Julius Bär

Annual Report **2011**
Julius Baer Group Ltd.

Including integration and restructuring expenses as well as the amortisation of intangible assets related to previous acquisitions or divestitures and the one-off tax-related Germany payment announced in April 2011 as well as the impact of the cost reduction plan announced in November 2011, the net profit achieved in 2011 for the shareholders of Julius Baer Group Ltd. amounted to CHF 258 million. Excluding these items, the shareholders' underlying net profit for 2011 amounted to CHF 452 million. Further information on this basis can be found in the presentation and the media release on the 2011 financial results and the Business Review 2011.

Key figures

	2011	2010	Change %
Return on equity (ROE)	**5.9%**	8.1%	-
Return on equity (ROE)[1]	**12.2%**	15.8%	-
Cost/income ratio[2]	**76.8%**	74.4%	-
Cost/income ratio[3]	**68.0%**	65.4%	-

	31.12.2011	31.12.2010	Change %
Consolidated balance sheet			
Total assets (CHF m)	**52 928.7**	46 286.6	14.3
Total equity (CHF m)	**4 310.2**	4 484.0	-3.9
BIS tier 1 ratio	**21.8%**	23.8%	-
Client assets (CHF bn)			
Assets under management	**170.3**	169.7	0.4
Assets under custody	**87.8**	97.6	-10.1
Total client assets	**258.1**	267.3	-3.4
Personnel			
Number of employees (FTE)	**3 643**	3 578	1.8
of whom Switzerland	***2 747***	*2 763*	*-0.6*
of whom abroad	***896***	*815*	*9.9*
Moody's Rating Bank Julius Baer & Co. Ltd.	**Aa3**	Aa3	

[1]Net profit of the shareholders of Julius Baer Group Ltd. less integration and restructuring expenses as well as amortisation of intangible assets/average equity less goodwill

[2]Excluding valuation allowances, provisions and losses

[3]Excluding valuation allowances, provisions and losses and integration and restructuring expenses as well as amortisation of intangible assets

Ticker symbols	
Bloomberg	BAER VX
Reuters	BAER.VX
Swiss securities number	10 248 496
Share buyback programme second trading line (BAERE.SW)	12 664 577
Listing	Zurich, Switzerland
	SIX Swiss Exchange, part of the Swiss Market Index SMI and the Swiss Leader Index SLI

Key figures for shares

	2011	2010	Change %
Information per share (CHF)			
Equity (book value, as at 31.12.)	**21.1**	21.8	-3.3
EPS	**1.27**	1.71	-25.5
Share price (as at 31.12.)	**36.74**	43.80	-
Market capitalisation (CHF m, as at 31.12.)	**7 592**	9 050	-
Capital structure (as at 31.12.)			
Number of shares, par value CHF 0.02	**206 630 756**	206 630 756	-
Weighted average number of shares outstanding	**202 586 951**	205 969 204	-
Share capital (CHF m)	**4.1**	4.1	-

Annual Report 2011
Julius Baer Group Ltd.

Dear Reader

With the global economy still severely hampered by the ongoing deleveraging on multiple levels, economic prospects deteriorated further in the past twelve months, particularly in the developed world. This, in addition to generally rising austerity, resulted in very volatile financial markets and currency developments. We were able to maintain our Group's business momentum in most dimensions in 2011 and seize opportunities, thus capitalising on our singular focus on private banking, broad international presence and strong capital base.

The shifting patterns of wealth generation and distribution globally as well as the legal and regulatory frameworks affecting them call for continuous and swift change. In the past months, we adjusted through a number of initiatives that yielded both refined and enlarged geographic coverage. These included the creation of a 'region Switzerland', inroads into the local Brazilian market and a cooperation on investment banking services to complement our local offering in Asia. Our full-fledged product and service offering combined with our unrelenting drive to be close to our clients helped strengthen and deepen client relationships. Yet with expected market returns set to remain low and clients' strong focus on capital preservation, the traditional view on relative performance may need to be fundamentally revised industry-wide.

All in all, we achieved a gratifying net new money inflow of 6%. Its impact, however, was countered by adverse market and currency developments, so assets under management remained basically unchanged at CHF 170 billion. Total client assets, including assets under custody, amounted to CHF 258 billion at the end of 2011. At the same time, the demanding environment of 2011 limited our ability to generate revenues. In order to further protect our profitability, we announced a cost reduction plan and a related one-off restructuring charge. The tightening of industry regulation and its implication for our cost base remained a major influencing factor. The regulatory visibility, however, has started to improve, not least thanks to the ongoing efforts of the Swiss government to foster tax agreements. With the aim of avoiding lengthy legal proceedings, German authorities and Julius Baer agreed on a one-off payment of EUR 50 million. The Group's net profit for our shareholders amounted to CHF 258 million in 2011, after CHF 352 million in 2010, a decrease of 27% (including* integration and restructuring expenses and the amortisation of intangible assets).

* Excluding these as well as the non-recurring items, the underlying net profit for the shareholders of Julius Baer Group Ltd. for 2011 amounted to CHF 452 million, down 10% from 2010.

Julius Baer is ideally positioned to capture the strong wealth creation dynamics of growth markets while further penetrating the high wealth concentration of our core European markets. In addition and provided strict criteria are met, we aim to play an active role in the continuing industry consolidation. Our Group's strong capital base has proven once again to be a key differentiating factor and business enabler. In order to further diversify the Group's capital structure, we successfully raised CHF 250 million of lower tier 2 capital. The BIS total capital ratio amounted to 23.9% and the BIS tier 1 ratio to 21.8% at the end of 2011, comfortably exceeding both current and expected future requirements. Based on this and to ensure shareholders' continuing participation in the financial success of the Group, the Board of Directors proposes to the Ordinary Annual General Meeting on 11 April 2012 an unchanged dividend of CHF 0.60 per share and a special dividend of CHF 0.40. The total dividend payout amounts to CHF 199 million. Through year-end 2011, we repurchased 7 592 954 own shares in the amount of CHF 254 million in the current share buyback programme. Following its completion, a new share buyback programme of up to CHF 500 million is envisaged, to be executed flexibly over the next two years.

To successfully withstand the gravitational forces of the financial and debt crisis and at the same time relentlessly advance our business across the globe is an achievement. This is largely owed to our esteemed employees, whose dedication and great contribution we highly appreciate. With equal gratitude, we extend our thanks to our loyal clients and shareholders for their continued trust and support.

Raymond J. Baer
Chairman

Boris F.J. Collardi
Chief Executive Officer

Zurich, February 2012

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I. Corporate Governance

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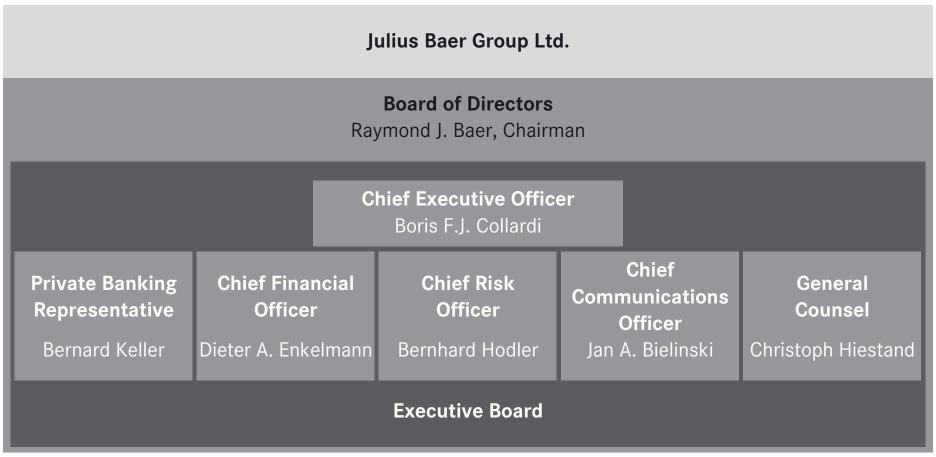
Corporate governance is a decisive factor in business management. Shareholders, clients and staff are usually considered the key stakeholder groups within the context of corporate governance. Moreover, the focus of Julius Baer Group Ltd. (the Company) on achieving sustained success and consistency in the Group's business rests largely on the principle of retaining shareholders, clients and staff for as long as possible and actively nurturing the relationships over time. These stakeholders therefore have a right to know the individuals and internal bodies that determine the development of the Company, who makes the strategic decisions and who bears the responsibility for them. The Company therefore aims to thoroughly satisfy these legitimate information needs in this chapter of the Annual Report.

The corporate governance information of the Company is presented in accordance with the Corporate Governance Directive of the SIX Swiss Exchange that entered into force on 1 July 2002 and was revised on 1 July 2009, with the guidelines and recommendations of the 'Swiss Code of Best Practice for Corporate Governance' of the Swiss business federation economiesuisse dated 25 March 2002 as well as with this best practice code's Appendix 1, 'Recommendation on compensation for board of directors and executive board', dated 6 September 2007, which takes into account the new articles 663b^{bis} and 663c, paragraph 3, of the Swiss Code of Obligations that entered into force on 1 January 2007 and which address transparency with respect to the compensation of the members of the Board of Directors and the Executive Board.

The following information corresponds to the situation as at 31 December 2011 unless indicated otherwise.

Group structure and shareholders

Operational Group structure of Julius Baer Group Ltd. (as at 31 December 2011)



The consolidated Group companies are disclosed in Note 26.

Significant shareholders/participants

Based on notifications received by Julius Baer Group Ltd., each of the following shareholders/participants held more than 3% of the voting rights in Julius Baer Group Ltd. as at 31 December 2011: [1]

Shareholder/participant[4]	Disclosure of purchase positions [2]	Disclosure of sale positions [3]
MFS Investment Management[5]	10.02%	
Davis Selected Advisers L.P.[6]	8.46%	
Harris Associates L.P.[7]	5.02%	
BlackRock, Inc.[8]	5.01%	0.05%
Thornburg Investment Management[9]	3.81%	
Julius Baer Group Ltd.[10]	3.02%	0.14%

1 The percentage holding of voting rights as well as the other terms as used herein have to be defined and read in the context of the relevant and applicable stock exchange rules.

2 Equity securities, conversion and share purchase rights (art. 15 para. 1a SESTO-FINMA), granted (written) share sale rights (art. 15 para. 1 b SESTO-FINMA) and financial instruments (art. 15 para. 1c and para. 2 SESTO-FINMA)

3 Share sale rights (specifically put options) and granted (written) conversion and share purchase rights as well as financial instruments that provide for or permit cash settlement as well as other differential transactions (such as contracts for difference and financial futures)

4 Please note that any change in the holding of voting rights between reportable thresholds does not trigger any notification duty.

5 MFS Investment Management, Boston/USA, and its subsidiaries MFS Institutional Advisors Inc., MFS International Ltd., MFS International (U.K.) Ltd., MFS Heritage Trust Company, MFS Investment Management KK and MFS Investment Management 'LUX' S.A. (reported on 2 February 2011)

6 Davis Selected Advisers L.P., Tucson/USA, as investment advisor (reported on 6 October 2009)

7 Harris Associates L.P., Chicago/USA (reported on 13 May 2011)

8 BlackRock, Inc., 40 East 52nd Street, New York, NY 10022, USA, and its subsidiaries BlackRock Advisors UK Ltd., London/UK, BlackRock Institutional Trust Company, N.A., San Francisco/USA, BlackRock Asset Management Canada Limited, Toronto/Canada, BlackRock Advisors, LLC, Wilmington/USA, BlackRock Investment Management, LLC, Plainsboro/USA, BlackRock Investment Management (Australia) Limited, Sydney/Australia, BlackRock Investment Management (Dublin) Ltd., Dublin/Ireland, BlackRock Luxembourg SA, Senningerberg/Luxembourg, BlackRock (Netherlands) B.V., Amsterdam/Netherlands, BlackRock Fund Manager Ltd., London/UK, BlackRock Pensions Ltd., London/UK, BlackRock International Ltd., Edinburgh/UK, BlackRock Investment Management (UK) Ltd., London/UK, BlackRock Asset Management Japan Limited, Tokyo/Japan, BlackRock Fund Advisors, San Francisco/USA, BlackRock Holdco 2, Inc., New York/USA, BlackRock Financial Management, Inc., New York/USA, BlackRock Advisors Holdings, Inc., New York/USA, BlackRock Capital Holdings, Inc., New York/USA, BlackRock International Holdings, Inc., New York/USA, BR Jersey International Holdings LP, St. Helier/Jersey, BlackRock Group Ltd., London/UK, BlackRock (Institutional) Canada Ltd., Toronto/Canada, BlackRock Holdings Canada Ltd., Toronto/Canada, BlackRock Holdco 4, LLC, New York/USA, BlackRock Holdco 6, New York/USA, BlackRock Delaware Holdings, Inc., New York/USA, BlackRock Australia Holdco Pty., Sydney/Australia, BlackRock Luxembourg Holdco S.à.r.l., Luxembourg, BlackRock Investment Management Ireland Holdings Ltd., Dublin/Ireland, Trident Merger, LLC, New York/USA, BlackRock Cayco Ltd. c/o Walkers SPV Limited, George Town/Cayman Islands, BlackRock Trident Holding Co Ltd., Dublin/Ireland and BlackRock Japan Holdings GK, Tokyo/Japan, BlackRock Capital Management, Inc., Wilmington/USA, BlackRock (Isle of Man) Limited, Isle of Man, BlackRock Asset Management Australia Limited, Sydney/Australia, all represented as a group by BlackRock, Inc. (reported on 5 November 2010)

9 Thornburg Investment Management, Santa Fe/USA, as investment manager on behalf of clients (reported on 1 October 2009)

10 Julius Baer Group Ltd., Bahnhofstrasse 36, 8001 Zurich/Switzerland, Bank Julius Baer & Co. Ltd., Bahnhofstrasse 36, 8001 Zurich/Switzerland, Loteco Stiftung, c/o Julius Baer Group Ltd., Bahnhofstrasse 36, 8001 Zurich/Switzerland, and Julius Baer Life (Bahamas) Ltd., Winterbotham Place, Marlborough and Queen Streets, 3026 Nassau/Bahamas (reported on 19 August 2011)

List of notifications received by Julius Baer Group Ltd. in 2011 according to article 20 of the Swiss Federal Stock Exchange Act

- With notification dated 2 February 2011 Julius Baer Group Ltd. was informed that on 28 January 2011 MFS Investment Management's (see footnote 5 to the table above) holdings of purchase positions (shares) in Julius Baer Group Ltd. crossed above the reporting threshold of 10% and amounted to 10.02% as at that day.
- With notification dated 13 May 2011 Julius Baer Group Ltd. was informed that on 12 May 2011 Harris Associates L.P.'s (see footnote 7 to the table above) holdings of purchase positions (shares) in Julius Baer Group Ltd. crossed above the reporting threshold of 5% and amounted to 5.02% as at that day.
- With notification dated 19 August 2011 Julius Baer Group Ltd. was informed that on 19 August 2011 Julius Baer Group's (see footnote 10 to the table above) holdings of purchase positions (shares) in Julius Baer Group Ltd. crossed above the reporting threshold of 3% and amounted to 3.02% as at that day, while Julius Baer Group's holdings in sale positions (CFD) amounted to 0.14% as at that day.

Cross-shareholdings

There are no cross-shareholdings between Julius Baer Group Ltd. and its subsidiaries or third-party companies.

Capital structure

Capital

The share capital of the Company amounted to CHF 4 132 615.12 as at 31 December 2011. It is fully paid up and divided into 206 630 756 registered shares (shares) with a par value of CHF 0.02 each. The shares (security no. 10 248 496; ISIN CH 010 2484968) are listed on the SIX Swiss Exchange and are a component of the Swiss Market Index (SMI) and the Swiss Leader Index (SLI).

Conditional and authorised capital in particular

There is no authorised capital.

Conditional capital

The Company's share capital may be increased by the issue of up to 10 000 000 shares, to be fully paid up and each with a par value of CHF 0.02, in a maximum total amount of CHF 200 000 through the exercise of conversion or warrant rights in connection with bonds issued by the Company or its subsidiaries. Pre-emptive rights of shareholders are excluded. The acquisition of shares through the exercise of conversion or warrant rights and the subsequent transfer of shares are subject to the entry limitations as set forth in article 4.3 ff. of the Articles of Incorporation.

When issuing convertible or warrant bonds, the Board of Directors may rescind priority subscription rights of shareholders for important reasons.

Important reasons can be the securing of optimal conditions in issuing the bonds and ensuring equal treatment of domestic and foreign shareholders. In the event that the Board of Directors precludes the priority subscription rights, the following applies:

a) Conversion rights may be exercised only during a maximum of seven years, and warrant rights only during a maximum of four years from the date of issue of the relevant bond.

b) The new shares shall be issued according to the applicable conversion or warrant conditions. The convertible and warrant bonds must be issued in conformity to market conditions (including the usual market conditions with regard to protection against dilution). The conversion or option price must be not less than the average of the last prices paid on the SIX Swiss Exchange during the five days preceding the determination of the final issue conditions for the relevant convertible or warrant bonds.

Changes of capital

The description of the changes of capital in the last two years is disclosed in the consolidated statement of changes in equity.

Shares and participation certificates

Shares

	2011	2010
Number of shares as at 31 December		
Registered shares with par value of CHF 0.02	**206 630 756**	206 630 756
(all entitled to dividends)		

There are no preferential rights or similar rights. Each share entitles to one vote.

Participation certificates

There are no participation certificates.

Bonus certificates

There are no bonus certificates.

Limitations on transferability and nominee registrations (as at 31 December 2011)

The Company shall keep a share register, in which the owners and usufructuaries of the shares are entered with their name, address and nationality, respectively, place of incorporation in case of legal entities. In relation to the Company, any person entered in the share register shall be deemed to be the shareholder. Nimbus AG, Ziegelbrueckstrasse 82, 8866 Ziegelbruecke, Switzerland, administrates the Company's share register.

The shares are issued as uncertificated securities and registered as intermediated securities. They are included in the SIS clearing system for transferred shares. The Company may withdraw shares registered as intermediated securities from the custodian system. Each shareholder may at any time request from the Company a certification about the shares owned by him/her. The shareholders have no right to request the printing and delivery of certificates for their shares. The Company, however, may at any time print and deliver share certificates (individual certificates, certificates or global certificates) or convert uncertificated securities and share certificates into any other form and may cancel issued share certificates once they have been returned to the Company.

Transfers of intermediated shares, including the granting of security interests, are subject to the Swiss Intermediated Securities Act. The transfer of uncertificated shares is effected by a corresponding entry in the books of a bank or depositary institution following an assignment by the selling shareholder and notification of such assignment to the Company by the bank or depositary institution. The transferee must file a share registration form in order to be registered in the Company's share register as a shareholder with voting rights. Failing such registration, the transferee may not vote at or participate in any shareholders' meeting but may still receive dividends and other rights with financial value. The uncertificated shares may only be transferred with the assistance of the bank that administers the book entries of such shares for the account of the transferring shareholder. Further, shares may only be pledged to the bank that administers the book entries of such shares for the account of the pledging shareholder; in such case, the Company needs to be notified. According to the Articles of Incorporation, a person having acquired shares will be recorded in the Company's share register as a shareholder with voting rights upon request. The Company may refuse to record a person in the share register as a shareholder with voting rights if such person does not expressly state that he/she has acquired the shares in his/her own name and for his/her own account.

Fiduciaries/nominees may be entered as a shareholder in the share register with voting rights for shares up to a maximum of 2% of the share capital. Shares held by a fiduciary/nominee that exceed this limit may be registered in the share register with voting rights if such fiduciary/nominee disclosed to the Company the name, address, nationality or registered office and shareholdings of any person or legal entity for whose account it is holding 0.5% or more of the share capital. Fiduciaries/nominees which are affiliated with other fiduciaries/nominees by means of ownership structure or voting rights or which have a common management or are otherwise affiliated are deemed one fiduciary/nominee as regards the application of such entry limitations.

The Board of Directors may cancel the entry in the share register of a shareholder or fiduciary/nominee with voting rights, upon a hearing of such shareholder or fiduciary/nominee, if the entry in the share register is based on false information. The affected shareholder or fiduciary/nominee has to be notified of the cancellation immediately.

Convertible bonds and options

There are no outstanding convertible or warrant bonds. Information on employee options is disclosed in the section 'Content and method of determining the compensation and equity-based incentives within the Group' further below as well as in Note 28.

Board of Directors

All members of the Board of Directors of Julius Baer Group Ltd. are non-executive members. The Board of Directors of the Group's principal operating company, Bank Julius Baer & Co. Ltd., is composed of the same members as the Board of Directors of Julius Baer Group Ltd.

Members of the Board of Directors

Raymond J. Baer (born 1959), Swiss citizen; Law Degree, University of St. Gallen, 1984; Master of Law LL.M, Columbia Law School, New York, USA, 1985. Salomon Bros. Inc., New York and London, 1985–1988. Entry into Bank Julius Baer & Co. Ltd., Zurich, as Head of the Swiss Capital Market Group, 1988; Deputy Branch Manager of Bank Julius Baer & Co. Ltd., New York, 1990–1993; member of the Management Committee of Bank Julius Baer & Co. Ltd., Zurich, 1993–1996; member of the Group Executive Board of Julius Baer Holding Ltd. and Head of the Private Banking business line as of 1996; Vice President of the Group Executive Board of Julius Baer Holding Ltd. from 2001 until 13 May 2003; Co-Head of the Private Banking business line from January 2003 until 13 May 2003. Chairman of the Board of Directors of Julius Baer Holding Ltd., 2003–2009; Chairman of the Board of Directors of Bank Julius Baer & Co. Ltd. since 2003; Chairman of the Board of Directors of Julius Baer Group Ltd. since 2009 (term of office until 2012).

Heinrich Baumann (born 1951), Swiss citizen, PhD in Management, Technology and Economics, Swiss Federal Institute of Technology (ETH), Zurich, 1985. UBS AG, 1975–1998: COO Singapore Branch and Deputy Branch Manager, 1985–1987; Chief of Staff International Division and Section Head Management Support, 1987–1990; Member of the Regional

Management Committee (New York), Chief Operating Officer Region North America, 1990–1994; Department Head Finance and Controlling on Group level, 1994–1998; independent Management Consultant, 1998–1999; HSBC Guyerzeller Bank Ltd., 1999–2009: Chief Operating Officer and member of the Executive Committee, 1999–2002; Vice-President of the Executive Committee/Chief Operating Officer (incl. responsibility for Legal & Compliance, Human Resources and Risk), 2003–2005, Chief Executive Officer, 2006–2009; independent Management Consultant since 2009. Member of the Board of Directors of Julius Baer Group Ltd. and of Bank Julius Baer & Co. Ltd. since 2011 (2014).

Leonhard H. Fischer (born 1963), German citizen; Master in Finance, University of Georgia, USA, 1987. J. P. Morgan Chase GmbH, 1987–1995: Managing Director and member of the Executive Board, 1992–1995; Dresdner Bank AG, 1995–2002: member of the Executive Board of Dresdner Bank AG and Chief Executive Officer of Dresdner Kleinwort Wasserstein, 1999–2002; Allianz Holding AG, member of the Executive Board, Head Corporates and Markets, 2001–2002; Credit Suisse Group, 2003–2007: Chief Executive Officer of Winterthur Group, 2003–2006; member of the Executive Board of Credit Suisse Group, 2003–2007; Chief Executive Officer EMEA, 2006–2007; RHJ International SA: Co-Chief Executive Officer and member of the Board of Directors, 2007–2009; Chief Executive Officer and member of the Board of Directors since 2009. Member of the Board of Directors of Julius Baer Holding Ltd. in 2009; member of the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 2009 (2012).

Claire Giraut (born 1956), French citizen; Master in Biotech Engineering, Institut National Agronomique, Paris, 1978. Sanders Group, Paris, various positions, 1978–1985; Serete Group, Paris, various positions in finance and accounting, 1985–1996; Association of French Lawyers, Financial Controller, 1996–1997; Coflexip Stena Offshore, Paris, Chief Financial Officer and Group Head of Communications, member of the Executive Committee, 1997–2001; Technip Group, Paris, Chief Financial Officer of the offshore division and member of the Executive Board, 2002; Ipsen Group, Paris, Chief Financial Officer and member of the Executive Committee, 2003–2011; Europcar Groupe S.A., Guyancourt, France, Chief Financial Officer since September 2011. Member of the Board of Directors of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 2010 (2012).

Peter Kuepfer (born 1944), Swiss citizen; Certified Accountant's Degree, 1972. Member of the Executive Board of CS Holding, 1989–1996; Chairman of the Board of Directors of CS Life, 1989–1993; President of the Executive Board of Bank Leu, Zurich, 1993–1996; Independent Management Consultant since 1997. Member of the Board of Directors of Julius Baer Holding Ltd., 1999–2009; Vice Chairman, 2002–2006; Independent Lead Director, 2006–2009; member of the Board of Directors of Bank Julius Baer & Co. Ltd. since 1999; Vice Chairman, 2002–2006; member of the Board of Directors of Julius Baer Group Ltd. since 2009; Independent Lead Director (2012).

