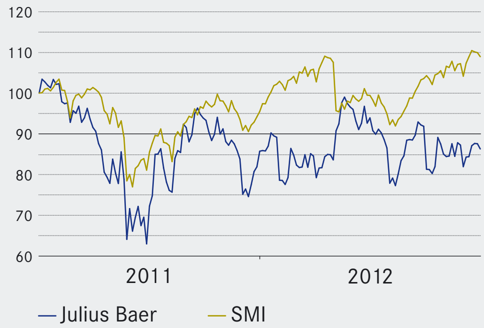
Asia

In view of the continued rapid growth, regional management and corporate functions were further strengthened, parallel to aligning the organisational structures. Besides further exploring opportunities in the Greater China region, we also continued to develop other promising markets in South-East Asia. Indonesia and India are considered strategic markets among them, with the IWM acquisition offering an exciting entry into the Indian market.

The Group's Singapore trust company firmly established itself as a profitable and viable franchise for Singaporean fiduciary solutions. Given the Bank's strong commitment to China and responding to clients' high demand, we decided to apply for an incremental investment quota under the QFII licence following the initial quota granted to Julius Baer in 2011. This will allow us to launch a new Julius Baer China Fixed Income Fund, thus further enhancing the opportunity for our clients to invest in the local Chinese capital markets.

The strategic collaborations in Asia are starting to show good results. While the cooperation with Macquarie Group announced in late 2011 produced some mutually beneficial client referrals, the agreement signed with Bank of China (BOC) in July 2012 should substantially improve our presence in the Greater China region. As a result of this agreement, our clients can now benefit from fiduciary deposit facilities in offshore renminbi (CNH) offered by BOC.

Performance of Julius Baer registered share (indexed)



Julius Baer on the stock exchange

The Julius Baer Group is one of the leading publicly listed financial companies in Switzerland. Bank Julius Baer & Co. Ltd., headquartered in Zurich, 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 31 December 2012, the market capitalisation of the Group's shares was CHF 7.0 billion.

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.

Our second *Julius Baer Wealth Report: Asia*, focusing on China, India and Indonesia, provided yet another exclusive analysis of the HNWI landscape in this region and was well received by clients and the media alike.

In recognition of our large and growing reputation in the region, we were named *Best Boutique Private Bank in Asia* by *Asian Private Banker* in January 2012. In August, Julius Baer was confirmed as the third-time winner of the *Best Boutique Private Bank in Asia* award by *The Asset*, another leading Asian trade publication.

Taking advantage of the low interest rates in the fixed income markets in particular, our Investment Solutions Group Asia launched numerous products ranging from high yield bond and money market funds to fixed income funds focused on emerging markets.

Eastern Mediterranean, Middle East & Africa

This very promising region is managed out of locations in Zurich, Geneva and London as well as domestically from Dubai, Abu Dhabi, Cairo and Istanbul. In order to further increase the coverage of this attractive yet diverse region, we strengthened our management capacity and hired a large senior front team based in Zurich, which added to the region's substantial money inflows and growing client base. In August 2012, the Cairo office moved to a new location near the city centre.

As we move forward into 2013, we will increase our systematic and continuous assessment of opportunities in the defined core markets of UAE, Lebanon, Saudi Arabia, South Africa and Turkey by hiring new talents mainly based in Switzerland and the Middle East. Furthermore, thanks to agreements with third-party providers, we can now provide our clients with certain Islamic financial solutions.

In March 2012, Julius Baer successfully opened its first local presence in Tel Aviv, strengthened the management for this area and hired dedicated teams in various Group locations in order to tap into the potential of the attractive Israeli market.

Latin America

Julius Baer covers Latin America out of four locations, complemented by two offices of Brazilian independent asset manager GPS, in which Julius Baer has held a strategic minority participation of 30% since 2011.

We succeeded in taking advantage of Latin America's accelerating wealth generation dynamics. Thanks to our continued effort in building client relationships and brand awareness over the last few years, we saw positive business momentum in the period under review. To further strengthen our franchise in Latin America, we reinforced the management team and successfully attracted highly qualified relationship managers.

At the beginning of the year, we held the seventh annual Julius Baer conference at Uruguay's famous seaside resort of Punta del Este, and this event was very well received by the more than 500 guests.

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 2012.

The Investment Solutions Group (ISG) is Julius Baer's investment and service competence centre. It delivers investment opinions, advice, products and tools to Julius Baer clients as well as relationship managers based on an open product platform. 2012 was the first full year of our new investment approach, which applies a much broadened investment universe and is not restricted by any benchmarks. ISG's organisational structure was further altered to allow for consistent implementation of investment decisions across all asset classes and products.