Gareth Penny (born 1962), dual South African and Irish citizen; Master of Arts in Philosophy, Politics and Economics, Oxford University (Rhodes Scholar), UK, 1985. Anglo American Corporation, Johannesburg, South Africa, Head of Anglo American & De Beers Small Business Initiative; Executive Director & Head of Sales & Marketing De Beers SA, 2001–2004; Managing Director Diamond Trading Company, 2004–2006; member of the Board of De Beers SA, Luxembourg, 2003–2010; Group Chief Executive Officer, 2006–2010; Advanced Metallurgical Group N.V. (AMG), Amsterdam, the Netherlands, Chief Executive of AMG Mining since September 2011. Member of the Board of Directors of Julius Baer Holding Ltd., 2007–2009; member of the Board of Directors of Bank Julius Baer & Co. Ltd. since 2007; member of the Board of Directors of Julius Baer Group Ltd. since 2009 (2013).

Daniel J. Sauter (born 1957), Swiss citizen; Swiss Certified Banking Expert, 1983. Gewerbebank, Zurich, Trainee, 1976–1978; Bank Leu, Zurich, Foreign Exchange Trader, 1978–1981; Bank fuer Kredit und Aussenhandel, Zurich, Foreign Exchange and Money Market Trader, 1981–1983; Glencore International, Zug, 1983–1998: Treasurer and Risk Manager, 1983–1988, Chief Financial Officer, 1989–1998; Xstrata AG, Zug; 1994–2001: Development of Xstrata AG into a globally diversified mining group; Chief Executive Officer, 1995–2001; Trinsic AG, Zug, co-founder and Chairman of the Board of Directors since 2001; Alpine Select AG, Zug, Chairman of the Board of Directors since 2001. Member of the Board of Directors of Julius Baer Holding Ltd., 2007–2009; member of the Board of Directors of Bank Julius Baer & Co. Ltd. since 2007; member of the Board of Directors of Julius Baer Group Ltd. since 2009 (2013).

Charles G. T. Stonehill (born 1958), dual British and American citizen; Master of Arts in Modern History, Oxford University, UK, 1978. J. P. Morgan & Co., Corporate and Investment Banking, 1978–1984; Morgan Stanley & Co., Managing Director and Head of Equity Division Europe, 1984–1997; Credit Suisse First Boston, Head of Investment Banking for the Americas and member of the Operating Committee, 1997–2002; Lazard Frères, Global Head of Capital Markets and member of the Executive Committee, 2002–2004; Non-executive Director of Gulfsands Petroleum, 2005–2006; Chairman of Panmure Gordon plc., 2006–2008; Independent Director of the London Metal Exchange Ltd. from 2005 until August 2009; Chief Finance Officer, Better Place, Palo Alto, USA, 2009–2011; co-founder and partner of Green & Blue Advisors LLC, New York, since 2011; Managing Director and Head Financial Services Practice, RSR Partners, New York, since January 2012. Member of the Board of Directors of Julius Baer Holding Ltd., 2006–2009; member of the Board of Directors of Bank Julius Baer & Co. Ltd. since 2006; member of the Board of Directors of Julius Baer Group Ltd. since 2009 (2014).

Changes in the Board of Directors

At the Ordinary Annual General Meeting of Julius Baer Group Ltd. on 7 April 2011, Heinrich Baumann was elected to the Board of Directors for a three-year term. Charles G.T. Stonehill was re-elected for another term of three years and Peter Kuepfer was re-elected for another term of one year.

Gilbert Achermann, Chairman of the Boards of Directors of both Straumann Group and Siegfried Holding, and Andreas Amschwand, former Group Managing Director of UBS, are intended to be proposed for election as new members of the Board of Directors at the Ordinary Annual General Meeting on 11 April 2012.

After serving on the Board of Directors for 13 years, Peter Kuepfer has decided not to seek re-election upon expiry of his fifth term of office.

Other activities and functions

In applying the Corporate Governance Directive and the corresponding commentary of the SIX Swiss Exchange, the Company fundamentally discloses mandates and interest ties with exchange-listed domestic and foreign companies as well as with domestic and foreign banks and finance companies outside of the Julius Baer Group. There are no further activities or interest ties within scope of this section of the corporate governance report than those listed below:

Raymond J. Baer:
- membership on the Board and the Chairman’s Committee of the Board of the Swiss Bankers Association;
- President of the Association of Swiss Commercial and Investment Banks;
- member of the Foundation Board of the Swiss Finance Institute.

Leonhard H. Fischer:
- member of the Supervisory Board of ACA Konzern AG, Cologne;

- member of the Management Board of Gesellschaft zur Foerderung der Frankfurter Wertpapierboerse e.V., Frankfurt;
- member of the Board of Directors and Chairman of the Audit Committee of Glencore International plc, Baar.

Claire Giraut:
- member of the Board of Directors and of the Audit Committee of Heurtey-Petrochem S.A., Vincennes, France.

Peter Kuepfer:
- Chairman of the Board of Directors of GE Money Bank Ltd., Zurich;
- member of the Board of Directors of Holcim Ltd, Jona;
- member of the Supervisory Board of Metro AG, Duesseldorf.

Daniel J. Sauter:
- Chairman of the Board of Directors of Trinsic AG, Zug;
- Chairman of the Board of Directors of Alpine Select AG, Zug;
- member of the Board of Directors of Sika Ltd, Baar;
- member of the Board of Directors of Sulzer AG, Winterthur;
- member of the Board of Directors of Model Holding AG, Weinfelden.

Elections and terms of office

The members of the Board of Directors are elected on an individual basis by the Ordinary Annual General Meeting, normally for a term of three years. The period between two Ordinary Annual General Meetings is deemed to be one year. The term of office for each director shall be fixed with his/her election. The various terms of office shall be fixed in a way to assure that approximately one-third of all members are newly elected or re-elected each year. Members whose term of office has expired are immediately eligible for re-election. The Board of Directors shall constitute itself. The maximum (cumulative) term of office for the members of the Board of Directors is generally twelve years. Members who have reached their 67th year of age generally do not seek re-election at the end of their current term. However, in exceptional instances, the Board of Directors may propose the re-election of such a Board member to the Ordinary Annual General Meeting. The term of office of a member of the Board of Directors ends automatically at the Ordinary Annual General Meeting in the year in which he/she completes his/her 70th year of age.

The remaining term of office of each member is disclosed in the section 'Members of the Board of Directors' above.

Internal organisational structure

The Board of Directors consists of three or more members. It meets as often as business requires, but at least once per quarter. The presence of a majority of its members is necessary for resolutions to be passed, with the exception of the ascertainment resolution and the resolution concerning the amendment of the Articles of Incorporation as well as the capital increase report in the case of capital increases. Resolutions are passed by an absolute majority of votes of members present. The members of the Board of Directors may also be present by phone or electronic means. Resolutions of the Board of Directors may also be passed by way of written consent (letter, fax) or by way of an electronic data transfer provided that no member requests oral deliberation. In such cases, the text of written resolutions must be sent to all members and approved by all members of the Board of Directors to be valid.

In the case of a tie vote at meetings, the Chairman shall have the casting vote. For resolutions passed by the Board of Directors with regard to agenda items that have been subject to prior resolution by a Committee of the Board of Directors (pre-resolving Committee) and if the members of such pre-resolving Committee (taking into consideration the casting vote of the Chairman) would represent a majority of votes in the Board of Directors, the casting vote shall not be with the Chairman of the Board but with the chairperson of the Audit Committee, unless the chairperson of the Audit Committee is also a member of such pre-resolving Committee, in which case the casting vote shall be with the member of the Board of Directors who is not a member of such pre-resolving Committee and who has served the longest total term of office on the Board of Directors. The members of the Executive Board of Julius Baer Group Ltd. generally participate as guests in the meetings of the complete Board of Directors. These meetings generally take up at least half a day.

The supplementary role as an Independent Lead Director is generally assigned to a senior Board member whose leadership capabilities, personal authority and experience with Julius Baer allow him or her to assume a mutually supported function as facilitator within the Board of Directors. As such and if necessary, the Independent Lead Director assures open communication and dialogue between the Board members in case of fundamental differences of opinion, and acts – if needed – as mediator between Board members. The Independent Lead Director's role is currently filled by Peter Kuepfer.

In order to gauge the effectiveness of its activities, the Board of Directors as a whole as well as the respective committees carry out an annual self-assessment. The aim is to review and assess what has been achieved relative to the objectives formulated at the beginning of the year. The results of the committees are brought to the attention of the complete Board of Directors.

The Board of Directors normally meets for one strategy seminar a year. The purpose of this seminar is to analyse the positioning of the Julius Baer Group as well as to review and if necessary redefine its strategic direction in light of the prevailing macroeconomic and company-specific circumstances.

In 2011, the complete Board of Directors of Julius Baer Group Ltd. held six meetings, a two-day strategy seminar and four telephone conferences.

Attendance of the members of the Board of Directors at the Board meetings

First half of 2011

	February	March [1]	April [1]	April	June
Raymond J. Baer	x	x	x	x	x
Heinrich Baumann[2]	–	–	x	x	x
Leonhard H. Fischer	x	x	x	x	E
Claire Giraut	x	x	x	x	x
Peter Kuepfer	x	x	x	x	x
Gareth Penny	x	x	x	x	x
Daniel J. Sauter	x	x	x	x	x
Charles G. T. Stonehill	x	x	x	x	x

[1] Meeting by teleconference
[2] Elected at the Ordinary Annual General Meeting on 7 April 2011
E = excused

Second half of 2011

	August [1]	September	Strategy Seminar September	October	November [1]	December
Raymond J. Baer	x	x	x	x	x	x
Heinrich Baumann	x	x	x	x	x	x
Leonhard H. Fischer	x	E	x	x	x	x
Claire Giraut	x	x	x	x	x	x
Peter Kuepfer	x	x	x	x	x	x
Gareth Penny	x	x	x	x	x	x
Daniel J. Sauter	E	x	x	x	x	x
Charles G. T. Stonehill	x	x	x	x	x	x

[1] Meeting by teleconference
E = excused

From among its members, the Board of Directors elects a Chairman as well as the chairpersons and the members of the committees of the Board of Directors. The chairpersons of the committees are responsible for seeking advice from external specialists as well as from members of the Executive Board as needed.

According to the Articles of Incorporation of Julius Baer Group Ltd., the Board of Directors has the following non-transferable and irrevocable duties:

a) to supervise the Company and issue the necessary instructions;
b) to determine the organisation of the Company;
c) to arrange the accounting, financial control and financial planning inasmuch as they are necessary for the management of the Company;
d) to appoint and remove the persons entrusted with the Company's management;
e) to control those persons entrusted with the management of the Company, also in relation to compliance with laws, statutes, regulations and instructions;
f) to draw up the Annual Report and to prepare the Ordinary Annual General Meeting and implementation of its resolutions;
g) to inform the judge in the event of insolvency.

The Board of Directors may assign the preparation and carrying out of its resolutions or the supervision of business transactions to committees or individual members. It must make sure its members are suitably informed.

Within the Board of Directors, responsibilities are divided up in accordance with the definition of the areas of responsibility in the section 'Definition of areas of responsibility' below.

The responsibilities and composition of the currently existing committees of the Board of Directors

The members of the Board of Directors discuss specific topics in the Board's committees. Each of these committees is chaired by an independent director, except for the Chairman's and Risk Committee, which is presided over by the Chairman of the Board. Each committee chairperson provides the complete Board of Directors with regular updates on the current activities of the respective committee and on important committee issues. In addition, the minutes of the committee meetings are made available to the complete Board of Directors.

Chairman's and Risk Committee
The Chairman's and Risk Committee consists of the Chairman of the Board of Directors and at least two other members who are specifically skilled and expe-

rienced in areas of finance, corporate governance and risk control. It is presided over by the Chairman of the Board of Directors. The Chairman's and Risk Committee is responsible for developing and upholding principles of corporate governance for the Julius Baer Group and for authorising market, credit and financial risks (as set out in the appendix of the Organisational and Management Regulations), including, in particular, loans granted to members of the Board of Directors and of the Senior Management and/or affiliated entities and closely related individuals ('Organkredite') as defined by the relevant Swiss accounting standards. The Chairman's and Risk Committee monitors compliance with rules governing large concentrations of risk ('Klumpenrisiken') and is responsible for the standards and methodologies for risk control with regard to risks other than operational risk (including legal and regulatory risk), which are employed to comply with the principles and risk profile adopted by the Board of Directors or other relevant supervisory or managing bodies.

The Chairman's and Risk Committee determines, coordinates and reviews the risk limits in the context of the overall risk policy. It reviews the policies with regard to risks other than operational risk (including legal and regulatory risk) and determines the guidelines for financial reporting. The Chairman's and Risk Committee bases its risk-related work on the Risk Landscape, as approved by the Chairman's and Risk Committee at a joint meeting with the Audit Committee of the Board of Directors, once a year. The Chairman's and Risk Committee furthermore approves the issuance of guarantees, letters of comfort and similar items relative to Julius Baer Group Ltd. and the principal operating subsidiaries. It approves the entry into, the dissolution and the modification of joint ventures of strategic importance by the principal operating subsidiaries, and approves the issue and amendment of organisational and management regulations of the principal operating subsidiaries, including the allocation of responsibilities. The Chairman's and Risk Committee furthermore approves the formation, the change in capital or ownership structure, the change of legal form, and the liquidation or closure of principal operating subsidiaries. The Chairman's and Risk Committee decides on requests from members of the Executive Board and full-time members of the Board of Directors to serve on outside boards of directors or advisory boards, boards of trustees or foundation boards and gives its consent to such members to serve in public office or in the government or to take over a higher rank in the military.

The Chairman's and Risk Committee generally convenes monthly. In 2011, the Committee met twelve times for approximately three hours each. The members of the Executive Board of the Company generally participate as guests in the meetings of the Chairman's and Risk Committee.

Members Raymond J. Baer (chairperson), Heinrich Baumann, Leonhard H. Fischer and Daniel J. Sauter

Audit Committee

The Audit Committee is responsible for the integrity of controls for financial reporting and the review of certain financial statements, including the consolidated statement of the Group, the annual financial statement and interim statements before they are presented to the complete Board of Directors for approval. It also reviews the internal and external communication regarding the financial data and accounting statements and related information. The Audit Committee monitors compliance by the Company with its respective legal and regulatory obligations and ensures the receipt of regular information as to compliance by its subsidiaries with such obligations as well as with regard to the existence of an adequate and effective internal control as regards financial reporting. The Audit Committee is responsible for the standards and methodologies for risk control with regard to operational risk (including legal and regulatory risk) which are employed to comply with the principles and risk profile of the Group adopted by the Board of Directors or other relevant supervisory or management bodies.

The Committee directs and monitors the activities of Group Internal Audit and ultimately determines the compensation paid to the Head of Group Internal Audit. The chairperson of the Committee meets with the Head of Group Internal Audit on a regular basis throughout the year, usually every two months.

The Committee ensures contact with the external auditors at the level of the Board of Directors and monitors their performance and independence as well as their cooperation with the internal auditors. The Committee is also responsible for assessing the performance of the external auditor on an annual basis. It reviews their reports about the rendering of the accounts and the management letter and provides a recommendation to the complete Board of Directors regarding election of the external auditor at the Ordinary Annual General Meeting.

The members of the Audit Committee are independent. The Audit Committee has its own charter and performs an in-depth annual self-assessment with regard to its own performance. The Audit Committee convenes at least four times a year for about two to three hours on average. The members of the Executive Board of Julius Baer Group Ltd. generally participate as guests in the meetings of the Audit Committee. The Head of Group Internal Audit and representatives of the external auditor participate in every meeting. During the year under review, the Audit Committee held seven meetings.

Members Charles G. T. Stonehill (chairperson), Heinrich Baumann, Claire Giraut and Daniel J. Sauter

Compensation Committee
The Compensation Committee is responsible for approving any compensation principles and policies relating to the Julius Baer Group as a whole as well as any compensation policies within the Julius Baer Group which are linked to the shares of the Company. It annually reviews that the principles and policies are operated as intended and that any policies are compliant with national and international regulations and standards. Furthermore, it regularly reviews and ultimately determines the total compensation (including termination payments) of the Chairman and, if applicable, of the Vice Chairman of the Board of Directors, and prepares and provides to the Board of Directors all compensation proposals relating to all other members of the Board of Directors. The Compensation Committee also regularly reviews and ultimately determines the compensation of the members of the Executive Board of the Company.

The Committee approves the appointment and dismissal of the members of the foundation boards of the pension funds (employer representatives only) of the Company and its principal operating subsidiaries. The Committee is also responsible for approving those staff members that have been identified in an annual process as so called Key Risk Takers, who, due to their position, influence or the nature of their work, may expose the Group to significant risk. The chairperson of the Compensation Committee informs the Board of Directors at every meeting of the Board of Directors about the work of the Committee.

The Compensation Committee consists of at least three members, who are appointed by the Board of Directors. With respect to decisions of a specialised nature, the Compensation Committee may seek advice from additional members of the Board of Directors. The Compensation Committee convenes as often as required for two hours on average. During the year under review, the Compensation Committee held four meetings.

Members Peter Kuepfer (chairperson), Leonhard H. Fischer and Gareth Penny

Nomination Committee (ad hoc)
In general, the role of the Nomination Committee is to assist the Board of Directors in the effective discharge of its responsibilities, ensuring that the Board of Directors comprises individuals who are best able to discharge the responsibilities of directors, in accordance with applicable laws and regulations as well as principles of sound corporate governance.

The Nomination Committee is responsible for the long-term succession planning at the level of the Board of Directors. It assesses candidates as possible new members of the Board of Directors of the Company and prepares respective nominations for approval by the complete Board of Directors as well as for final consideration by the Ordinary Annual General Meeting.

The Nomination Committee is also responsible for the long-term succession planning at the level of the Chief Executive Officer (CEO) of the Company and in this function assesses potential candidates and prepares respective nominations for approval by the Board of Directors. In particular, the Nomination Committee has the following powers, duties and responsibilities:

a) establishment of profiles describing necessary and desirable competencies and skills of members of the Board of Directors and of the CEO;
b) search for and identification of suitably qualified candidates for appointment to the Board of Directors;
c) conduct of exploratory talks and application talks with possible candidates;
d) submission of proposals to the Board of Directors with regard to the election of members of the Board of Directors and nomination of the CEO;
e) establishment of a Board of Directors and CEO succession plan;
f) supervision of the staggered re-election process with regard to members of the Board of Directors.

The Nomination Committee convenes as needed and consists of a minimum of three members of the Board of Directors, who are appointed by the Board of Directors. The chairperson of the Compensation Committee of the Board of Directors shall also act as chairperson of the Nomination Committee. The Nomination Committee met once in 2011 and was supported in its work by an external specialised consultancy firm.

Members Peter Kuepfer (chairperson), Raymond J. Baer and Daniel J. Sauter

Definition of areas of responsibility

Fundamentals

The governing bodies are responsible for the strategic direction of the Julius Baer Group and the Company as well as for determining and implementing the principles of organisation, management and monitoring. They are accountable for providing the means necessary to achieve the targeted objectives and bear ultimate responsibility for the overall results. They supervise the maintenance of the Julius Baer Group as a whole and coordinate and oversee all activities carried out by and in the name of the Company. The Board of Directors has a clear strategy-setting responsibility and supervises and monitors the business, whereas the Executive Board, led by the Chief Executive Officer (CEO), has executive management responsibility. Julius Baer operates under a strict dual board structure, as mandated by Swiss banking law. The functions of Chairman of the Board and CEO are assigned to two different people, thus ensuring a separation of powers. This structure establishes checks and balances and preserves the institutional independence of the Board of Directors from the day-to-day management of the Company, for which responsibility is delegated to the Executive Board under the leadership of the CEO.

The individual responsibilities and powers of the governing bodies arise from the Organisational and Management Regulations.

The decisions of the governing bodies are implemented by the Group companies in compliance with the respective applicable legal and supervisory regulations.

Board of Directors
The Board of Directors is responsible for the ultimate direction, supervision and control of the Company, which it fulfils within the scope of the duties stipulated in article 716a of the Swiss Code of Obligations and

through calling on its various committees. The complete Board of Directors is especially responsible for preparing all topics which fall within the competence of the Ordinary Annual General Meeting and receives support and advice from the Audit Committee in particular in matters of financial reporting and other capital management questions. Based on the proposal of the Audit Committee, the complete Board of Directors decides on the external auditors to be recommended for appointment at the Ordinary Annual General Meeting. Entry into, dissolution and modification of joint ventures of strategic importance by the Company also falls within the competence of the complete Board of Directors. Upon proposal by the Executive Board and respective approval by the Chairman's and Risk Committee, the complete Board of Directors approves the definition of further principal operating subsidiaries in addition to Bank Julius Baer & Co. Ltd. Moreover, the complete Board of Directors appoints the Chief Executive Officer and the other members of the Executive Board and, based on the proposal of the Audit Committee, decides on the appointment and dismissal of the Head of Group Internal Audit. Furthermore, the complete Board of Directors decides on the appointment and dismissal of the Chairman of the Board of Directors, of members of the Board of Directors and of advisory board members of the principal operating subsidiaries. The complete Board of Directors is responsible for determining the overall risk policy of the organisation as well as for the design of accounting, financial controlling and strategic financial planning. It also decides on capital market transactions involving shares of Julius Baer Group Ltd., on such resulting in the issue of bonds of the Company as well as on the issue of bonds by subsidiaries based on a graduated competence schedule regarding the capital and time commitment involved.

Executive Board

The Executive Board is responsible for the implementation of the Company's and the Group's overall strategy, within the respective parameters established by the Board of Directors, and is accountable for all operational and organisational matters as well as for the operating results. Except where delegated by the Board of Directors to another supervisory or managing body, the Executive Board is ultimately responsible for all of the day-to-day activities of the Company, including such activities which have been assigned or delegated by the Executive Board.

The Executive Board is responsible for ensuring the consistent development of the Julius Baer Group in accordance with established business policies, for establishing the organisation of the Executive Board itself, and for representing the Executive Board in its relationship with the Board of Directors and third parties.

The Executive Board has the right to issue binding policies to and require reporting or consultation from Group companies before a decision is taken. It proposes the formation, the change in capital or ownership structure, the change of legal form, and the liquidation or closure of principal operating companies and subsidiaries to the Chairman's and Risk Committee for final approval. It approves entry into, dissolution and modification of joint ventures of strategic importance by subsidiaries other than principal operating subsidiaries. The Executive Board grants permission to employees (other than the members of the Executive Board and the full-time members of the Board of Directors) to serve on outside boards of directors or advisory boards, boards of trustees or foundation boards and gives its consent to serve in public office, government or a higher rank in the military.

In addition, the Executive Board may form committees for specific tasks and regulate their activities. Their composition and areas of responsibility must be approved in advance by the Board of Directors.

The Executive Board is responsible for general corporate administration, in particular the registration of shareholders in and the maintenance of the share register. The Executive Board coordinates press contacts, press conferences and press releases and is responsible for investor relations and corporate identity (including corporate design and trademarks) of the Company. It also monitors and evaluates financial and other risks as well as compliance with rules governing equity capital, risk distribution and liquidity maintenance. Additionally, the Executive Board coordinates the contacts with the regulatory authorities. The Executive Board is empowered to issue binding instructions, which may be of general application or related to specific business matters, and may require the submission of reports, or consultation with the Executive Board prior to making decisions.

The Executive Board is presided over by the Chief Executive Officer (the President of the Executive Board). The Chief Executive Officer is responsible, in particular, for ensuring the consistent management development of the Company in accordance with established business policies and strategies, representing the Executive Board in its relationship with the Board of Directors and third parties and establishing the organisation of the Executive Board itself within the framework as provided by the Articles of Incorporation as well as the Organisational and Management Regulations of Julius Baer Group Ltd. and the Julius Baer Group.

Information and control instruments vis-à-vis the Executive Board

In order to control the business activity of the Julius Baer Group, the Board of Directors has formed the committees listed in the section 'Internal organisational structure' above. Each committee chairperson provides the complete Board of Directors with regular updates on the current activities of the respective committee and on important committee issues. In addition, the minutes of the committee meetings are made available to the complete Board of Directors.

The different committees are regularly kept informed by means of relevant reports from within the Group. Moreover, these reports are discussed in depth during regular meetings with the relevant bodies.

At the meetings of the Board of Directors, the Chief Executive Officer (CEO) and the other Executive Board members regularly update the Board on important issues. At such meetings, the Board members may request from Board or Executive Board members any information about any matters concerning the Julius Baer Group that they require to fulfil their duties.

The Executive Board or its individual members submit the following major reports to the Board of Directors and its committees:

- Written report by the CEO (quarterly to complete Board of Directors)
- Written or oral reporting by the CEO (monthly to Chairman's and Risk Committee)
- Written report by the General Counsel (quarterly to complete Board of Directors)
- Written or oral reporting by the members of the Executive Board (quarterly to complete Board of Directors, usually monthly to Chairman's and Risk Committee)
- Financial reporting by the Chief Financial Officer (CFO) (in writing monthly to complete Board of Directors, and orally on a quarterly basis to complete Board of Directors; monthly to Chairman's and Risk Committee)
- Rolling Forecast by the CFO (quarterly to complete Board of Directors)
- Pension Fund Review by the CFO (annually to complete Board of Directors)
- Budget and Scenario Planning by the CEO/CFO (annually to complete Board of Directors)
- List of 'Organkredite' by the Chief Risk Officer (quarterly to Chairman's and Risk Committee)
- Regulatory reporting 'Klumpenrisiken' by the Chief Risk Officer (quarterly to Chairman's and Risk Committee)
- Group Risk reporting by the Chief Risk Officer (quarterly to Chairman's and Risk Committee as well as to Audit Committee, annually to complete Board of Directors)

- Risk Landscape by the Chief Risk Officer (annually to Chairman’s and Risk Committee and Audit Committee)

In addition, the Board of Directors has an independent Group Internal Audit unit at its disposal. The obligations and rights of Group Internal Audit are set forth in a separate code of responsibilities. Group Internal Audit has an unlimited right to information and access to documents with respect to all companies and elements of the Group. Furthermore, in consultation with the Chairman of the Board of Directors, the Executive Board may ask Group Internal Audit to carry out special investigations outside of the planned auditing activities. The Head of Group Internal Audit is appointed by the Board of Directors. The Head of Group Internal Audit submits a report to the complete Board of Directors on a yearly basis and to the Audit Committee on a quarterly basis, respectively.

Senior Management

Members of the Executive Board

Boris F.J. Collardi (born 1974), dual Swiss and Italian citizen; Executive Programme IMD Lausanne, 1999. Career Starter Programme Credit Suisse, Geneva, 1993–1994; Front Office Support functions incl. Head of Front Office Support Asia-Pacific Credit Suisse Private Banking, Geneva, Zurich, Singapore, 1995–1999; Executive Assistant to the CEO Credit Suisse Private Banking, Zurich, 2000; Project Director ‘Global Private Banking Center’ Credit Suisse Private Banking, Singapore, 2000–2002; Head of Business Development, member of the Executive Committee Credit Suisse Private Banking Europe, Zurich, 2002–2003; Chief Financial Officer and Head of Corporate Center; member of the Executive Board Credit Suisse Private Banking, Zurich, 2003–2004; Chief Operating Officer; member of the Private Banking Europe Management Committee Credit Suisse Private Banking EMEA, Zurich, 2004–2005. Member of the Executive Board of Bank Julius Baer & Co. Ltd. since 2006; Chief Operating Officer, 2006–2009, and in addition CEO Investment Solutions Group, 2008–2009 (part of the Bank’s former Investment Products division); Chief Executive Officer of Bank Julius Baer & Co. Ltd. since May 2009; member of the Executive Board and Chief Executive Officer of Julius Baer Group Ltd. since 1 October 2009.

Jan A. Bielinski (born 1954), Swiss citizen; Ph.D. in Law, University of Zurich, 1983; Advanced Management Program, Wharton School, University of Pennsylvania, Philadelphia, USA, 1989. Entry into Bank Julius Baer & Co. Ltd., 1983; Head of Corporate and Marketing Communications, 1987–1995; transfer to Julius Baer Holding Ltd., 1996; Chief Communications Officer and Head of Investor Relations since 1996 (Head of Investor Relations until 2008); member of the Extended Group Executive Board of Julius Baer Holding Ltd. from 2002 until December 2005; member of the Corporate Centre Management from December 2005 until November 2007; Chief Communications Officer of Julius Baer Holding Ltd. from 1996 until 30 September 2009; member of the Extended Executive Board and Chief Communications Officer of Bank Julius Baer & Co. Ltd. since 1 January 2010; Head Marketing of Bank Julius Baer & Co. Ltd. (ad interim) since 1 November 2011; member of the Executive Board and Chief Communications Officer of Julius Baer Group Ltd. since 1 October 2009.

Dieter A. Enkelmann (born 1959), Swiss citizen; Law Degree, University of Zurich, 1985. Credit Suisse Group, various functions in Investment Banking in Switzerland and abroad, 1985–1997; Swiss Re, Head Corporate Financial Management and Investor Relations, 1997–2000; Swiss Re, Chief Financial

Officer of the business unit Financial Services, 2001–2003; Barry Callebaut, Chief Financial Officer, 2003–2006. Entry into the Julius Baer Group on 11 December 2006 as member of the Group Executive Board and Group Chief Financial Officer; member of the Executive Board and Group CFO since 15 November 2007; administrative and organisational manager of the Executive Board of Julius Baer Holding Ltd. from 1 September 2008 until 30 September 2009; member of the Board of Directors of GAM Holding Ltd. since October 2009; member of the Executive Board and Chief Financial Officer of Bank Julius Baer & Co. Ltd. and of Julius Baer Group Ltd. since 1 October 2009.

Christoph Hiestand (born 1969), Swiss citizen; Law Degree, University of St. Gallen (HSG), 1994; admission to the bar in Switzerland, 1997; Master of Law LL.M., Cornell University, Ithaca, USA, 2000. Attorney-at-law with Beiten Burkhardt Mittl & Wegener, Frankfurt am Main and Duesseldorf (Germany), 1997–1998; attorney-at-law with BBLP Meyer Lustenberger, Zurich, 1999–2001. Entry into the Julius Baer Group as Legal Counsel of Bank Julius Baer & Co. Ltd., 2001–2003; General Counsel, Corporate Centre, Bank Julius Baer & Co. Ltd., 2004–2005; Deputy Group General Counsel of Julius Baer Holding Ltd., 2006–2009; member of the Executive Board and General Counsel of Julius Baer Group Ltd. since 1 October 2009.

Bernhard Hodler (born 1960), Swiss citizen; Bachelor of Business Administration, School of Economics and Business (HWV) Berne, 1987; Staff IT School SIB, Zurich, 1988–1989; Financial Risk Manager, GARP, 1997; Advanced Executive Program, Swiss Banking School, 1999–2000; Advanced Management Program, Wharton School, University of Pennsylvania, Philadelphia, USA, 2004. Credit Suisse, Head of Global Market & Credit Risk and Global Controlling Trading & Sales, 1994–1996; Credit Suisse First Boston, Head of European Risk Management, 1997–1998. Entry into Bank Julius Baer & Co. Ltd. as Head of Global Risk Management, 1998; Chief Risk Officer of Bank Julius Baer & Co. Ltd. since 2001; President of the Management Committee of Bank Julius Baer & Co. Ltd. from 2001 until 2 December 2005; member of the Extended Group Executive Board and Chief Risk Officer of the Julius Baer Group from 2001 until 2 December 2005; Chief Risk Officer and Head of the Corporate Centre from 3 December 2005 until 14 November 2007; member of the Executive Board of Julius Baer Holding Ltd. from 15 November 2007 until 30 September 2009; member of the Executive Board of Bank Julius Baer & Co. Ltd. since 2005; Chief Risk Officer, 2005–2009; Head Risk, Legal & Compliance from 2009 until 31 March 2011; Chief Operating Officer (COO) of Bank Julius Baer & Co. Ltd. since 1 April 2011; member of the Executive Board and Chief Risk Officer of Julius Baer Group Ltd. since 1 October 2009.

Bernard Keller (born 1953), Swiss citizen; Degree in Economics, University of St. Gallen (HSG), 1979. Product Manager, Nestlé, Canada, Taiwan and Zurich, 1979–1984; Branch Manager, UBS, Cassarate, 1985–1986; responsible for regional subsidiaries, UBS, Locarno, 1987-1988; Head of Private Banking, UBS, Locarno, 1989-1990; Head of Private Banking Advisory Unit, UBS, Lugano, 1991–1992; Deputy General Manager and Head of Private Banking, BDL Banco di Lugano, Lugano (a private bank of UBS at the time), 1992–1996; Chief Executive Officer, BDL Banco di Lugano, 1997–2005. Chief Executive Officer, Banca Julius Baer (Lugano) SA (after acquisition of the private banks of UBS by Julius Baer), 2005–2006; CEO Ticino and Italy, Bank Julius Baer & Co. Ltd., Lugano, and member of the Executive Board of Bank Julius Baer & Co. Ltd., Zurich, 2007–2009; Head Switzerland and member of the Executive Board, Bank Julius Baer & Co. Ltd., Zurich, from 1 January 2010 until 30 June 2011; member of the Executive Board and Private Banking Representative of Julius Baer Group Ltd. since 1 January 2010.

Other activities and functions

In applying the Corporate Governance Directive and the corresponding commentary of the SIX Swiss Exchange, the Company discloses mandates and other formal relationships of such senior managers with exchange-listed domestic and foreign companies as well as with domestic and foreign banks and finance companies outside of the Julius Baer Group:

Dieter A. Enkelmann:
- member of the Board of Directors of GAM Holding Ltd., including member of the Audit Committee and chairperson of the Compensation Committee;
- member of the Board of Directors of Cosmo Pharmaceuticals S.p.A., Lainate, Milan, including Head of the Audit Committee and member of the Nomination Committee.

Management contracts

There are no management contracts between Julius Baer Group Ltd. and companies (or individuals) outside of the Group.

Content and method of determining the compensation and equity-based incentives within the Group (as at 31 December 2011)

Compensation Governance

Compensation Committee
The Committee is composed of three members of the Board of Directors and is presided over by the Independent Lead Director, Peter Kuepfer (see also the section 'Internal organisational structure' of this corporate governance report).

Compensation Committee authority and responsibilities
The Committee oversees the compensation of the Executive Board members and all other employee compensation within the Group. This includes reviewing and approving Julius Baer's principles on total compensation and benefits and approving any other compensation policies relating to the Julius Baer Group as a whole as well as any compensation policies within the Julius Baer Group which are linked to the shares of the Company. The Committee also annually reviews that the principles are adhered to as intended and that the policies are compliant with national and international regulations and standards.

The Committee regularly reviews and determines the compensation of the members of the Executive Board and the Chairman (and if applicable of the Vice Chairman) of the Board of Directors and prepares and provides to the Board of Directors all compensation proposals relating to all other members of the Board of Directors.

The Chairman of the Board, the CEO and other members of the Executive Board do not take part in those sessions of the Compensation Committee meetings which serve to discuss and decide on their remuneration.

External advice
During the year, Towers Watson and McLagan supported the Committee by providing market data. Stern Stewart & Co. provided independent external advice in 2010 to the design of the new deferral plans implemented in the course of 2011.

No other mandates have been awarded to external consultancies.

Compensation Committee Competencies

Approval of all principles on total compensation and benefits
Approval of all Group compensation policies and policies linked to shares of Julius Baer Group Ltd.
Approval of annual variable compensation pool
Approval of appointment and dismissal of the members of foundation boards of pension funds (employer representatives only) of the Company and of key subsidiaries

Compensation Authority

Recipients	Recommendation by	Approved by
Chairman / Vice Chairman[1] of the Board of Directors	Chairman of the Compensation Committee	Compensation Committee
Members of the Board of Directors	Compensation Committee	Board of Directors
CEO	Chairman of the Board of Directors and Chairman of the Compensation Committee	Compensation Committee
Members of the Senior Management	CEO	Compensation Committee

[1] If applicable

Total compensation policy

The Julius Baer Group follows a 'pay for performance' approach which is embedded in a market-aligned total compensation framework consisting, in general, of three components: (i) fixed base salary, (ii) variable compensation and (iii) supplementary employee benefits.

(i) The fixed base salary is defined to reward the level of education, the degree of seniority and the level of expertise and skills required to fulfil a certain function in a relevant business sector and region.

The Group's salary framework is based on a function model comprising ten function levels with increasing degree of job complexity. A salary band is assigned to each function level defining the target base salary range for jobs assigned to the respective function level. Individual salaries are then determined within these salary bands taking market benchmarks (e.g. Towers Watson data) into account.

The Group does not apply general salary increases (unless required by local legislation). Salary adjustments are made on an individual basis if an employee is promoted to a new function level and/or based on the result of the annual personal assessment. For such individual adjustments, an overall salary increase allowance is defined annually for each country the Group operates in by the Executive Board and approved by the Compensation Committee.

(ii) The Compensation Committee approves the total amount of variable compensation ('pool') available for distribution each year. The pool is determined based on the development of the net operating profit (before bonus and taxes) of the Group in the relevant year, the economic profit (before bonus) and the operating performance (criteria used for evaluation: net new money, cost/income ratio and profit margins) relative to a peer group of Swiss private banking institutions comprising Bank Sarasin, Bank Vontobel, EFG International and the private banking divisions of UBS and Credit Suisse.

Variable compensation payments may be made in immediate cash and/or long-term awards in the form of deferred equity. The proportion of deferred equity increases in line with the total compensation and takes into consideration employees' function-related risk profiles. All members of the Senior Management, employees defined as risk takers by their role in the organisation and high earners are subject to deferral.

In principle, all employees who are not under notice are eligible for variable compensation. The individual amount depends on the formal year-end assessment of performance against a range of quantitative and qualitative objectives (e.g. adherence to compliance and regulatory standards and to Julius Baer Group policies and procedures), competencies and behaviours.

Personal objectives for members of the Senior Management focus on areas such as contribution to the Group and business results, exceptional contributions to cross-business cooperation, strategic and operational leadership skills, outstanding professional behaviour and technical expertise, commitment to the Julius Baer Group, adherence to corporate values and principles, and active risk management.

The Board of Directors is informed annually by the chairperson of the Compensation Committee of the results of the salary review and variable compensation allocation process.

(iii) In order to attract and retain the best talent and employees in each local market where it operates in and in order to live up to the claim of being the 'employer of choice', Julius Baer provides supplementary employee benefits that are competitive within each of these markets. Julius Baer considers benefits to be a supplemental element of compensation and the benefits offered may vary substantially from location to location.

In Switzerland, Julius Baer provides a competitive, future-oriented and flexible pension fund scheme which includes a basic plan where employees can choose the amount they wish to contribute and a supplementary plan where individuals can choose between different investment strategies. This flexible solution offers a variety of individual pension benefits in combination with additional financial security in case of disability or death.

Regulatory trends

The Compensation Committee has continued to keep a close eye on any recommendations and guidelines issued by the Swiss Financial Market Supervisory Authority (FINMA) and other national financial regulators and authorities abroad.

Although many of the key elements the regulators continue to focus on, such as the alignment of total remuneration with the firm's risk policies and the deferral of part of the variable remuneration, already were part of the remuneration policy of the Group prior to the regulatory focus, the Company took further steps in 2010 and 2011 to implement deferral as a standard part of annual variable compensation by way of introducing two equity-based long-term incentive plans with a deferral component (Premium Share Plan and Incentive Share Plan).

Equity-based incentives

The programmes described below reflect the plan landscape as at 31 December 2011. All plans are reviewed annually to reflect any regulatory changes and/or market conditions.

The shares of Julius Baer Group Ltd. required for the equity-based incentives are procured from the market. More information on the equity-based incentives is disclosed in Note 28.

Staff Participation Plan
The Staff Participation Plan of the Julius Baer Group offers employees once a year the opportunity to purchase shares of the Company at a discount. The discount is defined annually and may change from year to year. The shares acquired by the participants are blocked from sale for three years following purchase.

The objective of this plan is to strengthen the identification with the Group and its future development of employees on all levels of the organisation.

More information about the Staff Participation Plan 2011 can be found in Note 28.

Long-Term Incentive Plan
The purpose of the Julius Baer Group Long-Term Incentive Plan (LTI) is to strengthen long-term commitment to the Company and to foster interdisciplinary teamwork required for the long-term success of the organisation as a whole. The LTI is part of the total compensation of the Board of Directors and in some individual cases is used to compensate new hires for their lost long-term incentives forfeited by their previous employer due to resignation. In addition, it may be granted in special cases to employees who have a significant influence on the Julius Baer Group's long-term development and financial results.

The LTI runs over a three-year plan period and is applied with two different vesting schedules. Under the first vesting schedule, the participants are granted a number of shares which vest in equal one-third tranches over the period of three years. Under the second vesting schedule, participants are granted a number of shares which cliff-vest in one single tranche at the end of the three-year period.

The shares are transferred to participants at vesting dates, subject to continued employment and any other conditions set out in the plan rules, and remain blocked from sale until the third anniversary of the grant. In case of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested shares will be forfeited.

Until vesting, the granted shares are managed by the Loteco Foundation. The Loteco Foundation hedges its liabilities from the LTI on grant date through the purchase of the corresponding shares from the market.

Equity-based incentives with a deferral component

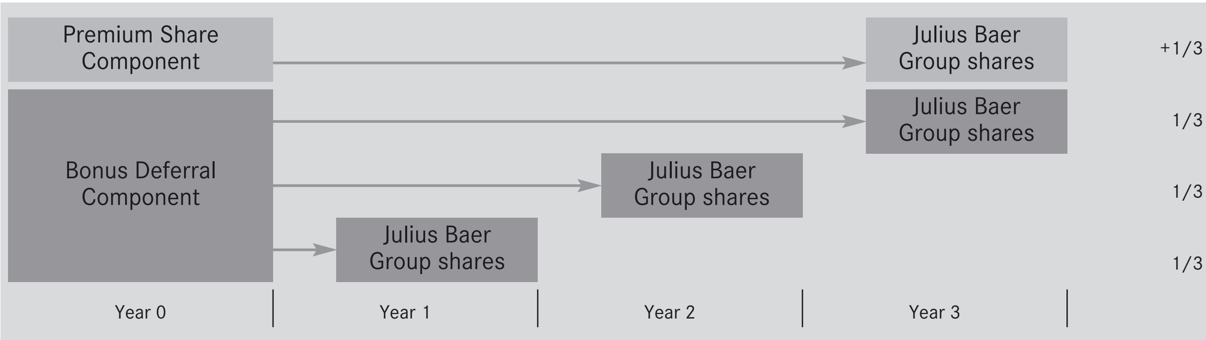
The two plans described below are mutually exclusive, i.e. an employee can only receive a grant from one of the plans described in any given year.

Premium Share Plan
The Premium Share Plan (PSP) is a three-year deferred equity plan which applies to senior members of the staff whose variable compensation amounts to CHF 150 000 or more (or a local equivalent). A PSP grant is made once a year as part of annual variable compensation and participation is determined on an annual basis.

The plan is designed to link and tie a portion of the employee's variable compensation to the long-term development and success of the Group through its share price.

At the start of the plan period, 15% to 40% (the maximum deferral percentage applies to variable compensation of CHF 1.0 million and above or, as it may be, the local equivalent) of the employee's variable incentive is deferred to the PSP, and the employee is then granted a number of shares equal in value to the deferred element. These shares vest in equal one-third tranches over a three-year plan period. At the end of the plan period, subject to continued employment, the employee receives an additional share award representing one-third of the number of shares granted to him/her at the plan beginning.

PSP structure and payout schedule



Until vested, the shares are subject to forfeiture in certain circumstances including resignation by the employee, termination for cause, substantial breaches of legal or regulatory requirements, financial losses and a variety of other events where the employee's behaviour has substantially contributed to a financial loss of the Group or caused reputational damage.

The plan was implemented as part of the variable compensation for 2011.

Incentive Share Plan

The Incentive Share Plan (ISP) applies to the members of the Senior Management and some other key members of staff whose contributions are decisive for the long-term development of the Julius Baer Group and whose variable compensation amounts to CHF 150 000 or more (or a local equivalent). ISP grant is made once a year as part of annual variable compensation and participation is determined on an annual basis.

The ISP is designed to link part of the variable compensation of the executive directly to the long-term performance of the Company and part of the payout depends on achievement against two key performance indicators (KPIs) over a three-year period:

Economic Profit, which measures value creation of the Julius Baer Group against the strategic three-year plan of the Company over the three-year plan period.

Relative Share Price, which compares the performance of the Julius Baer Group share against the STOXX Europe 600 Banks Index.

The three-year performance period and the targets reflect the Group's underlying business cycle and its short- and long-term risk profile.

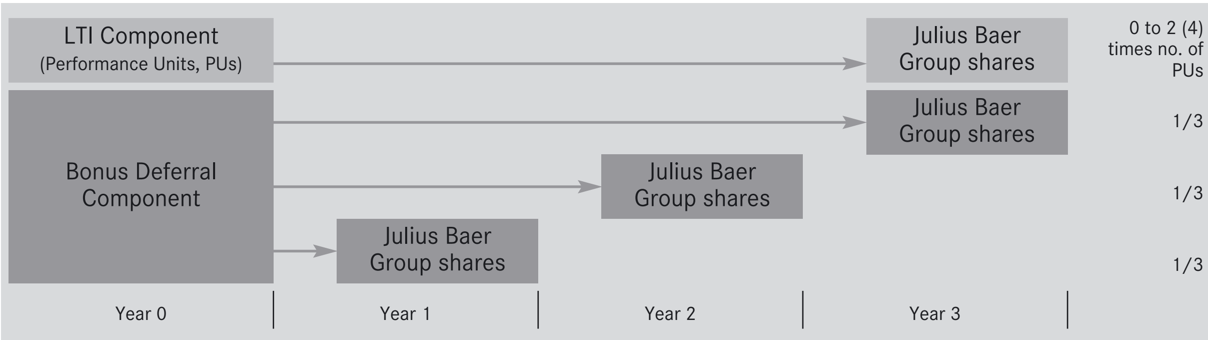
At the start of the plan period, 15% to 40% (the maximum deferral percentage applies to variable compensation of CHF 1.0 million and above or, as it may be, the local equivalent) of the executive's variable incentive is deferred to the ISP and the employee is then granted a number of shares equal in value to the deferred element. These shares vest in equal one-third tranches over the three-year plan period, subject to continued employment.

Also at the start of the plan period, the executives are granted one performance unit (PU) for each granted ISP share which, subject to the achievement of the predefined targets and continued employment, vest at the end of the three-year performance period and are settled in the form of Julius Baer Group shares. At settlement the number of these additional shares can be between zero and two times the number of PUs for plan participants other than members of the Senior Management and of the Executive Board of Bank Julius Baer and zero to four times the number of PUs for members of the Senior Management and of the Executive Board of Bank Julius Baer. The final ratio between the granted PUs and the number of shares at settlement is determined by a final payout factor which is derived from the two KPIs which both carry equal weight in determining the final payout factor.

The plan provides participants with a symmetric upside (capped at 2 or 4) and downside (limited to 0) potential.

Including the value development of the PUs the ISP can represent between 15% and 67% (77% for members of the Senior Management) of the total variable compensation of the executive.

ISP structure and payout schedule



Until vested, the PUs/shares are subject to forfeiture in certain circumstances including resignation by the employee, termination for cause, substantial breaches of legal or regulatory requirements, financial losses and a variety of other events where the employee's behaviour has substantially contributed to a financial loss of the Group or caused reputational damage.

The ISP was applied for the first time to the members of the Senior Management and selected key staff as part of the variable compensation for 2010. The Compensation Committee approved the list of ISP participants and the individual allocations as part of the variable compensation for 2011 on 23 January 2012.

Compensation for the Board of Directors, Group Executive Board and the CEO

Chairman of the Board of Directors
The Chairman of the Board of Directors has a full-time employment relationship with the Company. His fixed base salary is determined ultimately by the Compensation Committee and is reviewed regularly based on the complexity of the function in relation to the overall Group structure.

In addition to the fixed base salary, the Chairman is awarded a fixed number of shares of Julius Baer Group Ltd. annually. The shares are tied to a linear vesting schedule (annual instalments of one-third over the course of three years) and forfeiture clauses (corresponding to the clauses of the LTI – see above). The Chairman is entitled to the shares only after the expiration of the vesting period, provided that he is in ongoing employment with the Julius Baer Group and that all other conditions of the plan are met. The shares are blocked from sale until the third anniversary of the grant date.

Furthermore, depending on the yearly assessment of the Chairman's work by the Compensation Committee, the Chairman might be awarded a discretionary performance payment (in cash and/or shares of Julius Baer Group Ltd.). Such payment depends on the overall Group result and is driven by the strategic leadership and achievements of the Chairman and his/her contribution to the successful development of the Group in the interest of all stakeholders.

The Compensation Committee takes industry benchmarks or comparable data of other financial institutions (such as Bank Vontobel or Bank Sarasin) and aggregated data of SMI companies into consideration in determining the overall compensation of the Chairman of the Board of Directors.

Members of the Board of Directors, excluding the Chairman

The compensation of the members of the Board of Directors consists of a base honorarium (covering the period from one Ordinary Annual General Meeting to the next), dependent on each member's function within this corporate body and his/her involvement in the various Board Committees, and an allotment of Julius Baer Group Ltd. shares for each year of their term on the Board. The allotment of such shares takes place at the time of election and re-election, respectively, and is granted for the entire term. The shares allotted vest linearly over the term of the respective Board member. The number of shares to be granted to the members of the Board of Directors (excluding the Chairman) has been fixed at 2 600 shares of the Company per year of term. The shares cannot be disposed of until the third anniversary of the grant date and are subject to vesting and forfeiture clauses.

No options are granted to the members of the Board of Directors.

The base honorarium is regularly reviewed by the Compensation Committee, taking into account respective benchmark analysis (i.e. Swiss financial institutions such as Bank Vontobel and Bank Sarasin) and aggregated data of SMI companies. Respective requests for amendments are forwarded for approval to the complete Board of Directors.