Research and Investment Advisory
The financial markets again provided plenty of opportunities for our Research analysts to give timely and forward-looking investment views and opinions. 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 2012, Julius Baer held two *Next Generation* investment conferences: the first was in Zurich in March on the topic of people and the second in Geneva in September on growth. Both events featured renowned international speakers as well as Julius Baer experts and attracted vast client and media interest. In parallel, the cover-

Cooperation with strong partners: the third leg of Julius Baer's growth strategy

Sustaining long-term growth is a prerequisite for the success of any company. As the global wealth management industry is undergoing fundamental changes and set to remain challenging, Julius Baer bases its growth strategy not only on organic growth and acquisitions but also on cooperation with renowned partners.

By working with GPS in Brazil, Macquarie Group and Bank of China in Asia and most recently Kairos Investment Management SpA in Italy, Julius Baer has significantly broadened its access to promising wealth management markets and segments worldwide over the last two years. All of these strong partners are leaders in their local markets and field of expertise and yet their cultural values are highly compatible with those of Julius Baer.

Although each of these agreements is unique, they are all highly client-focused. The areas of cooperation range from mutual cross-referral of clients and joint marketing initiatives to collaboration in product distribution and financial research – or combinations thereof. Leveraging the combined expertise of these cooperation partners allows Julius Baer and its clients to benefit from a growing universe of products, services and market know-how.

age of *Next Generation* topics was substantially increased, including a dedicated mobile app and regular podcasts.

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

The Bank further strengthened its fund-related offering, drawing on an actively monitored universe of nearly 300 funds from more than 80 different providers, complemented by passive instruments such as exchange-traded funds. Expanding this offering to also include hedge funds, private equity, real estate and real assets will allow clients to benefit increasingly from our unique multi-boutique approach.

New fund services such as active monitoring, 'health checks' and fund-specific risk and performance reports were successfully implemented with the aim of ensuring the goal-oriented use of fund-based products.

Wealth & Tax Planning
Given the evolving and increasingly complex regulatory and tax framework, particularly in Europe, requests for holistic wealth assessments and planning continued to rise. Julius Baer's 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 global network of external partners.

Markets & Custody
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. 2012 was characterised by generally muted transaction activity amid overall low FX volatility, with the de facto peg of the Swiss franc to the euro significantly reducing clients' needs for hedging. Trendless markets in precious metals had a negative impact on volumes and revenues as well.

Volumes in structured products were slightly above the previous year, a good result considering the marked decline of the overall market. Clients' interest in the fixed-income segment remained high throughout the year. The record volumes of new issues in the global capital markets saw good demand from clients. Security trading was subdued, in line with the persisting risk aversion.

Julius Baer is also a leading provider of global custody services in Switzerland. At the end of December 2012, it was entrusted with CHF 88 billion of assets under custody. Julius Baer enjoys an excellent reputation as a first-class global custodian in its well-defined areas of specialised expertise, covering the full range of international securities administration, portfolio analysis and tailor-made reporting. Its best-in-class services to pension funds, corporations, insurance companies, family offices and investment funds, including private label funds, enjoyed good demand from all client segments.

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[1]. As a new initiative in Switzerland in cooperation with Caritas, the Foundation supports financial training for young immigrants with debt problems. Other projects in cooperation with various charity organisations include vocational training programmes in Kosovo and Northern Thailand, basic life coaching in Myanmar, schools for children in Ethiopia and support for four youth organisations in the rural areas of Nicaragua to help stop the younger generation from having to leave their villages due to a lack of opportunities.

In Asia, Julius Baer continued the successful sponsorship of the Sovereign Asian Art Prize. Furthermore, for the very first time Julius Baer was the presenting sponsor of the Singapore Steinway Youth Piano Competition.

And finally, as part of our engagement in cultural events and our long-standing commitments in the arts and music, Julius Baer continued backing the Swiss Photo Award and the |Art|43 Basel, supported the first recital of young pianist Yuja Wang in Geneva, again sponsored the Verbier Festival and the Lucerne Festival at the Piano and started cooperating with Live at Sunset in Switzerland.

[1] www.juliusbaer.com/donations

Julius Baer Cares

Employees set up charity association Julius Baer Cares Switzerland

Driven by the strong desire to do more for others and the environment, our employees established the charity association Julius Baer Cares Switzerland in May 2012, thus bringing ‘Care’ as one of the three core values of Julius Baer to life. While the association is staff-funded, it gets support of the Julius Baer Foundation. The initiative is based on a framework similar to the already existing organisations in Hong Kong and Singapore. Its activities centre on fundraising programmes for charitable projects worldwide in cooperation with established partners as well as on designing and supporting other philanthropic initiatives in Switzerland.

In its first year, the Swiss association successfully organised a charity event for a drinking water project in Thailand in cooperation with Child’s Dream and collected children’s books, games and puzzles to be shipped by Bookbridge to Cambodia by the end of February 2013.

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 eight charity projects in eight countries.

Important dates

Ordinary Annual General Meeting: 10 April 2013
Publication of Interim Management Statement: 15 May 2013
Publication of 2013 half-year results: 22 July 2013

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

The Annual Report 2012 of Julius Baer Group Ltd. containing the audited IFRS financial accounts of the Julius Baer Group for the year 2012 is available at 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, Monaco, Montevideo, Moscow, Shanghai to Singapore.