Reflecting the independent status of members of the Board of Directors (excluding the Chairman), the remuneration of members of the Board includes no variable component and is therefore not dependent on the financial performance of the Julius Baer Group. No additional compensation is made for members of the Board of Directors for attending meetings.

None of the Board members (excluding the Chairman) has any contract with Julius Baer providing for benefits upon termination of the term of office on the Board of Directors.

CEO and Executive Board

The compensation of members of the Executive Board including the CEO consists of a fixed base salary and a variable compensation payment determined annually (with the character of a one-time payment) based on performance and comprises a cash component and an equity-based incentive with a deferral component as described in the section 'Incentive Share Plan' above, and supplementary benefits.

The Compensation Committee of the Board of Directors is responsible for determining the total compensation (and individual components thereof) of the members of the Executive Board.

The fixed base salary is determined on an individual basis taking into consideration the role, tasks and responsibilities and the experience of each member of the Executive Board. Any adjustments are limited to significant changes in job responsibility. Individual performance payments are fundamentally contingent on a performance appraisal based on annually defined goals, guidelines and expectations.

Variable compensation remains an important component of the total compensation of the members of the Executive Board. It is based on Company performance and a clear individual performance review of each member of the Executive Board and his/her managed unit. Performance review criteria include key performance indicators (KPIs) such as revenues, net new money, costs, sound risk management, the realisation of strategic projects, leadership and people development achievements, as well as cross-business contributions to the Group.

Market benchmarks of other Swiss financial institutions such as Bank Sarasin, Bank Vontobel, EFG International and the private banking divisions of UBS and Credit Suisse are taken into account when determining both the fixed base salary and the variable compensation.

There are neither target bonus amounts nor fixed relationships between fixed base salary and performance-related payments. Due to the variability of annual performance payments and awards from equity-based incentives, the ratio of base salary to total compensation can vary significantly from year to year. In 2011, the average ratio of fixed to variable compensation for the members of the Executive Board amounted to 25 : 75%, compared to 19 : 81% in 2010.

Julius Baer considers benefits to be a supplemental element of compensation, and the benefits offered may vary substantially from location to location. In general, there are no special benefits for members of the Executive Board; they receive the same benefits as all other employees in the location and business where they work. The members of the Executive Board (all of whom have an employment relationship in Switzerland) share the same retirement plan benefits as all other employees in Switzerland.

Shareholders' participation rights (as at 31 December 2011)

Voting-rights restrictions and representation

In relation to the Company, any person entered in the share register shall be deemed to be a shareholder. Shareholders may represent their shares themselves or have them represented by a third party at the Ordinary Annual General Meeting.

There are no voting-rights restrictions; each share entitles to one vote.

Statutory quorums

Except where otherwise required by mandatory law and/or by article 8.14 of the Articles of Incorporation, all resolutions of the Ordinary Annual General Meeting are passed by an absolute majority of the votes cast, excluding blank or invalid ballots.

Convocation of the Ordinary Annual General Meeting

The convocation of the Ordinary Annual General Meeting complies with the applicable legal regulations. The convocation of a General Meeting may also be requested by one or more shareholders who together represent at least 10% of the share capital. The Board of Directors must convene the requested General Meeting within six weeks of receiving the request.

Agenda

Shareholders who represent shares of a nominal value of CHF 100 000 may demand that matters be put on the agenda. This request must be submitted to the Company at least six weeks before the date of the Ordinary Annual General Meeting. The request to convene a meeting and to put a matter on the agenda must be done in writing including the matters to be handled and the proposals.

Registrations in the share register

In the invitation to the Ordinary Annual General Meeting, the Board of Directors states the applicable record date by which shareholders must be registered in the share register to be eligible to participate and vote at the meeting.

Changes of control and defence measures

Duty to make an offer

The Articles of Incorporation do not deviate from the standards set by the law (no opting-out or opting-up rules).

Clauses on changes of control

There are no clauses on changes of control benefiting the members of the Board of Directors and/or the Executive Board and/or other members of Management.

Audit

Audit is an integral part of corporate governance. While retaining their independence, the external auditor and Group Internal Audit closely coordinate their work. The Audit Committee and ultimately the Board of Directors supervise the adequacy of audit work.

Duration of mandate and term of office of Lead Auditor

In accordance with the Articles of Incorporation, the external auditor must be elected at each Ordinary Annual General Meeting for a term of office of one year. KPMG AG has been the statutory external auditor of Julius Baer Group Ltd. (and of the former Julius Baer Holding Ltd.) since the Ordinary Annual General Meeting of the former Julius Baer Holding Ltd. on 12 April 2006.

In accordance with the applicable governance regulations, Daniel Senn has served as the Lead Auditor since 2007.

The Lead Auditor responsible for the Julius Baer Group may hold this engagement for a maximum of seven consecutive years, but may resume the engagement after a break of three years.

External audit fees

The Julius Baer Group paid KPMG AG audit fees totalling CHF 3.5 million in the 2011 financial year. The previous year, the audit fees totalled CHF 3.8 million.

Additional fees

For *additional audit-related services* covering topics such as accounting and risk management as well as tax and project analysis, the Julius Baer Group paid KPMG AG fees totalling CHF 0.6 million during the 2011 financial year. The previous year, the additional audit-related fees totalled CHF 2.3 million.

For *additional consulting-related services* comprising legal, IT, compliance and other project-related counselling, the Julius Baer Group paid KPMG AG fees totalling CHF 0.01 million during the 2011 financial year. The previous year, the additional consulting-related fees totalled CHF 0.1 million.

Monitoring and control instruments vis-à-vis the external auditor

The external auditor attends the meetings of the Audit Committee but not the meetings of the complete Board of Directors. The chairperson of the Audit Committee is responsible for providing relevant information to the complete Board of Directors.

The Audit Committee of Julius Baer Group Ltd. issued an audit guideline that governs the cooperation with the external auditor and ensures adherence to the relevant provisions of the Swiss Code of Obligations, Swiss Banking Act, SIX Swiss Exchange, Swiss Institute of Certified Accountants and Tax Consultants and International Federation of Accountants (IFAC) with regard to the independence of the external auditor.

The external auditor is independent from the Julius Baer Group, its Board of Directors, its management and its shareholders, and in particular from any individual significant shareholders. The external auditor has direct access to the Audit Committee at all times.

The external auditor examines whether the accounting, the Group accounts and annual financial statements and the proposal for the appropriation of the net profit for the year comply with the law, the Articles of Incorporation and the relevant IFRS provisions. As a result, the external auditor submits a report to the Ordinary Annual General Meeting of Shareholders on conclusion of its audit and recommends the approval with or without qualification, or the rejection of the financial statements. In its capacity as banking law auditor, the external auditor also reviews adherence to the provisions of the Federal Act on Banks and Savings Banks, the SIX regulations, the Collective Investment Act and its implementing Ordinance for every company subject to supervision of FINMA and, as far as applicable with the consolidated monitoring, for the entire Julius Baer Group, and issues a long-form report for submission to the Board of Directors and FINMA.

Apart from the legally required reports to the supervisory authorities, the external auditor discusses the Group accounts and individual financial statements, the material risks, the results of the audit activities, the appropriateness and adequacy of the internal control systems of the Group, and other issues arising with regard to 'good practice' with the Audit Committee.

The Audit Committee has adopted the Guidelines on Independence of the Auditor of the Swiss Institute of Certified Accountants and Tax Consultants, the Code of Ethics of IFAC and the relevant provisions issued by FINMA with regard to the independence requirements for the external auditor. The external auditor may, within the scope of these guidelines, render additional services to the Julius Baer Group. To this end, the Audit Committee issued a list with approved audit services (Audit List). This list contains the maximum fees per calendar year (caps) and individual thresholds. Any other services the auditor might render are subject to approval by the Audit Committee. The caps apply to an individual type of service throughout the Julius Baer Group. The thresholds apply to every single mandate.

If a threshold is exceeded, the continuance of the mandate must be approved beforehand, or, during an ongoing mandate, be approved immediately by the chairperson of the Audit Committee. If a cap for a type of service as listed in the approved Audit List is exceeded, any additional mandate for the auditor in this category must, without exception, first be approved by the chairperson of the Audit Committee. Services rendered that are not contained in the Audit List must, without exception, be approved by the Audit Committee. The chairperson of the Audit Committee reports any exceeding of caps or thresholds to the Audit Committee at the following ordinary meeting of the Audit Committee.

Julius Baer Group companies may give mandates to the external auditor within the caps and thresholds contained in the Audit List; this, however, is subject to proper approval according to the internal procedures. The Group companies are to report any such mandate at once to the Chief Financial Officer (CFO).

The external auditor shall inform the CFO on a periodic basis about the volume of services rendered. The CFO informs the Audit Committee on a periodic basis (i.e. in its ordinary meetings) about the volume of services rendered by the external auditor.

The external auditor submits an annual report on its fees to the Audit Committee including:

- adherence to the independence requirements of the external auditor and its employees;
- duration of the mandate and term of office of the Lead Auditor;
- total sum of audit fees and fee budget for the following year;
- total sum of fees for additional services according to the Audit List.

The CFO discusses this report with the external auditor before it is presented to the Audit Committee on a yearly basis for review and final approval.

The external auditor is assessed yearly by the Audit Committee. The assessment includes a judgement of the external auditor's independence (based on the External Audit Guideline). In addition, the Audit Committee assesses the scope and quality of the reports and management letters submitted to Management and the Audit Committee and the cooperation with Group Internal Audit, Management and the Audit Committee based on respective feedback requested from the Head Group Internal Audit as well as representatives from the Senior Management (especially the Chief Executive Officer, the CFO, the Chief Risk Officer and the General Counsel). The chairperson of the Audit Committee informs the external auditor of the results of such assessment.

Group Internal Audit

The Group Internal Audit department comprised 26 individuals as at 31 December 2011 compared to 24 individuals as at 31 December 2010 and was headed by Max Raemy. Group Internal Audit establishes a risk-based annual audit plan which is coordinated with internal risk monitoring functions as well as with the external auditor. The plan is approved by the Audit Committee.

To ensure independence, Group Internal Audit reports directly to the Chairman of the Board of Directors and to the Audit Committee, respectively.

Information policy

Julius Baer Group Ltd. informs its shareholders and the public each year by means of the Annual and Half-year Reports. Together with the Annual Report, the Julius Baer Group publishes a Remuneration Report in the form of a separate brochure, which is a compilation of all compensation-related topics from the Annual Report. Julius Baer furthermore provides a summary account of the business performance for the first four months and the first ten months, respectively, in separate Interim Management Statements. It also publishes press releases, presentations and brochures as needed. The documents are generally available to the public in electronic form at www.juliusbaer.com as well as in printed form.

Important dates

11 April 2012	Ordinary Annual General Meeting, Zurich
13 April 2012	Ex-dividend date
17 April 2012	Record date
18 April 2012	Dividend payment date
15 May 2012	Publication of Interim Management Statement
23 July 2012	Publication of 2012 half-year results, Zurich

Additional information events are held regularly and as needed in Switzerland and abroad.

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Consolidated financial statements
Consolidated income statement

	Note	2011 CHF 1000	2010 CHF 1000	Change %
Interest income		**636 640**	519 477	22.6
Interest expense		**104 014**	64 104	62.3
Net interest income	1	**532 626**	455 373	17.0
Fee and commission income		**1 137 330**	1 197 095	-5.0
Commission expense		**195 342**	216 725	-9.9
Net fee and commission income	2	**941 988**	980 370	-3.9
Net trading income	3	**268 680**	332 340	-19.2
Other ordinary results	4	**9 393**	26 297	-
Operating income		**1 752 687**	1 794 380	-2.3
Personnel expenses	5	**811 919**	823 740	-1.4
General expenses	6	**444 248**	376 009	18.1
Depreciation of property and equipment	13	**30 347**	28 449	6.7
Amortisation of customer relationships	13	**91 980**	91 606	0.4
Amortisation of other intangible assets	13	**55 399**	40 324	37.4
Operating expenses		**1 433 893**	1 360 128	5.4
Profit before taxes		**318 794**	434 252	-26.6
Income taxes	7	**60 657**	81 483	-25.6
Net profit		**258 137**	352 769	-26.8
Attributable to:				
Shareholders of Julius Baer Group Ltd.		**257 916**	351 992	-26.7
Non-controlling interests		**221**	777	-
		258 137	352 769	-26.8

	Note	2011 CHF	2010 CHF	Change %
Share information				
Basic net profit per share	8	**1.27**	1.71	-25.5
Diluted net profit per share	8	**1.27**	1.71	-25.7
Dividend proposal 2011 and dividend 2010		**0.60**	0.60	-
Special dividend proposal 2011		**0.40**	-	-

Consolidated statement of comprehensive income

	2011 CHF 1000	2010 CHF 1000
Net profit recognised in the income statement	**258 137**	352 769
Other comprehensive income (net of taxes):		
Net unrealised gains/(losses) on financial investments available-for-sale	**-36 072**	12 604
Net realised (gains)/losses reclassified to the income statement on financial investments available-for-sale	**19 008**	18 283
Hedging reserve for cash flow hedges	**-5 164**	977
Translation differences	**-6 101**	-29 281
Other comprehensive income for the year recognised directly in equity	**-28 329**	2 583
Total comprehensive income for the year recognised in the income statement and in equity	**229 808**	355 352
Attributable to:		
Shareholders of Julius Baer Group Ltd.	**229 587**	354 575
Non-controlling interests	**221**	777
	229 808	355 352

Consolidated balance sheet

	Note	**31.12.2011** CHF 1000	31.12.2010 CHF 1000	Change CHF 1000
Assets				
Cash		**4 241 500**	1 121 310	3 120 190
Due from banks	9	**10 048 079**	6 586 620	3 461 459
Loans	9	**16 408 410**	14 570 410	1 838 000
Trading assets	10	**4 920 161**	3 751 967	1 168 194
Derivative financial instruments	24	**2 113 956**	2 713 110	-599 154
Financial assets designated at fair value		**-**	1 006 134	-1 006 134
Financial investments available-for-sale	11	**12 168 015**	13 885 105	-1 717 090
Investments in associates	12	**48 504**	-	48 504
Property and equipment	13	**366 103**	371 803	-5 700
Goodwill and other intangible assets	13	**1 706 895**	1 797 777	-90 882
Accrued income and prepaid expenses		**192 133**	174 646	17 487
Deferred tax assets	18	**12 395**	10 074	2 321
Other assets		**136 699**	297 645	-160 946
Assets held for sale	27	**565 806**	-	565 806
Total assets		**52 928 656**	46 286 601	6 642 055

	Note	**31.12.2011** CHF 1000	31.12.2010 CHF 1000	Change CHF 1000
Liabilities and equity				
Due to banks		**5 670 182**	4 251 834	1 418 348
Due to customers		**34 841 168**	28 846 738	5 994 430
Trading liabilities	10	**814 077**	800 882	13 195
Derivative financial instruments	24	**2 116 046**	2 772 368	-656 322
Financial liabilities designated at fair value	16	**3 494 592**	4 160 559	-665 967
Debt issued	17	**475 829**	240 210	235 619
Accrued expenses and deferred income		**322 753**	349 505	-26 752
Current tax liabilities		**19 656**	44 834	-25 178
Deferred tax liabilities	18	**117 211**	121 893	-4 682
Provisions	19	**54 051**	32 196	21 855
Other liabilities		**127 434**	181 535	-54 101
Liabilities held for sale	27	**565 444**	-	565 444
Total liabilities		**48 618 443**	41 802 554	6 815 889
Share capital		**4 133**	4 133	-
Retained earnings		**4 717 195**	4 581 923	135 272
Other components of equity		**-110 107**	-81 778	-28 329
Treasury shares		**-302 948**	-22 472	-280 476
Equity attributable to shareholders of Julius Baer Group Ltd.		**4 308 273**	4 481 806	-173 533
Non-controlling interests		**1 940**	2 241	-301
Total equity		**4 310 213**	4 484 047	-173 834
Total liabilities and equity		**52 928 656**	46 286 601	6 642 055

Consolidated statement of changes in equity

	Share capital *CHF 1000*	Retained earnings [1] *CHF 1000*
At 1 January 2010	4 133	4 312 902
Net profit attributable to shareholders of Julius Baer Group Ltd.	-	351 992
Net profit attributable to non-controlling interests	-	-
Unrealised gains/(losses)	-	-
Realised (gains)/losses reclassified to the income statement	-	-
Changes	-	-
Total other comprehensive income	-	-
Total comprehensive income	-	351 992
Dividends	-	-82 652
Dividend income on own shares	-	220
Share-based payments expensed for the year	-	17 296
Share-based payments vested	-	-17 537
Changes in derivatives on own shares	-	-421
Acquisitions of own shares	-	-
Disposals of own shares	-	123
At 31 December 2010	4 133	4 581 923
At 1 January 2011	**4 133**	**4 581 923**
Net profit attributable to shareholders of Julius Baer Group Ltd.	-	**257 916**
Net profit attributable to non-controlling interests	-	-
Unrealised gains/(losses)	-	-
Realised (gains)/losses reclassified to the income statement	-	-
Changes	-	-
Total other comprehensive income	-	-
Total comprehensive income	-	**257 916**
Dividends	-	**-123 978**
Dividend income on own shares	-	**856**
Share-based payments expensed for the year	-	**19 347**
Share-based payments vested	-	**-12 056**
Changes in derivatives on own shares	-	**-1 212**
Acquisitions of own shares	-	-
Disposals of own shares	-	**-5 601**
At 31 December 2011	**4 133**	**4 717 195**

[1] Retained earnings include the capital reserves of Bank Julius Baer & Co. Ltd. and the share premium reserve/capital contribution reserve of Julius Baer Group Ltd.

Other components of equity						
Financial investments available-for-sale, net of taxes *CHF 1000*	Hedging reserve for cash flow hedges, net of taxes *CHF 1000*	Translation differences *CHF 1000*	Treasury shares *CHF 1000*	Equity attributable to shareholders of Julius Baer Group Ltd. *CHF 1000*	Non-controlling interests *CHF 1000*	**Total equity** *CHF 1000*
-65 239	-1 063	-18 059	-42 622	4 190 052	1 739	4 191 791
-	-	-	-	351 992	-	351 992
-	-	-	-	-	777	777
12 604	977	-	-	13 581	-	13 581
18 283	-	-	-	18 283	-	18 283
-	-	-29 281	-	-29 281	-	-29 281
30 887	977	-29 281	-	2 583	-	2 583
30 887	977	-29 281	-	354 575	777	355 352
-	-	-	-	-82 652	-275	-82 927
-	-	-	-	220	-	220
-	-	-	-	17 296	-	17 296
-	-	-	17 537	-	-	-
-	-	-	18 225	17 804	-	17 804
-	-	-	-142 469	-142 469	-	-142 469
-	-	-	126 857	126 980	-	126 980
-34 352	-86	-47 340	-22 472	4 481 806	2 241	4 484 047
-34 352	**-86**	**-47 340**	**-22 472**	**4 481 806**	**2 241**	**4 484 047**
-	**-**	**-**	**-**	**257 916**	**-**	**257 916**
-	**-**	**-**	**-**	**-**	**221**	**221**
-36 072	**-5 164**	**-**	**-**	**-41 236**	**-**	**-41 236**
19 008	**-**	**-**	**-**	**19 008**	**-**	**19 008**
-	**-**	**-6 101**	**-**	**-6 101**	**-**	**-6 101**
-17 064	**-5 164**	**-6 101**	**-**	**-28 329**	**-**	**-28 329**
-17 064	**-5 164**	**-6 101**	**-**	**229 587**	**221**	**229 808**
-	**-**	**-**	**-**	**-123 978**	**-523**	**-124 501**
-	**-**	**-**	**-**	**856**	**-**	**856**
-	**-**	**-**	**-**	**19 347**	**-**	**19 347**
-	**-**	**-**	**12 056**	**-**	**-**	**-**
-	**-**	**-**	**3 493**	**2 281**	**-**	**2 281**
-	**-**	**-**	**-468 837**	**-468 837**	**-**	**-468 837**
-	**-**	**-**	**172 812**	**167 211**	**-**	**167 211**
-51 416	**-5 250**	**-53 441**	**-302 948**	**4 308 273**	**1 940**	**4 310 213**

Consolidated statement of cash flows

	2011 CHF 1000	2010 CHF 1000
Net profit	**258 137**	352 769
Adjustments to reconcile net profit to cash flow from/(used in) operating activities:		
Non-cash items included in net profit and other adjustments:		
- Depreciation of property and equipment	**30 346**	28 449
- Amortisation of intangible assets	**147 380**	131 930
- Allowance for credit losses	**29 607**	10 535
- Income from investment in associates	**-1 101**	-
- Deferred tax expense/(benefit)	**-1 681**	-5 028
- Net loss/(gain) from investing activities	**41 130**	21 872
- Other non-cash income and expenses	**22 875**	20 393
Net increase/decrease in operating assets and liabilities:		
- Net due from/to banks	**1 466 515**	590 987
- Trading portfolios and derivative financial instruments	**-1 217 331**	-797 640
- Loans/due to customers	**4 122 884**	-3 454 763
- Accrued income, prepaid expenses and other assets	**143 031**	-161 439
- Accrued expenses, deferred income, other liabilities and provisions	**-58 861**	-18 873
Adjustment for income tax expenses	**62 338**	86 511
Income taxes paid	**-87 530**	-60 985
Cash flow from operating activities after taxes	**4 957 739**	-3 255 282
Purchase of property and equipment and intangible assets	**-88 373**	-96 959
Disposal of property and equipment and intangible assets	**7 567**	17 235
Net (investment in)/divestment of financial investments available-for-sale	**-993 456**	-1 935 187
Acquisition of subsidiaries, net of cash acquired	**-**	-233 857
Acquisition of associates	**-52 235**	-
Cash flow from investing activities	**-1 126 497**	-2 248 768
Net money market instruments issued/(repaid)	**-6 516**	-13 292
Net movements in treasury shares and own equity derivative activity	**-302 022**	-857
Dividend payments	**-123 978**	-82 652
Issuance and repayment of financial liabilities designated at fair value	**340 167**	175 304
Issuance of lower tier 2 bond	**242 135**	-
Dividend payment to non-controlling interests	**-523**	-275
Cash flow from financing activities	**149 263**	78 228
Total	**3 980 505**	-5 425 822
Cash and cash equivalents at the beginning of the year	**13 263 110**	18 390 505
Cash flow from operating activities after taxes	**4 957 739**	-3 255 282
Cash flow from investing activities	**-1 126 497**	-2 248 768
Cash flow from financing activities	**149 263**	78 228
Effects of exchange rate changes	**73 678**	298 427
Cash and cash equivalents at the end of the year	**17 317 293**	13 263 110

Cash and cash equivalents are structured as follows:

	31.12.2011 *CHF 1000*	31.12.2010 *CHF 1000*
Cash	**4 241 500**	1 121 310
Money market instruments	**3 421 289**	5 993 113
Due from banks (original maturity of less than three months)	**9 654 504**	6 148 687
Total	**17 317 293**	13 263 110

	31.12.2011 *CHF 1000*	31.12.2010 *CHF 1000*
Additional information		
Interest received	**482 413**	424 265
Interest paid	**-107 592**	-53 631
Dividends on equities received	**103 428**	68 648

Summary of significant accounting policies

Basis of accounting

Julius Baer Group Ltd. is a Swiss corporation which was established in 2009 as a result of the separation of the private banking and asset management businesses of the former Julius Baer Holding Ltd. The consolidated financial statements as at 31 December 2011 comprise those of Julius Baer Group Ltd. and all its subsidiaries (the Group). The Board of Directors approved these financial statements on 3 February 2012. In addition, they must be approved by the Ordinary Annual General Meeting on 11 April 2012.

Amounts in the annual financial statements are stated in Swiss francs. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS). Generally, the historical cost principle is applied, with the exception of financial assets at fair value through profit or loss, derivative financial instruments and financial investments available-for-sale, as well as certain financial liabilities, which are measured at fair value.

Use of estimates in preparing the consolidated financial statements

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent liabilities. Actual results in future periods could differ from such estimates.

Estimates and assumptions are used mainly in the following areas of the consolidated financial statements and are discussed in the corresponding notes: determining fair values of financial instruments, uncertainties in measuring provisions and allowance for credit losses, pension assets and liabilities (measurement of defined benefit obligation), deferred tax assets (use of tax losses), share-based payments, goodwill and other intangible assets (measurement of recoverable amount).

Accounting policies

All Group companies apply uniform accounting and measurement principles, which have remained the same as in the previous year, except as outlined at the end of this summary of significant accounting policies addressing changes in accounting policies.

Subsidiaries and associates
Subsidiaries in which Julius Baer Group Ltd. directly or indirectly owns a majority of the voting shares or in which it exercises control in some other way are fully consolidated. A complete list of these companies is provided in Note 26. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control is transferred to the Group until the date that control ceases.

Companies in which Julius Baer Group Ltd. holds between 20% and 50% of the voting shares and/or in which it has the ability to exercise significant influence are reported in the consolidated financial statements using the equity method. These companies are initially recorded at cost as of the date of acquisition. Subsequently, the carrying amount is increased or decreased to recognise the Group's share of the associate's profits or losses.

The effects of all intercompany transactions and balances are eliminated on consolidation.

Foreign currency translation
The Group companies prepare their financial statements in the respective functional currency. The balance sheets of Group companies that are denominated in foreign currencies are translated into Swiss francs at the closing exchange rates on the balance sheet date. Average exchange rates for the reporting period are used for the income statements. Exchange differences arising from consolidation using closing and average exchange rates for the reporting period are recognised in other comprehensive income.

In the individual financial statements of the Group companies, income and expenses denominated in foreign currencies are translated at the exchange rate on the date of the respective transaction. Assets and liabilities are translated at the closing exchange rate on the balance sheet date. The resulting gains and losses on monetary assets and liabilities are recognised in the income statement as foreign exchange gains/losses. Unrealised exchange differences on equity securities available-for-sale are a component of the change in their entire fair value and are recognised in other comprehensive income.

The following exchange rates are used for the major currencies:

	Year-end rates		Average exchange rates for the year	
	31.12.2011	31.12.2010	**2011**	2010
USD/CHF	**0.9351**	0.9321	**0.8805**	1.0365
EUR/CHF	**1.2139**	1.2505	**1.2310**	1.3690
GBP/CHF	**1.4533**	1.4594	**1.4170**	1.5985

Reporting of transactions

Money market transactions are recorded in the balance sheet on settlement date. Spot foreign exchange and securities transactions and securities underwriting transactions are recorded in the balance sheet on trade date. All financial instruments are assigned to one of the four categories (loans and receivables, held-to-maturity investments, financial assets and financial liabilities at fair value through profit or loss, and available-for-sale financial assets) and uniformly recognised within these categories on trade date or settlement date.

Income recognition

Income from services is either recognised at the time the service is performed, i.e. upon execution of a transaction, or in the corresponding periods over the life of a contract if services are provided over a certain period of time. Income and income components that are based on performance are recognised at the time when all performance criteria are fulfilled.

Cash

Cash includes notes and coins on hand, as well as balances held with central banks.

Due from banks and loans

Amounts due from banks and loans are initially recognised at fair value, which is the cash given to originate the receivable or loan, plus any attributable transaction costs. Subsequently, these receivables and loans are measured at their amortised cost using the effective interest method.

Loans are classified as past due when the counterparty has failed to make a payment when contractually due. The exposure is not considered impaired as the Group believes that on the basis of the collateral available it is still covered.

Loans and amounts due from banks for which it is probable that, based on current information and events, the Group will be unable to collect the whole amounts due according to the original contractual terms of the loan agreement, are measured on an individual basis, and a specific allowance for credit losses is established for impaired amounts, if necessary. Related collaterals are also included in the evaluation.

Impairment is measured and an allowance for credit losses is established for the difference between the carrying amount of the loan and its estimated recoverable amount, taking into account the counterparty risk and the net proceeds from the possible liquidation of any collateral. The recoverable amount equals the present value of estimated future cash flows discounted at the loan's original effective interest rate. The allowance for credit losses is recognised through the income statement.

A write-off is made against the established specific allowance for credit losses when all or part of a loan is deemed uncollectible or forgiven. Recoveries of amounts that were previously written off are credited directly to the income statement.

In addition to the specific allowances for credit losses, a collective allowance for credit losses is established to account for inherent credit risks collectively, i.e. on a portfolio basis. This collective allowance for credit losses is calculated on the basis of prudently estimated default rates for each portfolio, which are based on internal credit ratings that are used for classifying the loans.

In the balance sheet, the allowances for credit losses are offset against the corresponding loans and amounts due from banks.

Impaired loans are rated as fully recoverable if the creditworthiness has improved such that there is a reasonable assurance of timely collection of principal and interest according to the original contractual terms.

Securities lending and borrowing transactions
Securities borrowed as well as securities received by the Group as collateral under securities lending transactions are only recorded in the balance sheet if the Group obtains control of the contractual rights (risks and rewards of ownership) associated with these securities. Similarly, securities lent as well as securities provided by the Group as collateral under securities borrowing transactions are only derecognised from the balance sheet if the Group relinquishes control of the contractual rights associated with these securities. Securities lent and securities provided as collateral that remain in the balance sheet are remeasured according to the respective position they are recorded in. The fair values of securities received or provided are monitored daily in order to provide or request additional collateral in accordance with the underlying agreements.

If securities are transferred in a securities lending or borrowing transaction, cash collateral received is recognised as an obligation, and cash collateral provided is recognised as a receivable.

Fees received or paid in connection with securities lending and borrowing transactions are recognised as commission income or commission expenses on an accrual basis.

Repurchase and reverse repurchase transactions
Reverse repurchase transactions and repurchase transactions are considered secured financing transactions and are recorded at the value of the cash collateral provided or received.

Securities received and securities delivered are only recorded in the balance sheet or derecognised from the balance sheet if control of the contractual rights (risks and rewards of ownership) associated with these securities is relinquished as well. The fair values of the securities received or delivered are monitored daily in order to provide or request additional collateral in accordance with the underlying agreements.

Interest income from reverse repurchase transactions and interest expenses from repurchase transactions are accrued in the corresponding periods over the life of the underlying transactions in the respective interest positions.

Trading assets/liabilities
All trading positions are recognised at fair value. Realised gains and losses on disposal or redemption and unrealised gains and losses from changes in the fair value are recognised in net trading income.

Interest and dividend income and interest expense from trading positions are included in net interest income.

Precious metals held for trading purposes are measured at fair value less costs to sell with all changes in the fair value recognised in net trading income.

Financial assets and liabilities designated at fair value
Financial assets and liabilities may initially be designated as at fair value through profit or loss (fair value option) if one of the following conditions is met:

- they are hybrid instruments which consist of a debt host and an embedded derivative component;
- they are part of a portfolio which is risk-managed on a fair value basis; or
- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise.

The Group measures its issued financial instruments, i.e. its structured products containing a debt instrument and an embedded derivative, at fair value, with changes in fair value recognised in net trading income, thus eliminating the requirement to account for the embedded derivative and its host contract separately.

In addition, the Group reports assets and liabilities related to investment contracts where the beneficiary bears all the related risk and rewards from the investments, as designated at fair value.

Derivative financial instruments and hedging
Derivative financial instruments held for trading, including foreign exchange products, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (written options as well as purchased options), are recognised at fair value. In order to calculate the fair value, corresponding stock exchange prices, discounted cash flow models and option pricing models are employed. Derivatives are reported as an asset position if their fair value is positive and as a liability position if their fair value is negative. Changes in fair value on trading positions are recognised in net trading income.

The Group uses derivative financial instruments for hedging the cash flows (cash flow hedges) or fair values (fair value hedges) when transactions meet the specified criteria to obtain hedge accounting treatment. Derivatives categorised as serving such purposes on their settlement date are treated as hedging instruments in the financial statements if they fulfil the following criteria:

- existence of documentation that specifies the underlying transaction (balance sheet item or cash flow), the hedging instrument as well as the hedging strategy/relationship;
- effective and reliably measurable elimination of the hedged risks through the hedging transaction during the entire reporting period;
- sustained high effectiveness of the hedging transaction. A hedge is regarded as highly effective if actual results are within a range of 80% to 125%; and
- high probability of the underlying forecast transaction.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and reported as hedging reserve for cash flow hedges. If a hedge of a probable forecast transaction results in the recognition of a financial asset or financial liability, any gain or loss on the hedging instrument that was previously recognised in other components of equity is reclassified into the income statement in the same period in which the financial asset or liability affects income. If the hedged forecast transaction results in direct recognition through the income statement, any related cumulative gain or loss previously recognised in other components of equity is recognised in the income statement in the same period in which the hedged forecast transaction affects income.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are reported in the income statement. The changes in the fair value of the hedged item that are attributable to the risk hedged with the derivative are reflected in an adjustment to the carrying value of the hedged item and are also recognised in the income statement.

Certain derivative transactions represent financial hedging transactions and are in line with the risk management principles of the Group. However, in view of the strict and specific guidelines of IFRS, they do not fulfil the criteria to be treated as hedging transactions for accounting purposes. They are therefore reported as trading positions. Changes in fair value are recognised directly in the income statement in the corresponding period.

Financial investments available-for-sale

Security positions, including money market instruments, which are not held for trading purposes, are reported as debt and equity securities available-for-sale and are recognised at fair value. Unrealised gains and losses are recognised in other comprehensive income and reported in other components of equity until the security is sold, or an impairment loss is recognised, at which point the cumulative gain or loss previously recorded in other components of equity is recognised in the income statement in other ordinary results.

Equity securities are deemed impaired if there has been a significant or prolonged decline of fair value below the initial cost. A debt instrument is deemed impaired if the creditworthiness of the issuer significantly deteriorates or if there are other indications that an event has a negative impact on the future estimated cash flows related to the debt instrument, i.e. if it is likely that the amount due according to the contractual terms cannot be entirely collected.

Interest on debt securities is accrued using the effective interest method and, together with dividend income on equity securities, recognised in interest income.

Property and equipment

Property and equipment includes bank premises, IT, communication systems, leasehold improvements as well as other installations and equipment. They are carried at cost less accumulated depreciation and impairment losses. Items of property and equipment are depreciated over their estimated useful lives using the straight-line method.

Bank premises are depreciated over a period of 66 years. Leasehold improvements are depreciated over the shorter of the residual lease term or useful life. Installations are depreciated over a period not exceeding ten years, IT hardware over three years and other items of property and equipment over five years.

Leasehold improvements are investments made to customise buildings and offices occupied under operating lease contracts to make them suitable for the intended purpose. If a leased property must be returned to its original condition at the end of the lease term, the present value of the estimated reinstatement costs is capitalised as part of the total leasehold improvement costs. At the same time, a provision for reinstatement costs is recognised to reflect the obligation incurred. The reinstatement costs are recognised in the income statement through depreciation of the capitalised leasehold improvements over their useful life.

Subsequent expenditure on an item of property and equipment is recognised in the carrying value of the item if it is probable that the Group will profit from the future economic benefits of the investment. Current maintenance and servicing costs are expensed through the income statement.

On each balance sheet date, the items of property and equipment are reviewed for indications of impairment. If such indications exist, it is determined whether the carrying amount of the item is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

Leasing
Under operating leasing, leased assets are not recognised on the balance sheet, as the risks and rewards of ownership remain with the lessor. Lease payments for operating leases are recognised through the item general expenses in the income statement over the lease term on a straight-line basis.

Intangible assets
Intangible assets are classified into the following categories:

Goodwill: in a business combination, the acquiree's identifiable assets and liabilities are recognised at their respective fair value at acquisition date. Goodwill is measured as the difference between the sum of the fair value of consideration transferred plus the recognised amount of any non-controlling interests in the acquiree, and the recognised amount of the identifiable assets acquired and liabilities assumed. Goodwill is not amortised; it is tested for impairment annually at the cash-generating-unit level, and an impairment loss is recognised if the recoverable amount is less than its carrying amount.

Customer relationships: this position comprises long-term customer relationship intangibles from recent business combinations. Customer relationships are amortised over their estimated useful life not exceeding ten years, using the straight-line method.

Software: the Group capitalises costs relating to the acquisition, installation and development of software if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and that the costs of the asset can be identified and measured reliably. The capitalised software is amortised using the straight-line method over its useful life, usually not exceeding three to five years.

On each balance sheet date, the intangible assets with a finite life are reviewed for indications of impairment. If such indications exist, it is determined whether the carrying amount of the intangible assets is fully recoverable, and an impairment loss is recognised if the carrying amount exceeds the recoverable amount.

Due to banks and customers
Amounts due to banks and customers are initially recognised at fair value less directly attributable transaction costs and subsequently reported at amortised cost. Interest and discounts are debited to interest expenses on an accrual basis, using the effective interest method.

Debt issued
Issued bonds are initially recognised at the fair value of the consideration received, net of directly attributable transaction costs. They are subsequently reported in the balance sheet at amortised cost using the effective interest method.

Own bonds that the Group holds as a result of market-making activities or for resale in the near term are treated as redemption and therefore are extinguished.

Provisions
A provision is recognised if, as a result of a past event, the Group has a legal or constructive present obligation existing on the balance sheet date that will probably lead to an outflow of resources and whose amount can be reliably estimated. The amount recognised as a provision is the best estimate of the consideration required to settle the obligation as at

the balance sheet date, taking into account the risks and uncertainties related to the obligation. The recognition and release of provisions are recorded in the income statement through general expenses.

Restructuring provisions in the event of sale or termination of a line of business, closure or relocation of business locations, changes in management structure or another fundamental reorganisation are recognised if a constructive obligation is incurred and a detailed and formal restructuring plan exists. In addition, the implementation must have begun or the announcement of the main features to the employees affected must have taken place before the balance sheet date. Restructuring provisions include only necessary direct expenditures caused by the restructuring, not costs associated with the ongoing business activities.

Income taxes
Income tax expense comprises current and deferred taxes. Current income taxes are calculated on the basis of the applicable tax laws of the respective countries and are recognised as expense in the financial year in which the related taxable income arises. Liabilities related to current taxes are recognised in the balance sheet as current tax liabilities.

Deferred tax assets and deferred tax liabilities are taken into account for the expected future tax consequences of all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding tax values.

Deferred tax assets arising from temporary differences and from loss carryforwards eligible for offsetting are capitalised if it is likely that sufficient taxable profits will be available against which those differences or loss carryforwards can be offset. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are calculated at tax rates expected to apply in the period in which the tax assets will be realised, or the tax liabilities settled.

Current tax assets and tax liabilities are offset against each other when they refer to the same taxable entity, concern the same tax authority, and an enforceable right to offset exists. The same rule applies to deferred tax assets and liabilities.

Current and deferred taxes are credited or charged directly to equity if the taxes refer to items that are credited or charged directly to other components of equity.

Post-employment benefits
The Group maintains various defined contribution and defined benefit pension plans in Switzerland and abroad. The pension plans in Switzerland have been set up on the basis of the Swiss method of defined contributions but do not fulfil all the criteria of a defined contribution pension plan according to IAS 19. For this reason, the Swiss pension plans are treated as defined benefit pension plans.

The pension obligations are largely covered through pension plan assets of pension funds that are legally separated and independent from the Group. The pension funds are managed by a board of trustees consisting of representatives of the employees and the employer. The organisation, management and financing of the pension plans comply with the legal requirements, the foundation charters and the applicable pension regulations. Employees and pensioners or their survivors receive statutorily determined benefits upon leaving the company or retiring as well as in the event of death or invalidity. These benefits are financed through employer and employee contributions.

In the case of defined benefit pension plans, the pension expenses and obligations are valued according to the projected unit credit method. The corresponding calculations are carried out by independent qualified actuaries.

Defined benefit assets are only recognised in the balance sheet if they are available to the Group as refunds or future reductions in contributions.

The pension expenses recognised in the income statement for the defined benefit pension plans correspond to the actuarially determined pension cost minus the employee contributions and are recorded in personnel expenses.

A portion of actuarial gains and losses are recognised if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period are in excess of 10% of the greater of the present value of the plan obligation or the fair value of plan assets. This portion is systematically amortised through the income statement over the expected average remaining service lives of employees participating in the plan.

In the case of defined contribution pension plans, the contributions are expensed when the employees render the corresponding service to the Group.

Share-based payments
The Group maintains various share-based payment plans in the form of share or share option plans for its employees. When such payments are made to employees, the fair value of these payments at grant date serves as the basis for calculating the personnel expenses. Share-based payments that are not subject to any further conditions are expensed immediately at grant date. Share-based payments that are subject to the completion of a service period or to other vesting conditions are expensed over the respective vesting period starting at grant date.

Share-based payment plans that are settled in own equity instruments (shares or options) result in a corresponding increase in equity and are not remeasured for subsequent changes in the fair value of the underlying equity instruments. Share-based payment plans that are settled by the payment of cash are recognised as a liability and are adjusted through the income statement for changes in fair value of the underlying equity instruments until final settlement.

Share capital
The share capital comprises all issued, fully paid shares of Julius Baer Group Ltd.

Treasury shares and contracts on treasury shares
Shares of Julius Baer Group Ltd. held by the Group are classified in equity as treasury shares and accounted for at weighted average cost. The difference between the proceeds from sales of treasury shares and their cost (net of taxes, if any) is recognised in retained earnings.

Contracts on shares of Julius Baer Group Ltd. that require settlement in a fixed number of shares for a fixed amount are recognised in retained earnings. Upon settlement of such contracts, the proceeds received (net of costs and any taxes) are also recognised in retained earnings.

Contracts on shares of Julius Baer Group Ltd. that must be net settled in cash or that offer a choice of settlement methods are treated as derivative instruments, with changes in fair value recognised in net trading income.

For physically settled written put option contracts the discounted strike price is deducted from equity and recorded as a liability at recognition. The liability is subsequently increased during the term of the contract up to the strike price using the effective interest method. Upon settlement of the contract the liability is derecognised.

Earnings per share
Basic consolidated earnings per share is calculated by dividing the net profit for the reporting period attributable to shareholders of Julius Baer Group Ltd. by the weighted average number of shares outstanding during the reporting period.

Diluted consolidated earnings per share is calculated using the same method as for basic consolidated earnings per share, with the determinants adjusted to reflect the potential dilution that could occur if outstanding options, warrants, convertible debt securities or other contracts to issue shares were converted or exercised into shares.

Segment reporting
Determination of the operating segments is based on the management approach. The management approach reflects the way in which management organises the entity for making operating decisions and for assessing performance, based on discrete financial information. Therefore, the adoption of the management approach results in the disclosure of information for segments in substantially the same manner as they are reported internally and used by the entity's chief operating decision maker for purposes of evaluating performance and making resource allocation decisions.

Changes in accounting policies

The Group applied the following new and revised accounting standards for the first time in 2011:

IAS 24 – Related Party Disclosure
The revised standard provides a simplified definition of related parties by clarifying its intended meaning and eliminating inconsistencies from the definition. The revised standard had no impact on the Group's financial statements.

Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14)
The updated interpretation provides guidance on assessing the amount of surplus that can be recognised as an asset in the case of prepayments made by the employer to the pension plan. Such amounts reduce the future minimum funding requirement contributions for future services. The updated interpretation had no material impact on the Group's financial statements.

Improvements to IFRSs
A number of amendments to several standards are included in the IASB's Annual Improvement Project. The amendments had no material impact on the Group's financial statements.

New standards and interpretations not yet adopted

Certain new standards, revisions and interpretations of existing standards were published that must be applied in future financial periods. The Group plans not to adopt these in advance. A number of these changes may have an impact on the Group's consolidated financial statements, as outlined below.

The following standards, revisions and interpretations will be relevant to the Group:

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)
The amendments require entities to present separately the items within other comprehensive income (OCI) that at some point may be reclassified to (recycled through) the income statement from those that would never be reclassified. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements, including or excluding related tax.

The amended standard will be effective 1 January 2013. Early application is permitted.

IAS 19 – Employee Benefits (amended 2011)
The amended standard includes the following main changes to the previous requirements:

- actuarial gains and losses are recognised immediately in other comprehensive income; this change removes the corridor method and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in the income statement;
- expected return on plan assets recognised in the income statement is calculated based on the rate used to discount the defined benefit obligation (elimination of the expected return on plan assets); and
- past service cost, curtailments and settlements are recognised immediately in the income statement.

The revised standard will be effective 1 January 2013. Early application is permitted. The impact of the new standard on the Group's financial statements has not yet been assessed.

IAS 27 – Separate Financial Statements (2011)
The previous IAS 27 – Consolidated and Separate Financial Statements has been amended due to the release of IFRS 10 – Consolidated Financial Statements. IAS 27 carries forward the existing accounting for separate financial statements, with some minor clarifications.

The amended standard will be effective 1 January 2013. Early application is permitted.

IAS 28 – Investments in Associates and Joint Ventures (2011)
The previous IAS 28 – Investments in Associates has been amended due to the release of IFRS 11 – Joint Arrangements. Some minor clarifications have been added.

The amended standard will be effective 1 January 2013. Early application is permitted.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)
The amendment clarifies the existing standard in two areas. The first one states that, in addition to being legally enforceable in the normal course of business, a right of set-off must be enforceable for all counterparties in the event of default, insolvency or bankruptcy. The second clarification states that some gross settlement systems may be considered equivalent to net settlement.

The amended standard will be effective 1 January 2014. Early application is permitted. The impact of the new standard on the Group's financial statements has not yet been assessed.

Disclosures – Transfers of Financial Assets (Amendments to IFRS 7)
The new disclosure requirements enable the users to a) understand the relationship between transferred financial assets (e.g. securitisations) that are not derecognised in their entirety and the associated liability; and b) evaluate the nature of, and the risks associated with, the entity's continuing involvement in derecognised financial assets.

The amendment does not change the existing derecognition requirements. The revised standard will be effective for annual periods beginning on or after 1 July 2011.

Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)
The new disclosure requirements enable the users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

The amended standard will be effective 1 January 2013.

IFRS 9 – Financial Instruments
The new standard includes the following changes to current accounting for financial instruments:

- all recognised financial assets are measured at either amortised cost or fair value;
- only a debt instrument that (a) is held within a business model whose objective is to collect the contractual cash flows and (b) has contractual cash flows that are solely payments of principal and interest may be measured at amortised cost;
- if a debt instrument measured at amortised cost is derecognised prior to maturity, the gain or loss has to be presented separately in the income statement, with an analysis of that gain or loss and the reasons for the sale;
- for debt instruments, classification as trading (i.e. at fair value) and a fair value option are available;
- equity instruments are to be measured at fair value, with the default recognition of gains and losses recognised in the income statement;
- equity instruments designated as at fair value through other comprehensive income: only if an equity instrument is not held for trading can an irrevocable election be made at initial recognition to measure it at fair value through other comprehensive income (equity), without any subsequent reclassification to the income statement (i.e. the current requirement to perform an assessment of impairment and to reclassify cumulative gains and losses on disposal no longer applies).

The new standard will be effective 1 January 2015. Early application is permitted. The impact of the new standard on the Group's financial statements has not yet been assessed.

IFRS 9 – Financial Instruments: Financial Liabilities
The new standard retains the fair value option for financial liabilities, but requires that the amount of change in fair value attributable to changes in the credit risk of the liability (own credit risk) be presented in other comprehensive income (OCI) without reclassification to the income statement. The remaining amount of total gain or loss is included in the income statement.

If this approach creates or enlarges an accounting mismatch, the whole change in fair value may be recognised in the income statement.

The new standard will be effective 1 January 2015. Early application is permitted. The impact of the new standard on the Group's financial statements has not yet been assessed.

IFRS 10 – Consolidated Financial Statements
IFRS 10 provides a single basis for consolidation based on control, irrespective of the nature of the investee. The following three elements constitute control:

- power over the investee;
- exposure, or rights, to variable returns from involvement with the investee; and
- the ability to use power over the investee to affect the amount of the investor's returns.

An investor must possess all three elements to conclude it controls an investee. The assessment is based on all facts and circumstances and is reassessed as facts and circumstances change.

Power exists when the investor has existing rights that give the current ability to direct the activities that significantly affect the investee's return. Power most commonly arises through voting rights, but can also arise through contractual arrangements. Rights to direct the relevant activities are based on the ability to direct the relevant activities, i.e. they do not need to be exercised to provide an investor power. When assessing if it controls the investee, an investor should consider potential voting rights, economic dependency and the size of its shareholding in comparison to other holdings, together with voting patterns at shareholder meetings.

The new standard introduces guidance on assessing whether an entity with decision-making rights is principal or agent. An agent has been engaged to act on behalf, and for the benefit, of another party (principal).

The new standard will be effective 1 January 2013. Early application is permitted. The impact of the new standard on the Group's financial statements has not yet been assessed.

IFRS 11 – Joint Arrangements
The new standard focuses on the rights and obligations of joint arrangements rather than on the legal form. It distinguishes between joint operations (in which each operator recognises its own share in the balance sheet and income statement) and joint ventures (which are to be accounted for under the equity method in the consolidated financial statements).

The new standard will be effective 1 January 2013. Early application is permitted. The impact of the new standard on the Group's financial statements has not yet been assessed.

IFRS 12 – Disclosure of Interests in Other Entities
This new standard contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate a) the nature of, and risks associated with, an entity's interests in other entities; and b) the effects of those interests on the entity's financial position, financial performance and cash flows. In addition, an entity should disclose information about significant judgments and assumptions it has made in determining whether it has control, joint control or significant influence.

The new standard will be effective 1 January 2013. Early application is permitted.

IFRS 13 – Fair Value Measurement
The new standard a) defines fair value; b) sets out in a single IFRS a framework for measuring fair value; and c) requires disclosures about fair value measurements. It applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements based on fair value or disclosures about those measurements, e.g. fair value less costs to sell).

The IFRS explains how to measure fair value for financial reporting. It does not require fair value measurements in addition to those already required or permitted by other IFRSs.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). That definition of fair value emphasises that fair value is a market-based measurement, not an entity-specific measurement. When measuring fair value, an entity uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.

When a price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

The new standard will be effective 1 January 2013. Early application is permitted. The impact of the new standard on the Group's financial statements has not yet been assessed.

Comment on risk and capital management
Risk management framework and process

Risk types

For the purposes of this report, risk is defined as the product of the probability of a given event occurring and the extent to which its occurrence could potentially result in an adverse deviation from the Group's defined objectives. Risk management therefore constitutes an integral part of the Group's business framework. It is supported by a number of risk control procedures, which are seen as business enablers critical to the management process of the Julius Baer Group (the Group). The principal risks to which the Group is exposed are:

- strategic and business risk
- credit risk
- market risk
- liquidity and financing risk
- operational risk (including legal, compliance and personnel risk)
- reputational risk

The risk control framework comprises both qualitative elements, including policies and directives, and quantitative components, including limits. It is continually adapted and enhanced, both in response to changes in the business environment and to any modifications to the business models pursued by the Group.

Risk governance

The Board of Directors of Julius Baer Group Ltd. defines the Group's risk policies and regularly reviews their appropriateness. This ensures that risks are managed effectively at Group level and that suitable processes are in place. The risk categories and the risk management processes as well as a common risk terminology for the Group are laid down in the Group Risk Policy. Specific Group policies are defined for particular risk categories. Overall responsibility for the implementation of the Group's risk management lies with those members of the Executive Board of Julius Baer Group Ltd. with designated risk management duties – the Chief Risk Officer (CRO) and the General Counsel (GC). The CRO is responsible for the management and control of credit risk, market risk (trading book and banking book), liquidity and financing risk (particularly with regard to the banking book) and of operational risk (excluding legal and compliance risk). He coordinates his activities with the GC, who is responsible for the management and control of legal and compliance risk. In addition, the CRO and the GC coordinate their activities with the Chief Financial Officer (CFO), who is responsible for balance sheet management and capital management, i.e. the maintenance of a sound ratio of eligible capital to risk-weighted positions.

The CRO and the GC establish appropriate risk guidelines and policies, coordinate and contribute directly to the risk management of the business areas and thus ensure that risk is controlled independently.

Additional Board committees and the Executive Board are integrated into the Group-wide risk management structure as follows:

The Chairman's and Risk Committee's responsibilities principally include:

- setting the standards and methodologies for risk control with regard to risks other than operational risk (including legal and regulatory risk) which are employed to comply with the principles and risk profiles formulated by the Board of Directors of Julius Baer Group Ltd. or other relevant supervisory or managing bodies;
- the determination, coordination and review of risk limits;
- reviewing policies with regard to risks other than operational risk (including legal and regulatory risks);
- authorising, taking into consideration the respective risk parameters, certain market, credit and financial transactions, including in particular loans granted to members of the Board of Directors and of the Executive Board of Julius Baer

Group Ltd. and/or entities affiliated with it and individuals with whom such entities are closely connected.

The Audit Committee is responsible for the standards and methods applied to the control of operational risk (including legal and regulatory risks) in order to ensure compliance with the principles and risk profiles formulated by the Board of Directors or other relevant supervisory or managing bodies. The Audit Committee is also responsible for reviewing the Group's operational risk directives.

The activities carried out in connection with these duties are based on the risk landscape formulated in accordance with the relevant risk directives.

The Executive Board of the Group's principal operating entity, Bank Julius Baer & Co. Ltd., is responsible for measuring and supervising market, liquidity, financing and operational risks in the Group's banking activities. Accordingly, its principal tasks are:

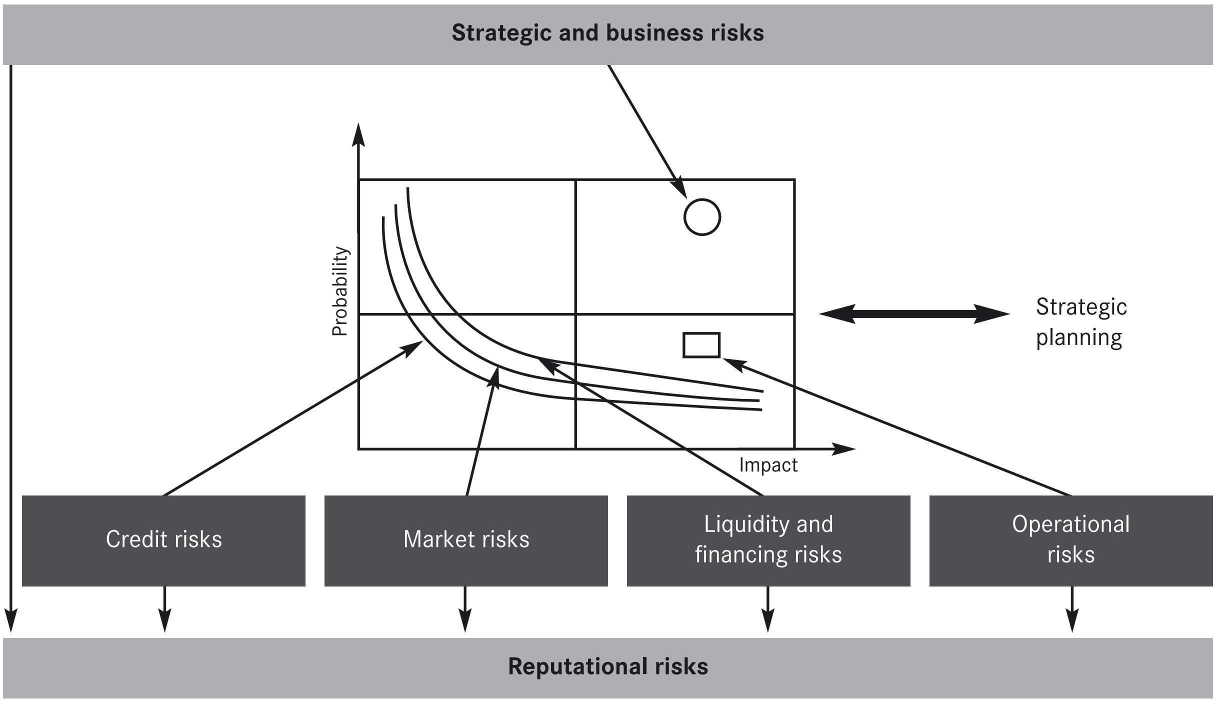
– to formulate policies governing market, liquidity, financing and operational risk in the Group's banking business;
– to allocate risk limits in accordance with those policies;
– to receive and review reports relating to those risks.

The Credit Committee of the Executive Board of Bank Julius Baer & Co. Ltd. is responsible for measuring and supervising credit risk. In particular, it is responsible for:

– formulating policies governing credit risk;
– making credit business decisions and allocating credit limits within the scope of its remit;
– delegating credit authority;
– receiving and reviewing credit risk reports.

The main responsibility for managing risks, however, primarily lies with the individual organisational units. All risks are mapped to a risk landscape, which provides a consolidated picture of the probability of their occurrence and its potential impact. The individual organisational units are responsible for managing the risks to which they are exposed. The risk landscape is also used by the business areas, the Executive Board and the Board of Directors of Julius Baer Group Ltd. and by Bank Julius Baer & Co. Ltd. in their annual strategic planning process.

Risk landscape: illustrative diagram



Strategic and business risk

Based on the principles of value- and risk-oriented management and controlling, an annual strategic check-up is carried out, and the results are consolidated in the risk landscape. This check-up reviews the probability and impact of potential strategic and business risks and defines mitigating actions. The results are also used as an important input into the strategic planning process and thus influence the rolling three-year plan and hence the annual budgets.

Credit risk

Credit or counterparty risk is the risk of non-compliance with an obligation which a client or a counterparty owes to the Group or to an individual Group company. Such non-compliance may result in a loss to the Group.

The Group has a policy of lending to private clients primarily on a collateralised basis. The credit risk resulting from such transactions may arise from lending or from receivables on positions held by the Group in derivatives on foreign exchange, equity, interest rate or commodity products. As part of the risk management process, client portfolios are analysed and rated individually, and an advanceable value is assigned based on the quality of the collateral and the portfolio's diversification. Positions are monitored on a daily basis. A large majority of the collateral is also revalued daily.

In addition, the Group engages in transactions with banks, brokers and selected institutional clients on an unsecured basis. This involves individual risk limits and settlement limits being approved for each counterparty. The credit exposures arising from these transactions are monitored on a daily basis, and netting agreements and collateral agreements are also used to mitigate exposures further.

Country limits are set in order to contain the risks potentially arising from country-specific or region-specific events.

It is not a policy of the Group to engage in corporate lending activities except for collateralised lending to corporate structures linked to its core private banking business.

The Group's rating concept allows an internal rating classification to be assigned to each individual exposure, and it is on these classifications that the related limit-granting processes and monitoring are based.

The credit risk breakdown presented in the following tables 'Credit risk by region', 'Credit risk by sector', 'Credit risk secured/not secured' and 'Credit risk by regulatory weightings' is calculated before deduction of eligible collateral and according to the Basel II BIS (Bank for International Settlements) standard approach. Differences between the total amounts and the corresponding balance sheet positions are explained in the section reconciliation of credit risk totals with balance sheet positions (see pages 70 ff.).

In the following table the counterparty domicile serves as the fundamental basis for the geographical breakdown. For the secured portion of the credit, however, geographical allocation is shown on the basis either of the domicile of the pledger, i.e. the domicile of the issuer of securities which are pledged as collateral, or the domicile of the guarantor.

Credit risk by region

	Switzerland *CHF m*	Europe *CHF m*	Americas *CHF m*	Asia/Pacific *CHF m*	Other countries *CHF m*	**31.12.2011** **Total** *CHF m*
Due from banks	831	6 123	213	1 214	1	**8 382**
Loans	5 039	4 626	3 781	2 876	111	**16 433**
Financial investments available-for-sale	495	9 613	1 079	881	11	**12 079**
Derivative financial instruments	627	726	280	188	3	**1 824**
Contingent liabilities	138	142	168	38	6	**492**
Irrevocable commitments	48	9	13	9	-	**79**
Securities lending and repo transactions	1 187	4 839	739	214	3	**6 982**
Total	8 365	26 078	6 273	5 420	135	**46 271**

	Switzerland *CHF m*	Europe *CHF m*	Americas *CHF m*	Asia/Pacific *CHF m*	Other countries *CHF m*	31.12.2010 Total *CHF m*
Due from banks	682	4 338	112	1 096	-	6 228
Loans	4 730	4 299	3 183	2 246	132	14 590
Financial investments available-for-sale	1 491	10 309	1 159	826	11	13 796
Derivative financial instruments	795	910	363	325	5	2 398
Contingent liabilities	95	240	98	39	5	477
Irrevocable commitments	45	2	-	-	-	47
Securities lending and repo transactions	1 478	3 080	462	300	3	5 323
Total	9 316	23 178	5 377	4 832	156	42 859

In the following table the counterparty industry code serves as the fundamental basis for the sector breakdown. For the secured portion of the credit, however, sector allocation is shown on the basis either of the industry code of the pledger, i.e. the industry code of the issuer of securities which are pledged as collateral, or the industry code of the guarantor.

The column headed 'Other' is used for disclosure of securities issued by companies outside the financial sector: these consist partly of proprietary positions of the Group which are reported on the balance sheet as financial investments available-for-sale and partly of the portion of the credit collateralised by securities issued by companies outside the financial sector.

Credit risk by sector

					31.12.2011
	Government and agencies *CHF m*	Financial institutions *CHF m*	Private clients *CHF m*	Other *CHF m*	**Total** *CHF m*
Due from banks	–	8 382	–	–	**8 382**
Loans	646	3 061	9 216	3 510	**16 433**
Financial investments available-for-sale	2 436	7 223	–	2 420	**12 079**
Derivative financial instruments	64	1 173	464	123	**1 824**
Contingent liabilities	9	96	256	131	**492**
Irrevocable commitments	27	14	28	10	**79**
Securities lending and repo transactions	1 271	4 184	134	1 393	**6 982**
Total	4 453	24 133	10 098	7 587	**46 271**

					31.12.2010
	Government and agencies *CHF m*	Financial institutions *CHF m*	Private clients *CHF m*	Other *CHF m*	Total *CHF m*
Due from banks	–	6 228	–	–	6 228
Loans	939	2 656	8 284	2 711	14 590
Financial investments available-for-sale	4 509	7 529	–	1 758	13 796
Derivative financial instruments	48	1 642	579	129	2 398
Contingent liabilities	12	160	214	91	477
Irrevocable commitments	28	1	18	–	47
Securities lending and repo transactions	845	3 155	101	1 222	5 323
Total	6 381	21 371	9 196	5 911	42 859

The collateral pledged to cover Lombard loans, OTC derivatives positions and securities lending and repo transactions consists primarily of readily marketable securities. In the following table all the collateral accepted within the scope of the capital adequacy regulations is disclosed. The haircuts applied to the collaterals are based on the regulatory standard haircuts of Basel II.

Credit risk secured/not secured

	Secured by recognised financial collaterals [1] CHF m	Not secured by recognised financial collaterals CHF m	**31.12.2011** **Total** CHF m
Due from banks	4 072	4 310	**8 382**
Loans	15 717	716	**16 433**
Financial investments available-for-sale	-	12 079	**12 079**
Derivative financial instruments	878	946	**1 824**
Contingent liabilities	445	47	**492**
Irrevocable commitments	46	33	**79**
Securities lending and repo transactions	6 118	864	**6 982**
Total	27 276	18 995	**46 271**

	Secured by recognised financial collaterals [1] CHF m	Not secured by recognised financial collaterals CHF m	31.12.2010 Total CHF m
Due from banks	2 109	4 119	6 228
Loans	13 496	1 094	14 590
Financial investments available-for-sale	-	13 796	13 796
Derivative financial instruments	1 281	1 117	2 398
Contingent liabilities	435	42	477
Irrevocable commitments	10	37	47
Securities lending and repo transactions	4 632	691	5 323
Total	21 963	20 896	42 859

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

The following table gives an overview of the credit risk classified by regulatory risk weightings as defined under Basel II. The allocation of the receivables to the risk weights depends on the type and actual rating of the counterparty or the rating of the issue in the case of financial investments. The collateralised part of receivables (mortgages excluded) is allocated to the 0% risk weight column, meaning that no capital is required for the respective outstanding amount.

Credit risk by regulatory risk weightings

	0% *CHF m*	20% *CHF m*	35% *CHF m*	50% *CHF m*	75% *CHF m*	100% *CHF m*	150% *CHF m*	**31.12.2011** **Total** *CHF m*
Due from banks	4 502	3 048	-	778	-	54	-	**8 382**
Loans	11 012	5	3 787	342	49	1 217	21	**16 433**
Financial investments available-for-sale	1 952	4 932	-	5 071	-	98	26	**12 079**
Derivative financial instruments	885	224	-	509	1	205	-	**1 824**
Contingent liabilities	445	-	-	-	2	45	-	**492**
Irrevocable commitments	46	27	-	-	2	4	-	**79**
Securities lending and repo transactions	6 118	321	-	1	-	541	1	**6 982**
Total	24 960	8 557	3 787	6 701	54	2 164	48	**46 271**

	0% *CHF m*	20% *CHF m*	35% *CHF m*	50% *CHF m*	75% *CHF m*	100% *CHF m*	150% *CHF m*	31.12.2010 Total *CHF m*
Due from banks	2 444	2 667	-	1 084	-	17	16	6 228
Loans	9 749	5	2 844	627	58	1 278	29	14 590
Financial investments available-for-sale	4 226	6 384	-	3 018	-	71	97	13 796
Derivative financial instruments	1 281	307	-	429	2	379	-	2 398
Contingent liabilities	433	2	-	3	3	36	-	477
Irrevocable commitments	10	27	-	-	1	9	-	47
Securities lending and repo transactions	4 632	222	-	-	-	469	-	5 323
Total	22 775	9 614	2 844	5 161	64	2 259	142	42 859

Reconciliation of credit risk totals

The values shown in the tables above are based on the requirements of the standard approach set out in the capital adequacy rules of the Basel Committee on Banking Supervision (Basel II BIS approach). Balance sheet and off-balance-sheet positions exposed to credit risks are disclosed, with the exception of the following balance sheet positions, which include non-financial instruments: accrued income and prepaid expenses, deferred tax assets and other assets. The list and tables below explain the differences between the total amounts according to the Basel II BIS approach and the corresponding balance sheet and off-balance-sheet positions.

- The difference in the due from banks position is due to the fact that under IFRS reverse repurchase transactions are recognised on the balance sheet, whereas under the Basel II BIS approach they are disclosed as an off-balance-sheet item under securities lending and repurchase transactions. The credit risk tables have been adjusted to avoid double counting.
- The difference in the loans position is due to the fact that the collective allowance is not deducted from loans under the Basel II BIS approach.
- In the financial investments available-for-sale position the unrealised gains are deducted from the market value under the Basel II BIS approach.
- The total amount of the derivative financial instruments under the Basel II BIS approach corresponds to the total of the replacement values as disclosed in the balance sheet, plus calculated add-ons, minus any netting permitted under Basel II BIS. The add-on is a percentage of the notional amount of the instrument underlying the contract. The percentage depends on the type of the underlying and the residual term to maturity of the contract. Positive and negative replacement values of derivative exposures with the same counterparty (irrespective of maturity or currency) are netted against each other if a legally acknowledged netting agreement has been signed.
- Under the Basel II BIS approach, the total contingent liabilities and irrevocable commitments off-balance-sheet positions correspond to the calculated credit equivalents. The credit equivalent of each off-balance-sheet position is determined by multiplying its nominal value (or current value should this be lower) by a credit conversion factor. The conversion factor depends on the original maturity of the contract. The contingent liabilities and irrevocable commitments as presented in the credit risk tables do not qualify as contingent liabilities under IFRS.
- Under the Basel II BIS approach securities lending and repurchase transactions are disclosed including risk premiums. The percentage of the risk premium depends on the quality of the security involved in each securities lending or repo transaction.

Reconciliation of credit risk totals with balance sheet positions

	Basel II BIS approach *CHF m*	Balance sheet total *CHF m*	Deviation *CHF m*	Comment
Due from banks	8 381.8	10 048.1	-1 666.3	reverse repurchase transactions deducted; collective allowance of CHF 2.3 million not deducted
Loans	16 433.3	16 408.4	24.9	collective allowance not deducted
Financial investments available-for-sale	12 078.9	12 168.0	-89.1	unrealised gains deducted
Derivative financial instruments	1 824.3	2 114.0	-289.7	
of which security supplement (add-ons)			*573.9*	*according to add-on and netting rules under BIS approach*
of which netting of replacement values			*-863.6*	*impact of netting rules under BIS approach*
Total 31.12.2011	**38 718.3**	**40 738.5**	**-2 020.2**	

Comments on off-balance-sheet positions

	Basel II BIS approach *CHF m*	Off-balance-sheet total *CHF m*	Deviation *CHF m*	Comment
Contingent liabilities	491.7	984.3 [1]	-492.6	converted in credit equivalent
Irrevocable commitments	79.5	166.5 [1]	-87.0	converted in credit equivalent
Securities lending and repo transactions	6 981.9	6 515.9	466.0	including risk premium under BIS approach
Total 31.12.2011	**7 553.1**			

[1]These amounts reflect the maximum payments the Group is committed to making.

Reconciliation of credit risk totals with balance sheet positions

	Basel II BIS approach *CHF m*	Balance sheet total *CHF m*	Deviation *CHF m*	Comment
Due from banks	6 228.0	6 586.6	-358.6	reverse repurchase transactions deducted; collective allowance of CHF 6.2 million not deducted
Loans	14 589.7	14 570.4	19.3	collective allowance not deducted
Financial investments available-for-sale	13 796.3	13 885.1	-88.8	unrealised gains deducted
Derivative financial instruments	2 397.8	2 713.1	-315.3	
of which security supplement (add-ons)			*945.2*	*according to add-on and netting rules under BIS approach*
of which netting of replacement values			*-1 260.5*	*impact of netting rules under BIS approach*
Total 31.12.2010	37 011.8	37 755.2	-743.4	

Comments on off-balance-sheet positions

	Basel II BIS approach *CHF m*	Off-balance-sheet total *CHF m*	Deviation *CHF m*	Comment
Contingent liabilities	477.1	950.9 [1]	-473.8	converted in credit equivalent
Irrevocable commitments	47.2	111.2 [1]	-64.0	converted in credit equivalent
Securities lending and repo transactions	5 322.5	4 978.3	344.2	including risk premium under BIS approach
Total 31.12.2010	5 846.8			

[1] These amounts reflect the maximum payments the Group is committed to making.

The following table provides an analysis of the Group's exposure to credit risk by credit quality and contains data from the internal credit supervision system used for the calculation and monitoring of the Group's exposure to credit risk. Credit exposure is measured against the following two types of limits: a) risk limits for unsecured credit exposures, which apply mainly to banks and brokers, but also include selected non-financial institutions issuing debt securities; and b) Lombard limits for collateralised credit exposures, which relate mainly to private clients.

In this analysis, credit exposure primarily comprises the following elements: cash exposure (such as advances, account overdrafts, cash balances with correspondent banks, etc.), derivatives exposure (replacement value plus add-on), and issuer risk from debt securities held in the Group's investment and treasury books. Exposure from reverse repo and securities lending transactions is not included in this credit exposure analysis, since these positions are over-collateralised on a net basis and therefore do not constitute credit risk. In this context, over-collateralised on a net basis means that, in each transaction, the value of the collateral provided (without regulatory standard haircuts being applied) exceeds the value of the securities lent (without a risk premium being applied). Intraday settlement exposures are also not included in the credit exposure analysis. These are monitored separately.

For the purpose of this analysis, cash balances across different accounts are netted against each other for clients with Lombard limits. Derivatives exposures across different products, accounts and counterparties are netted against each other provided an ISDA close-out netting master agreement has been signed.

Exposure to credit risk by credit rating

	31.12.2011 Collateralised *CHF m*	31.12.2010 Collateralised *CHF m*	**31.12.2011** Unsecured *CHF m*	31.12.2010 Unsecured *CHF m*
Neither past due nor impaired	**19 613.9**	16 613.7	**19 140.7**	18 795.0
Past due but not impaired	**62.5**	143.5	**-**	-
Impaired	**105.7**	81.8	**4.0**	3.6
Total	**19 782.1**	16 839.0	**19 144.7**	18 798.6
Neither past due nor impaired				
R1 to R3	**16 080.1**	13 577.2	**18 236.9**	18 275.5
R4 to R6 (including temporarily unrated)	**3 533.8**	3 036.5	**903.8**	519.5
Total	**19 613.9**	16 613.7	**19 140.7**	18 795.0
Past due but not impaired				
R7	**62.5**	143.5	**-**	-
Total	**62.5**	143.5	**-**	-
Collateral held or credit enhancement available	***70.9***	*223.0*	**-**	-
Impaired				
R8	**61.1**	23.6	**0.5**	0.1
R9 to R10	**44.6**	58.2	**3.5**	3.5
Total	**105.7**	81.8	**4.0**	3.6
Collateral held or credit enhancement available	***55.6***	*51.9*	**-**	-
Allowance for credit losses				
Specific allowance for credit losses	**79.5**	64.0	**4.0**	3.6
Collective allowance for credit losses	**26.4**	21.3	**2.3**	6.2
Total	**105.9**	85.3	**6.3**	9.8

The internal credit ratings R1–R10 form the basis for calculating allowances for credit losses. Loans, receivables and other exposures are allocated to one of the ten rating classes. In the case of balances in rating classes R1–R6, the balances are being serviced, the fair value of the collateral pledged for collateralised exposures equals or exceeds the balances, and repayment of the balance is not in doubt. For these exposures, no specific allowances for credit losses are established. Balances in rating class R7 are past due, but the exposure is still covered by collateral, and allowances are established only for past due interest payments. For balances in rating class R8, specific allowances for credit losses are established if it is more likely than not that a loss will arise. The credit risks in rating classes R9 and R10 are very high, and specific allowances for credit losses are established for balances in these rating classes.

The following table shows the Group's theoretical maximum exposure to credit risk as of the balance sheet date, which represents the exposure in the event of other parties failing to perform their obligations, without taking account of any collateral held or other credit enhancements. For financial assets, these exposures are typically the gross carrying amount, net of any amounts offset on the balance sheet or any impairment losses recognised.

Maximum exposure to credit risk

	31.12.2011 Gross maximum exposure *CHF m*	31.12.2010 Gross maximum exposure *CHF m*
Cash (excluding cash on hand)	**4 205.7**	1 081.9
Due from banks	**10 048.1**	6 586.6
Loans	**16 408.4**	14 570.4
Trading assets	**613.3**	300.9
Derivative financial instruments	**2 114.0**	2 713.1
Financial investments available-for-sale	**12 093.5**	13 738.1
Accrued income	**172.1**	154.6
Other assets	**9.8**	6.8
Total maximum exposure to credit risk	**45 664.9**	39 152.4

Market risk (trading book)

The following definitions are used to separate trading book and banking book activities: the *trading book* consists of proprietary positions in financial instruments that are held for resale or repurchase and that are usually taken on with the intention of benefiting from expected short-term differences between their purchase and sale prices. These activities are closely related to the clients' requirements for capital market products and are thus understood as being carried out in support of our core business. The *banking book* generally has a longer-term investment focus and is defined as all other assets, liabilities and off-balance-sheet items that either result from classical banking transactions or are intended to be held in order to generate income over time.

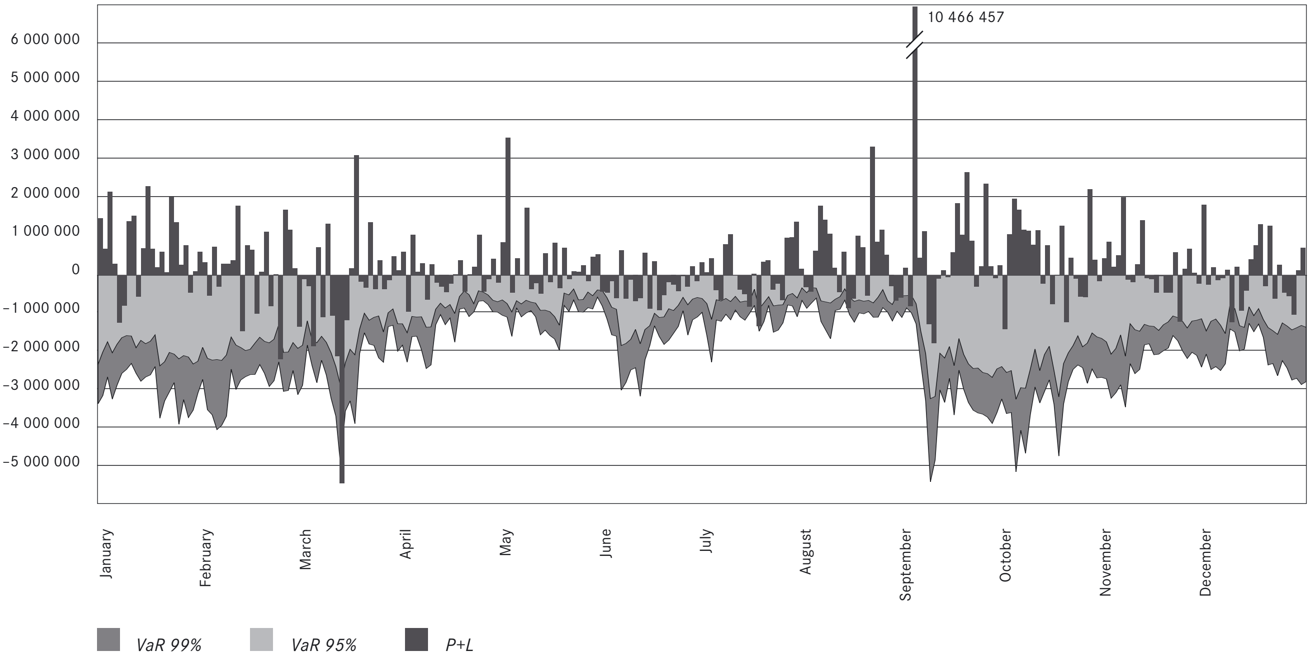
Market risk measures the potential loss to which the Group is exposed through changes in market prices in interest rate, equity, foreign exchange and commodity markets. Market risk management involves the identification, measurement, control and management of the market risks assumed. The trading units enter into market risk positions within defined limits.

Market risk measurement, market risk limitation, back testing and stress testing

The following methods are used to measure and limit market risk: value at risk (VaR) limits, sensitivity or concentration limits (delta, vega, basis point and nominal limits as well as scenario analysis), and country limits for trading positions. VaR, the key risk figure, measures the magnitude of the loss on a portfolio that, under normal circumstances and for a specific probability (confidence interval), will not be exceeded during the observed holding period. The VaR of the Group amounted to CHF 1.59 million on

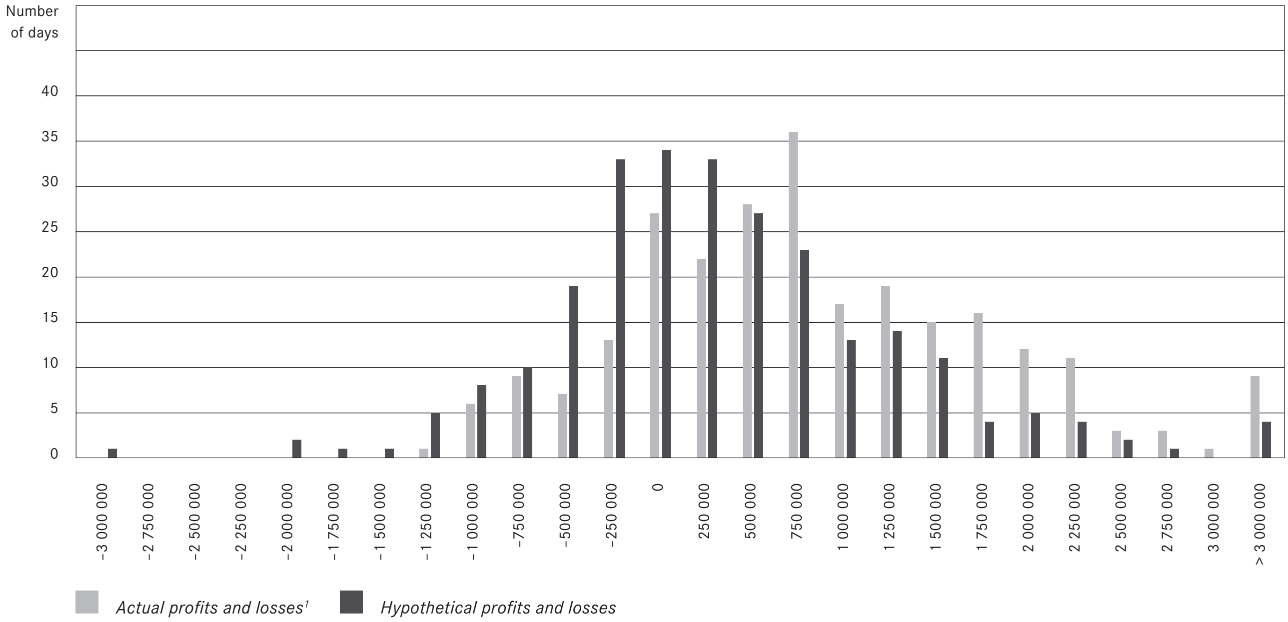
31 December 2011 (one-day holding period, 95% confidence interval). The maximum VaR recorded in 2011 amounted to CHF 3.22 million; the minimum was CHF 0.32 million. The adequacy of the VaR calculation, which is based on historical market movements, is monitored through regular back testing. This involves the comparison of the daily gains and losses generated by the trading book with the VaR values calculated each day. The following chart shows the daily calculations of VaR in 2011 (at confidence intervals of 95% and 99% and for a one-day holding period) compared with the hypothetical gains or losses which would have occurred if the positions had been left unchanged for one day.

Back testing trading of Julius Baer Group for 2011 (CHF)



The following chart compares these hypothetical revenues with the actual profit and loss generated by the trading operations of the Group. To ensure comparability, pure commission income has been removed from these profit and loss results.

Distribution of daily revenues from trading activities of Julius Baer Group for 2011 (CHF)



[1] Pure trading revenues excluding commissions and fees

Whereas VaR forecasts identify potential losses during normal market conditions, daily stress tests are carried out in order to estimate the consequences of extreme market swings. Limits are set for both these risk metrics and their utilisation is monitored on a daily basis.

VaR method and regulatory capital

For its VaR calculation, the Group uses historical simulation with complete revaluation of all trading positions in each instance. The historical simulation is based on empirically observed changes in market parameters (prices, yield curves, volatilities) over the last 300-trading-day period. As a result, correlation is taken into account implicitly, without having to draw on calculations and assumptions based on a correlation matrix. The risk management platform and the internal market risk models of the Group fulfil the relevant regulatory requirements and have been approved by the Swiss Financial Market Supervisory Authority (FINMA) for use in determining the capital requirement for market risks in the trading book.

In addition to the normal VaR calculations detailed above, a so-called stress based VaR calculation is also carried out. Instead of the historical prices observed over the last 300 trading days, this stress based VaR calculation uses those observed during a highly volatile period in the past (the stress period). The Group's stress based VaR amounted to CHF 1.63 million on 31 December 2011 (for a one-day holding period and a 95% confidence interval). The maximum stress based VaR recorded in 2011 amounted to CHF 6.10 million; the minimum was CHF 0.57 million. Under the new FINMA regulations, the capital requirement for market risk is the sum of the normal VaR and the stress based VaR.

Given the limited materiality of the positions concerned, the specific risk of the Group's fixed income trading positions is calculated according to the standard method. The new incremental risk charge and comprehensive risk capital charge requirements are not applied.

The following table is a summary of the VaR positions of the Group's trading portfolios:

Market risk – VaR positions by risk type

				2011
	At 31 December *CHF 1000*	Average *CHF 1000*	Maximum *CHF 1000*	Minimum *CHF 1000*
Equities	**-361**	**-1 018**	**-3 436**	**-206**
Interest rates	**-442**	**-448**	**-1 072**	**-204**
Foreign exchange/precious metals	**-1 708**	**-728**	**-3 287**	**-18**
Effects of correlation	**921**			
Total	**-1 590**	**-1 341**	**-3 216**	**-318**

				2010
	At 31 December *CHF 1000*	Average *CHF 1000*	Maximum *CHF 1000*	Minimum *CHF 1000*
Equities	-2 423	-1 327	-3 307	-384
Interest rates	-1 073	-459	-1 206	-161
Foreign exchange/precious metals	-262	-416	-1 497	-43
Effects of correlation	1 442			
Total	-2 316	-1 350	-3 392	-393

Liquidity, financing and interest rate risks in the banking book

Financing risk is the risk of the Group being unable to finance its existing or planned activities on an ongoing basis at acceptable prices. Liquidity risk, conversely, is the risk of the Group being unable to meet its payment obligations when they fall due. The Treasury department of Bank Julius Baer & Co. Ltd. manages the Group's liquidity and financing risks on an integrated basis, with Bank Julius Baer & Co. Ltd. acting as the Group's central liquidity provider. Currently, the Group's activities are largely financed by client sight deposits. Given its active participation in the interbank market, the Group would, however, quickly be able to access additional sources of refinancing at any time. The liquidity position of Bank Julius Baer & Co. Ltd., in particular, as well as those of the other Group companies, are monitored and managed daily and exceed the regulatory minimum, as required by the Group's liquidity policy. In addition, payment flow simulations are run on a weekly basis in order to analyse the liquidity of the balance sheet under extreme conditions.

Interest rate risk is defined as the impact of potential changes in interest rates on the market value of the assets and liabilities of the Group. One objective measure of this risk can be provided by showing the impact of a positive change of 1% (+100 basis points) in the entire yield curve in the respective currency. The table below, broken down according to maturity bands and currencies, shows the results of such a scenario as at 31 December 2011. Negative values under this scenario reflect a potential drop in fair value within the respective maturity band; positive values reflect a potential increase in fair value. This risk measure is also used to carry out scenario analyses on a regular basis. As there are no material option structures in the banking book, a negative change of 1% in the yield curves would result in scenario values of similar magnitude but with the opposite sign, though such outcomes are mitigated by the fact that the yield curves at the markets in which the Group carries out most of its activities are currently close to zero.

Interest rate sensitivity positions

	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	**Total** *CHF 1000*
Interest sensitivity by time bands and 100 bp parallel increase						
CHF						
2011	**3 418**	**377**	**25 581**	**-19 461**	**-49 183**	**-39 268**
2010	830	521	21 236	-25 785	-38 959	-42 157
USD						
2011	**38**	**2 062**	**5 917**	**-358**	**821**	**8 480**
2010	2 222	-2 619	1 584	-3 539	-54	-2 406
EUR						
2011	**359**	**-650**	**3 754**	**-10 377**	**-1 991**	**-8 905**
2010	1 089	-1 597	-3 631	-11 037	-43	-15 219
Other						
2011	**130**	**-465**	**2 399**	**1 119**	**-4 222**	**-1 039**
2010	987	-1 185	-269	-569	-2 415	-3 451

In addition, the effect on interest earnings resulting from a parallel shift of 1% in the yield curve is measured. In this gap analysis, the interest-bearing assets and liabilities are offset within maturity bands. The impact of the yield curve shift on the residual exposure over the time horizon from the next repricing date to a point 12 months ahead is measured. Based on the assumptions described above, the effect on interest earnings was CHF -5.2 million at the end of 2011 (2010: CHF 1.0 million).

Exposures to risks, other than interest rate and liquidity risks, arising from positions held by the Group in the banking book are limited and monitored using nominal and VaR limits. Price risk exposures arise from positions in equities, funds and non-traditional funds. They are managed by the Treasury department of Bank Julius Baer & Co. Ltd. Currency risks on the banking book are transferred to the trading book. By way of exception, Group entities may carry currency exposures. These exposures are limited and measured according to individual balance sheet management guidelines and are included in the Group's VaR calculations.

Hedging interest rate risks

The Group accepts deposits from customers at both floating and fixed rates and for various periods and either lends these funds on a collateralised basis or invests them in high-quality assets. By consolidating the short-term money deposited by clients and lending it out at longer maturities, an effort is made to increase the interest margin. At the same time, sufficient liquid assets are held in order to be always able to meet all maturing obligations. In managing the associated interest rate risks, the Group hedges a portion of the interest rate risk associated with cash flows resulting from term deposits or term loans by employing interest rate swaps. The market value of these swaps on 31 December 2011 amounted to a net CHF -8.1 million (2010: CHF -0.4 million).

The following table shows an analysis of the Group's financial assets and financial liabilities by remaining expected maturities as of the balance sheet date. The expected maturities are based on management estimates and may differ from the contractual maturities. Balances are classified as on demand if they may be drawn on at any time.

Expected remaining maturities of financial assets and liabilities

	On demand *CHF m*	Due within 3 months *CHF m*	Due within 3 to 12 months *CHF m*	Due within 12 months to 5 years *CHF m*	Due after 5 years *CHF m*	**Total** *CHF m*
Financial assets						
Cash	4 241.5	-	-	-	-	**4 241.5**
Due from banks	-	9 723.8	257.5	59.7	7.1	**10 048.1**
Loans	-	11 126.2	2 492.6	2 061.6	728.0	**16 408.4**
Trading assets	4 920.2	-	-	-	-	**4 920.2**
Derivative financial instruments	2 114.0	-	-	-	-	**2 114.0**
Financial investments available-for-sale	-	3 114.0	3 234.8	4 913.7	905.5	**12 168.0**
Accrued income	-	172.1	-	-	-	**172.1**
Total 31.12.2011	11 275.6	24 136.2	5 984.8	7 035.0	1 640.6	**50 072.2**
Total 31.12.2010	8 592.5	21 919.9	5 956.3	6 102.1	1 218.4	43 789.3
Financial liabilities						
Due to banks	-	5 651.8	5.8	12.6	-	**5 670.2**
Due to customers	-	24 076.1	7 590.3	3 174.8	-	**34 841.2**
Trading liabilities	814.1	-	-	-	-	**814.1**
Derivative financial instruments	2 116.0	-	-	-	-	**2 116.0**
Financial liabilities designated at fair value	164.9	1 225.0	852.9	1 037.6	214.2	**3 494.6**
Debt issued	-	8.1	0.6	-	467.1	**475.8**
Accrued expenses	-	96.9	-	-	-	**96.9**
Total 31.12.2011	3 095.0	31 057.8	8 449.6	4 225.0	681.4	**47 508.8**
Total 31.12.2010	5 481.8	26 243.6	6 406.3	2 373.4	671.9	41 176.9

The following table shows an analysis of the Group's financial liabilities by remaining contractual maturities as of the balance sheet date. Contrary to the balance sheet presentation, these amounts include the total of contractual undiscounted interest payments related to these financial liabilities. Liabilities without a stated maturity, i.e. that can be called for repayment at any time, are classified as on demand. All derivative financial instruments are classified as on demand, as there are no single derivatives or classes of derivatives for which the contractual maturities are relevant for the timing of the total cash flows of the Group.

Remaining contractual maturities of financial liabilities

	On demand *CHF m*	Due within 3 months *CHF m*	Due within 3 to 12 months *CHF m*	Due within 12 months to 5 years *CHF m*	Due after 5 years *CHF m*	**Total** *CHF m*
Financial liabilities						
Due to banks	4 533.6	932.9	203.1	2.7	-	**5 672.3**
Due to customers	30 691.7	3 966.5	187.3	-	-	**34 845.5**
Trading liabilities	814.1	-	-	-	-	**814.1**
Derivative financial instruments	2 116.0	-	-	-	-	**2 116.0**
Financial liabilities designated at fair value	164.9	1 239.1	887.2	1 038.2	214.2	**3 543.6**
Debt issued	-	8.1	20.6	71.5	467.1	**567.3**
Accrued expenses	-	96.9	-	-	-	**96.9**
Total 31.12.2011	38 320.3	6 243.5	1 298.2	1 112.4	681.4	**47 655.8**
Due to banks	3 224.0	810.3	211.7	9.9	-	4 255.9
Due to customers	24 674.7	3 964.9	139.4	72.5	-	28 851.5
Trading liabilities	800.9	-	-	-	-	800.9
Derivative financial instruments	2 772.4	-	-	-	-	2 772.4
Financial liabilities designated at fair value	1 908.5	322.7	870.5	696.7	446.9	4 245.3
Debt issued	-	13.8	8.3	34.5	225.0	281.6
Accrued expenses	-	104.3	-	-	-	104.3
Total 31.12.2010	33 380.4	5 216.0	1 229.9	813.6	671.9	41 311.8

Operational risk

Operational risk – definition and objectives

Operational risk is defined as the risk of loss resulting from inadequacies or failures either in internal processes, people and/or systems, or from external events.

The qualitative and quantitative standards defined by the Basel Committee for Banking Supervision are met by the current operational risk management and control set-up.

The objectives of the operational risk management process which have been defined for the purpose of avoiding substantial operational losses which could jeopardise the Group's ongoing business activities are the following:

- continuously to pursue the further development of the operational risk control framework, thus enabling the organisation to manage and minimise operational risks effectively;
- to promote a high level of risk awareness at all levels of the organisation;
- to contribute to the enhancement of internal regulations, processes and systems so as to minimise risks;
- to ensure that business operations continue to run smoothly in the event of infrastructure breakdowns and catastrophes (Business Continuity Management);
- to assess all risk-related issues before new services or products are offered;
- to ensure that operational risk reports are submitted to the appropriate levels of management;
- to ensure that shareholders' equity is correctly allocated to cover operational risks.

In addition, the Group's operational risk control framework also covers legal and regulatory risks.

Business Continuity Management

The primary objective of Business Continuity Management (BCM) is to anticipate threats and their potential effects on the business activities and to put in place an appropriate crisis organisation structure to ensure that the Group is able to function in the event of such threats becoming reality. BCM includes analysis and planning activities that are designed to ensure that in the event of a catastrophe or a crisis which puts business in jeopardy, the continuity of essential business processes is re-established. The business continuity risks associated with a process are evaluated according to the assumed extent and duration of any disturbance or interruption to which it might be subjected.

The specialised security services support the Group's BCM function in defining continuity management procedures, particularly in the areas of emergency management, protection of people, valuables, facilities and information and the protection of IT infrastructure and services. The specialised security services are also responsible for implementing measures to reduce these various risks.

Legal and compliance risk

Legal risk essentially comprises default and liability risk. Default risk is defined as the risk of financial or other loss or injury resulting from a Group company being unable to enforce existing or anticipated rights, most commonly contractual rights, against third parties. Liability risk, on the other hand, arises when a Group company, or someone acting on its behalf, fails to meet an obligation owed to a third party or fails to respect the rights of a third party, and that such failure results in injury to the third party concerned.

Regulatory or compliance risk is the risk of financial or other loss or injury resulting from a breach of applicable laws and regulations or the departure from internal or external codes of conduct or market practice. The loss or injury in such circumstances may take the form of fines imposed by regulatory authorities or other sanctions such as restrictions on business activities or the imposition of mandatory remedial measures.

Measures aimed at minimising legal and regulatory or compliance risks include raising staff awareness of legal and regulatory issues through training and internal directives and controls to ensure adherence to the legal and regulatory requirements within which the Group operates.

As described on page 62 the General Counsel is responsible for the management and control of legal and compliance risk. Legal and compliance risks are regularly reported to the dedicated committee of the Board of Directors, being the Audit Committee. In line with the development of the legal and regulatory environment of the industry the Group has consistently invested into personnel and technical resources to ensure adequate compliance coverage. A comprehensive framework of policies and specialised periodical trainings are set up to ensure ongoing education and training to personnel. Beginning in 2009 Julius Baer initiated a global project with the aim to set up a cross-border framework. Thereby a set of core markets was defined along the Group's business strategy. In addition, country manuals have been established for all major markets. For those markets, permitted and not permitted services were defined. An extensive training was put in place to ensure adequate know-how transfer to the relationship managers. The formal closure of the project is expected by March 2012.

Personnel risk

Given the structure of the risks to which we are exposed, our major personnel risks lie in the Group's dependence on highly qualified staff and the availability of the necessary management and leadership capabilities. Based on this risk assessment and given the unchanged demand for qualified staff, our efforts are focused on attracting and developing talented professionals and retaining their services for the long term. The quality of our management's leadership, the attractiveness of our employment conditions, and targeted training and development measures are the critical factors in this regard.

Insurance

With the objective of covering or reducing the potential negative financial consequences to which the occurrence of the operational risks described above could lead, the Group takes out insurance cover for specific areas of its business activities in line with general industry practice.

Reputational risk

Reputational risk describes the risk of events which could do lasting harm to the Group's reputation and thus impair its franchise. The Group's ability to conduct its business is critically dependent on the reputation it has established over the more than one hundred years of the existence of Bank Julius Baer & Co. Ltd., the Group's main operating entity. Maintaining its good reputation is therefore vitally important for the Group, and all staff must make this a top priority. Appropriate measures are taken on a regular basis to ensure that staff are aware of the critical importance of the Group's reputation.

Management of capital including regulatory capital

In managing its capital, the Group considers a variety of requirements and expectations. Sufficient capital must be in place to support current and projected business activities, according to both the Group's own internal assessment and the requirements of its regulators, in particular its lead regulator the Swiss Financial Market Supervisory Authority (FINMA). Capital is also managed in order to achieve sound capital ratios and to ensure strong external credit ratings.

Ensuring compliance with minimum regulatory capital requirements and targeted capital ratios is central to capital adequacy management. In this ongoing process, the Group manages its capital on the basis of target ratios for core (tier 1) capital and total capital. In the target-setting process the Group takes into account the regulatory minimum capital requirements and regulatory expectations that the Group will hold additional capital above the minimum, the Group's internal assessment of aggregate risk exposure requiring equity capital provision, the views of rating agencies, and comparison to peer institutions, considering the Group's business mix and market presence.

In 2011, the scope of consolidation used for the calculation of capital adequacy differs from that applied for accounting purposes. Julius Baer Life (Bahamas) Ltd., a Group insurance company founded in 2008, is not consolidated for the calculation of capital adequacy. For further information about consolidated companies, please refer to Note 26.

In contrast to the calculations carried out for its financial reporting, for which the Group calculates risk-weighted assets according to BIS guidelines, the calculation of the Group's regulatory capital requirement is based on FINMA legal requirements. For its regulatory reporting, the Group applies the Swiss standardised approach (SA-CH). This results in higher risk-weighted assets and, consequently, higher capital requirements than would be required by BIS guidelines.

BIS guidelines require a tier 1 ratio of at least 4% of risk-weighted assets and total eligible capital equal to at least 8% of risk-weighted assets. According to a new FINMA guideline which came into effect on 1 July 2011 an additional capital buffer of 4% has to be held, based on the categorisation of our institute. As at 31 December 2011 and as at 31 December 2010, the Group was adequately capitalised under the respective FINMA and BIS guidelines.

Capital ratios

	31.12.2011 *CHF m*	31.12.2010 *CHF m*
Risk-weighted positions		
Credit risk	**8 716.6**	8 115.9
Non-counterparty-related risk	**529.9**	534.1
Market risk[1]	**671.5**	514.2
Operational risk[1]	**2 892.5**	2 896.3
Total	**12 810.5**	12 060.5
Eligible capital		
Eligible tier 1 capital	**2 788.5**	2 873.4
of which hybrid tier 1 capital	***225.0***	*225.0*
Eligible tier 1 and tier 2 capital	**3 067.3**	2 933.6
of which lower tier 2 capital	***242.1***	-
BIS tier 1 ratio	**21.8%**	23.8%
BIS total capital ratio	**23.9%**	24.3%

[1]Risk-weighted figure calculated by taking 12.5 times the capital adequacy requirement according to the applied approach

Hybrid tier 1 capital represents 8.1% of the total tier 1 capital. The hybrid tier 1 capital consists of preferred securities issued by Julius Baer Capital (Guernsey) I Limited. The preferred securities were issued in exchange for a note of Julius Baer Group Ltd. in the same amount and with mirror conditions. Their maturity is essentially perpetual and they are subordinate to all other borrowings. They have a preference over equity with regard to the payment of dividends and liquidation proceeds, though such dividends and liquidation proceeds will be paid only to the extent that they comply with the banking and company law regulations applicable to distributions made by Julius Baer Group Ltd. The preferential dividend right is not cumulative. The preferred securities are fully paid up, devoid of any voting rights or rights associated therewith, capable of sustaining losses, unsecured and repayable at the issuer's option only, no earlier than 2 December 2015 and only with the approval of the regulatory authorities. The hybrid equity created by the issue of preferred securities is recognised in full as core capital for the purpose of adherence to consolidated equity requirements.

Lower tier 2 capital represents 7.9% of the Group's total capital and consists of subordinated unsecured bonds ("bonds"), fully paid up and listed on the SIX Swiss Exchange. The bonds have been issued by Julius Baer Group Ltd. ("the issuer") in December 2011 in the amount of CHF 250 million. They constitute valid and legally binding obligations of the issuer enforceable in accordance with their terms and rank at least pari passu with all other unsecured and subordinated obligations of the issuer. Maturity date of the bonds is 23 December 2021. From (and excluding) the issue date (23 December 2011) to (but including) the reset date (23 December 2016), the bonds pay a fixed rate of interest of 4.50% per annum and during the period (reset period) commencing on (and excluding) the reset date and ending on (but including) the maturity date (23 December 2021) a fixed rate of interest of the rate per annum equal to the sum of the benchmark rate (i.e. in principle the five-year CHF mid-market swap rate calculated on the basis of the rate displayed on ISDAFIX page CHFSFIX at 11:00 a.m. [CET] on the date falling five business days before the reset date, the "reset determination date") and the margin (i.e. 3.815%). The interest will be payable annually in arrear on 23 December, each an "interest payment date" (30/360). Julius Baer Group Ltd. may redeem the bonds on the reset date (23 December 2016, and upon the occurrence of a capital event or a tax event as defined in the prospectus) in whole but not in part at the par value per bond plus accrued but unpaid interest thereon, upon giving not less than 30 days' notice to the holders of the bonds.

The main adjustment to total equity for the purpose of determining total eligible capital is the deduction of intangible assets. These and other capital components are shown in the following table.

Required capital (see table below) for credit risks arising from amounts due from banks, loans, financial investments and derivative financial instruments accounts for more than 68% (2010: more than 67%) of the total required capital. Capital required for non-counterparty risk (2011: 4%; 2010: 5%) and market risk (2011: 5%; 2010: 4%) is of minor significance. The capital required to cover operational risk accounts for more than 23% of total required capital (2010: 24%).

For further details of the Group's capital adequacy under Swiss law, please refer to www.juliusbaer.com (information will be available at the end of April 2012).

Capital components

	31.12.2011 *CHF m*	31.12.2010 *CHF m*
Gross tier 1 capital after deduction of treasury shares	**4 427.3**	4 586.0
of which non-controlling interests	***1.9***	*2.1*
of which innovative capital instruments	***225.0***	*225.0*
Goodwill and other intangible assets	**-1 543.1**	-1 635.4
Other deductions	**-95.7**	-77.2
Eligible tier 1 capital	**2 788.5**	2 873.4
Tier 2 capital	**278.8**	60.2
of which lower tier 2 capital	***242.1***	-
Eligible tier 1 and tier 2 capital	**3 067.3**	2 933.6

Minimum capital requirement

	31.12.2011 *CHF m*	31.12.2010 *CHF m*
Credit risk	**697.3**	649.3
of which for equity securities in the banking book	***1.7***	*9.9*
Non-counterparty-related risk	**42.4**	42.7
Market risk	**53.7**	41.1
Operational risk	**231.4**	231.7
Total	**1 024.8**	964.8

Information on the consolidated income statement

1 Net interest income

	2011 CHF 1000	2010 CHF 1000	Change %
Interest income on amounts due from banks	**39 100**	30 999	26.1
Interest income on loans	**276 057**	239 345	15.3
Interest income on money market instruments	**38 656**	42 867	-9.8
Interest income on financial investments available-for-sale	**134 202**	131 625	2.0
Dividend income on financial investments available-for-sale	**2 171**	2 328	-6.7
Interest income on trading portfolios	**45 197**	5 993	-
Dividend income on trading portfolios	**101 257**	66 320	52.7
Total interest income	**636 640**	519 477	22.6
Interest expense on amounts due to banks	**8 838**	11 612	-23.9
Interest expense on amounts due to customers	**86 794**	44 324	95.8
Interest expense on debt issued	**8 382**	8 168	2.6
Total interest expense	**104 014**	64 104	62.3
Total	**532 626**	455 373	17.0

2 Net fee and commission income

	2011 CHF 1000	2010 CHF 1000	Change %
Investment fund fees	**108 299**	112 521	-3.8
Fiduciary commissions	**19 088**	19 363	-1.4
Portfolio and other management fees	**604 860**	600 499	0.7
Total fee and commission income from asset management	**732 247**	732 383	-0.0
Income from brokerage and securities underwriting	**354 012**	412 853	-14.3
Commission income on lending activities	**4 625**	4 759	-2.8
Commission income on other services	**46 446**	47 100	-1.4
Total fee and commission income	**1 137 330**	1 197 095	-5.0
Commission expense	**195 342**	216 725	-9.9
Total	**941 988**	980 370	-3.9

3 Net trading income

	2011 CHF 1000	2010 CHF 1000	Change %
Debt instruments	**15 939**	8 077	97.3
Equity instruments	**-96 792**	-11 238	-
Foreign exchange	**349 533**	335 501	4.2
Total	**268 680**	332 340	-19.2

4 Other ordinary results

	2011 CHF 1000	2010 CHF 1000	Change %
Net gains/(losses) from disposal of financial investments available-for-sale	**-16 780**	-7 010	-139.4
Income from investments in associates	**1 101**	-	-
Real estate income	**5 102**	5 552	-8.1
Other ordinary income	**22 146**	28 271	-21.7
Other ordinary expenses	**2 176**	516	-
Total	**9 393**	26 297	-64.3

5 Personnel expenses

	2011 CHF 1000	2010 CHF 1000	Change %
Salaries and bonuses	**648 965**	648 695	0.0
Contributions to staff pension plans (defined benefits)	**36 790**	53 467	-31.2
Contributions to staff pension plans (defined contributions)	**16 180**	14 986	8.0
Other social security contributions	**51 604**	53 431	-3.4
Share-based payments[1]	**22 875**	20 393	12.2
Other personnel expenses	**35 505**	32 768	8.4
Total	**811 919**	823 740	-1.4

[1]Including Staff Participation Plan, see Note 28

6 General expenses

	2011 *CHF 1000*	2010 *CHF 1000*	Change %
Occupancy expense	**52 860**	55 236	-4.3
IT and other equipment expense	**49 954**	55 595	-10.1
Information, communication and advertising expense	**111 057**	118 143	-6.0
Service expense, fees and taxes	**126 192**	121 040	4.3
Valuation allowances, provisions and losses	**88 445** [1]	24 802	-
Other general expenses	**15 740**	1 193	-
Total	**444 248**	376 009	18.1

[1] 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.

7 Income taxes

	2011 *CHF 1000*	2010 *CHF 1000*	Change %
Income tax on profit before taxes (expected tax expense)	**70 135**	95 535	-26.6
Tax rate difference on income of components subject to foreign taxation	**-10 062**	-19 744	49.0
Tax rate difference from local differences in domestic tax rates	**-6 313**	-7 949	20.6
Lower taxed income	**-35 199**	-12 289	-
Effect of utilisation of prior-year losses	**-1 238**	-219	-
Effect from not capitalised losses	**8 059**	5 141	56.8
Adjustments related to prior years	**-1 440**	-1 894	24.0
Write-off of deferred tax assets	**574**	-	-
Non-deductible expenses	**37 356**	22 665	64.8
Other	**-1 215**	237	-
Actual income tax expense	**60 657**	81 483	-25.6

A tax rate of 22% (2010: 22%) was applied in the calculation of income tax in Switzerland. Unrecognised accumulated loss carryforwards in the amount of CHF 58.1 million (2010: CHF 36.5 million) exist in the Group that do not expire.

	2011 CHF 1000	2010 CHF 1000	Change %
Domestic income taxes	**55 301**	78 888	-29.9
Foreign income taxes	**5 356**	2 595	106.4
Total	**60 657**	81 483	-25.6

	2011 CHF 1000	2010 CHF 1000	Change %
Current income taxes	**62 338**	86 511	-27.9
Deferred income taxes	**-1 681**	-5 028	66.6
Total	**60 657**	81 483	-25.6

Tax effects relating to components of other comprehensive income

			2011
	Before-tax amount CHF 1000	Tax (expense)/ benefit CHF 1000	Net-of-tax amount CHF 1000
Net unrealised gains/(losses) on financial investments available-for-sale	-41 535	5 463	-36 072
Net realised (gains)/losses reclassified to the income statement on financial investments available-for-sale	20 465	-1 457	19 008
Hedging reserve for cash flow hedges	-6 607	1 443	-5 164
Translation differences	-6 101	-	-6 101
Other comprehensive income for the year recognised directly in equity	**-33 778**	**5 449**	**-28 329**

			2010
	Before-tax amount CHF 1000	Tax (expense)/ benefit CHF 1000	Net-of-tax amount CHF 1000
Net unrealised gains/(losses) on financial investments available-for-sale	15 294	-2 690	12 604
Net realised (gains)/losses reclassified to the income statement on financial investments available-for-sale	19 349	-1 066	18 283
Hedging reserve for cash flow hedges	1 253	-276	977
Translation differences	-29 281	-	-29 281
Other comprehensive income for the year recognised directly in equity	6 615	-4 032	2 583

8 Earnings per share and shares outstanding

	2011	2010
Basic net profit per share		
Net profit (CHF 1000)	**257 916**	351 992
Weighted average number of shares outstanding	**202 586 951**	205 969 204
Basic net profit per share (CHF)	**1.27**	1.71

Diluted net profit per share		
Net profit (CHF 1000)	**257 916**	351 992
Less (profit)/loss on equity derivative contracts (CHF 1000)	**-313**	-31
Net profit for diluted EPS (CHF 1000)	**257 603**	351 961
Weighted average number of shares outstanding	**202 586 951**	205 969 204
Dilution effect	**243 658**	20 216
Weighted average number of shares outstanding for diluted EPS	**202 830 609**	205 989 420
Diluted net profit per share (CHF)	**1.27**	1.71

	31.12.2011	31.12.2010
Shares outstanding		
Total shares issued	**206 630 756**	206 630 756
Share buyback programme	**7 592 954**	-
Treasury shares	**1 345 321**	541 002
Total	**197 692 481**	206 089 754

Information on the consolidated balance sheet

9a Due from banks

	31.12.2011 CHF 1000	31.12.2010 CHF 1000	Change CHF 1000
Due from banks	**10 053 949**	6 596 299	3 457 650
Allowance for credit losses	**-5 870**	-9 679	3 809
Total	**10 048 079**	6 586 620	3 461 459

Due from banks by type of collateral:

Securities collateral	**1 876 347**	861 856	1 014 491
Without collateral	**8 171 732**	5 724 764	2 446 968
Total	**10 048 079**	6 586 620	3 461 459

9b Loans

	31.12.2011 CHF 1000	31.12.2010 CHF 1000	Change CHF 1000
Loans	**11 915 863**	10 991 413	924 450
Mortgages	**4 579 039**	3 631 943	947 096
Subtotal	**16 494 902**	14 623 356	1 871 546
Allowance for credit losses	**-86 492**	-52 946	-33 546
Total	**16 408 410**	14 570 410	1 838 000

Loans by type of collateral:

Securities collateral	**8 447 969**	7 274 644	1 173 325
Mortgage collateral	**4 539 898**	3 607 469	932 429
Other collateral (mainly cash and fiduciary deposits)	**3 405 096**	3 375 488	29 608
Without collateral	**15 447**	312 809	-297 362
Total	**16 408 410**	14 570 410	1 838 000

9c Allowance for credit losses

	2011 Specific CHF 1000	2011 Collective CHF 1000	2010 Specific CHF 1000	2010 Collective CHF 1000
Balance at the beginning of the year	**37 163**	**25 462**	42 295	23 152
Write-offs	**-**	**-**	-9 553	-
Increase in allowance for credit losses	**28 306**	**1 812**	8 761	2 310
Decrease in allowance for credit losses	**-511**	**-**	-536	-
Translation differences and other adjustments	**130**	**-**	-3 804	-
Balance at the end of the year	**65 088**	**27 274**	37 163	25 462

9d Impaired loans

	31.12.2011 CHF 1000	31.12.2010 CHF 1000	Change CHF 1000
Gross loans	**103 052**	63 204	39 848
Specific allowance for credit losses	**-65 088**	-37 163	-27 925
Net loans	**37 964**	26 041	11 923

10a Trading assets and liabilities

	31.12.2011 CHF 1000	31.12.2010 CHF 1000	Change CHF 1000
Trading assets			
Debt instruments	**613 342**	300 944	312 398
of which quoted	***592 330***	*270 673*	*321 657*
of which unquoted	***21 012***	*30 271*	*-9 259*
Equity instruments	**3 468 629**	2 986 846	481 783
of which quoted	***2 708 389***	*2 185 770*	*522 619*
of which unquoted	***760 240***	*801 076*	*-40 836*
Precious metals	**838 190**	464 177	374 013
Total	**4 920 161**	3 751 967	1 168 194

	31.12.2011 CHF 1000	31.12.2010 CHF 1000	Change CHF 1000
Trading liabilities			
Short positions – debt	**14 108**	11 699	2 409
of which quoted	***10 582***	*8 116*	*2 466*
of which unquoted	***3 526***	*3 583*	*-57*
Short positions – equity	**799 969**	789 183	10 786
of which quoted	***369 449***	*34 599*	*334 850*
of which unquoted	***430 520***	*754 584*	*-324 064*
Total	**814 077**	800 882	13 195

The criteria for a financial instrument to qualify as quoted have been aligned with the disclosures about the determination of fair values (see also Note 25b). The previous year has been adjusted accordingly.

10b Reclassifications

In 2008, the Group reclassified certain trading assets to financial investments available-for-sale, as those assets were no longer held for the purpose of selling them in the near term. In 2009, 2010 and 2011, the Group did not reclassify any financial assets.

The carrying amount of these financial investments available-for-sale as at 31 December 2011 is CHF nil, as compared to CHF 14.1 million in the previous year and CHF 46.8 million in 2009 and CHF 58.0 million in 2008. Changes in fair value recognised in other comprehensive income amounted to CHF nil (2010: CHF -2.3 million, 2009: CHF 4.1 million). Financial investments at the carrying amount of CHF 13.9 million (2010: CHF 30.5 million, 2009: CHF 17.2 million) were sold or matured during the 2011 financial year, with a net result recognised in the income statement of CHF -0.2 million (2010: CHF 0.1 million, 2009: CHF 1.9 million).

For these financial investments, interest income of CHF 0.2 million was recognised in the income statement (2010: CHF 0.8 million, 2009: CHF 2.4 million).

11a Financial investments available-for-sale

	31.12.2011 CHF 1000	31.12.2010 CHF 1000	Change CHF 1000
Money market instruments	**3 421 289**	5 993 113	-2 571 824
Government and agency bonds	**1 732 649**	2 517 560	-784 911
Financial institution bonds	**4 430 254**	3 368 591	1 061 663
Corporate bonds	**2 509 356**	1 858 816	650 540
Debt instruments	**8 672 259**	7 744 967	927 292
of which quoted	***7 994 562***	*7 070 975*	*923 587*
of which unquoted	***677 697***	*673 992*	*3 705*
Equity instruments	**74 467**	147 025	-72 558
of which quoted	***63***	*15 172*	*-15 109*
of which unquoted	***74 404***	*131 853*	*-57 449*
Total	**12 168 015**	13 885 105	-1 717 090

The criteria for a financial instrument to qualify as quoted have been aligned with the disclosures about the determination of fair values (see also Note 25b). The previous year has been adjusted accordingly.

11b Financial investments available-for-sale – Credit ratings

Debt instruments by credit rating classes (excluding money market instruments)	**Fitch, S&P**	**Moody's**	**31.12.2011** CHF 1000	31.12.2010 CHF 1000	Change CHF 1000
1–2	AAA – AA-	Aaa – Aa3	**6 419 972**	5 843 183	576 789
3	A+ – A-	A1 – A3	**2 000 636**	1 709 393	291 243
4	BBB+ – BBB-	Baa1 – Baa3	**139 072**	131 589	7 483
5–7	BB+ – CCC-	Ba1 – Caa3	**56 091**	31 577	24 514
Unrated			**56 488**	29 225	27 263
Total			**8 672 259**	7 744 967	927 292

12 Investments in associates

	31.12.2011 CHF 1000	31.12.2010 CHF 1000	Change CHF 1000
Balance at the beginning of the year	**-**	-	-
Additions	**52 235**	-	52 235
Income	**1 101**	-	1 101
Translation differences	**-4 832**	-	-4 832
Balance at the end of the year	**48 504**	-	48 504

Refer to Note 27a for details regarding the acquisition of 30% of São Paulo-based GPS Investimentos e Participações S.A.

The associated company had the following balance sheet and income statement totals on an aggregated basis not adjusted for the Group's proportionate interest.

	31.12.2011 CHF 1000
Assets	13 809
Liabilities	8 443
Operating income	22 510
Net profit	12 911

13 Intangible assets and property and equipment

	Goodwill *CHF m*	Customer relationships *CHF m*	Software *CHF m*	**Total intangible assets** *CHF m*	Bank premises *CHF m*	Other property and equipment *CHF m*	**Total property and equipment** *CHF m*
Historical cost							
Balance on 01.01.2010	1 122.5	755.8	238.1	2 116.4	340.5	114.1	454.7
Translation differences	-	-2.6	-0.5	-3.1	-	-1.3	-1.3
Additions	-	-	68.1	68.1	7.3	21.6	28.9
Acquisition of subsidiaries	4.3	163.0	1.8	169.1	41.7	3.5	45.2
Disposals/transfers[1]	9.9 [2]	-	1.6	11.5	4.9	5.0	9.9
Balance on 31.12.2010	1 117.0	916.2	305.9	2 339.1	384.7	133.0	517.6
Translation differences	-	-0.4	-0.1	-0.5	-	-0.1	-0.1
Additions	-	-	56.9	56.9	6.2	25.3	31.5
Disposals/transfers[1]	-	-	8.0	8.0	6.8	10.1	16.9
Balance on 31.12.2011	1 117.0	915.7	354.8	2 387.5	384.0	148.0	532.1
Depreciation and amortisation							
Balance on 01.01.2010	-	307.3	103.8	411.1	46.2	76.6	122.8
Translation differences	-	-0.1	-0.1	-0.2	-	-0.8	-0.8
Charge for the period	-	91.6	40.3	131.9	6.5	21.9	28.5
Disposals/transfers[1]	-	-	1.6	1.6	0.1	4.6	4.7
Balance on 31.12.2010	-	398.7	142.5	541.3	52.6	93.2	145.8
Translation differences	-	-0.1	-	-0.1	-	-	-
Charge for the period	-	92.0	55.4 [3]	147.4	7.2	23.2	30.3
Disposals/transfers[1]	-	-	8.0	8.0	0.1	10.1	10.2
Balance on 31.12.2011	-	490.7	189.9	680.6	59.6	106.3	165.9
Book value							
Balance on 31.12.2010	1 117.0	517.4	163.4	1 797.8	332.0	39.7	371.8
Balance on 31.12.2011	**1 117.0**	**425.1**	**164.8**	**1 706.8**	**324.4**	**41.8**	**366.2**

[1]Includes derecognition of fully depreciated and amortised assets
[2]In relation to the acquisition of Julius Baer Wealth Management (Monaco) S.A.M., Monaco, final price settlement induced goodwill adjustment
[3]Includes additional charges of CHF 21.0 million related to adjusted useful lives of software

Goodwill – Impairment testing

To identify any indications of impairment on goodwill, the recoverable amount based on the value in use is determined for the respective cash-generating unit (i.e. for the smallest identifiable groups of assets that generate cash inflows independently from other assets) and is subsequently compared to the carrying amount of that unit.

The Group uses a proprietary model based on the discounted cash flow method to calculate the recoverable amount. The Group estimates the free cash flows expected to be generated from the continuing use of the cash-generating unit based on its own four-year financial planning, taking into account the following key parameters and their single components:

- assets under management;
- return on assets (RoA) on the average assets under management (driven by fixed and performance fees, commissions, trading income and net interest income);
- operating income and expenses; and
- tax rate applicable.

To each of these applicable key parameters, reasonably expected growth assumptions are applied in order to calculate the projected cash flows. The Group assumes that markets will remain more volatile than they used to be and that short-term disruptions cannot be excluded. However, the Group expects in the medium and long term a favourable development of the private banking activities which is reflected in the respective growth of the key parameters. The Group also takes the relative strengths of itself as a pure private banking competitor vis-à-vis its peers into consideration, which should result in a better-than-average business development in the respective market. Additionally, the estimates of the expected free cash flows take into account the projected investments. The resulting free cash flows are discounted to present value, using a pre-tax discount rate of 9.3% (2010: 9.4%).

The Group's approach to determine the key assumptions and related growth expectations is based on management's knowledge and reasonable expectations of future business, using internal and external market information, planned business initiatives and other reasonable intentions of management. For that purpose, the Group uses historical information by taking into consideration the current and expected market situations as well as the current and expected future relative market position of the Group vis-à-vis its respective competitors and in its industry.

The discount rates used in the above calculation represent the Group's specific risk-weighted rates.

Changes in key assumptions

Deviations of future actual results achieved vs. forecasted/planned key assumptions, as well as future changes of any of the key assumptions based on a future different assessment of the development of relevant markets, and/or the businesses, may occur. Such deviations may result from changes in products and client mix, profitability, required types and intensity of personnel resources, general and company-specific driven personnel cost development and/or changes in the implementation of known or addition of new business initiatives and/or other internal and/or external factors. These changes may cause the value of the business to alter and therefore either increase or reduce the difference between the carrying value in the balance sheet and the unit's recoverable amount or may even lead to a partial impairment of goodwill.

Management has performed sensitivity analyses on the discount rates and growth rates applied to a four-year forecast period. No impairment resulted from these analyses. However, there remains a degree of uncertainty involved in the determination of these assumptions due to the general market environment.

14 Operating lease commitments

	31.12.2011 CHF 1000	31.12.2010 CHF 1000
Not later than one year	**41 550**	45 762
Later than one year and not later than five years	**132 459**	83 262
Later than five years	**94 164**	98 347
Subtotal	**268 173**	227 371
Less sublease rentals received under non-cancellable leases	**13 749**	10 540
Total	**254 424**	216 831

Operating leases in the gross amount of CHF 47.0 million are included in operating expenses for the 2011 financial year (2010: CHF 45.1 million).

15 Assets pledged or ceded to secure own commitments and assets subject to retention of title

	31.12.2011		31.12.2010	
	Book value CHF 1000	Effective commitment CHF 1000	Book value CHF 1000	Effective commitment CHF 1000
Securities	**676 683**	**676 683**	520 973	520 636
Other	**11 656**	**10 013**	665	492
Total	**688 339**	**686 696**	521 638	521 128

The assets are mainly pledged for Lombard limits at central banks and for stock exchange securities deposits.

16 Financial liabilities designated at fair value

	2012 CHF m	2013 CHF m	2014 CHF m	2015 CHF m	2016 CHF m	2017–2021 CHF m	**31.12.2011** CHF m	31.12.2010 CHF m
Senior debt								
Fixed rate	1 945.3	25.5	28.9	-	-	-	**1 999.8**	1 983.5
Interest rates (ranges in %)	0.2–50.1	1.5–11.5	4.0–6.1	-	-	-	**-**	-
Floating rate	1 131.9	72.1	60.0	8.1	8.5	214.2	**1 494.8**	1 170.9
Total	**3 077.2**	**97.6**	**88.9**	**8.1**	**8.5**	**214.2**	**3 494.6**	3 154.4

The table above indicates the maturities of the structured debt issues of Bank Julius Baer & Co. Ltd. with fixed interest rate coupons ranging from 0.2% up to 50.1%. The high and low coupons generally relate to structured debt issues prior to the separation of embedded derivatives. As a result, the stated interest rate generally does not reflect the effective interest rate paid to service the debt after the embedded derivative has been separated and, where applicable, the application of hedge accounting.

Changes in the fair value of financial liabilities designated at fair value are attributable to changes in the market risk factors of the embedded derivatives. The credit rating of the Bank had no material impact on the fair value changes of these liabilities.

In 2010 financial liabilities designated at fair value included an additional liability of CHF 1006.4 million relating to Julius Baer Life (Bahamas) Ltd., which was compensated by respective financial assets designated at fair value in the same amount. In 2011 the financial liability designated at fair value was included in liabilities held for sale.

17 Debt issued

	31.12.2011 CHF 1000	31.12.2010 CHF 1000
Money market instruments	**8 694**	15 210
Bonds	**242 135**	-
Preferred securities	**225 000**	225 000
Total	**475 829**	240 210

Bonds and preferred securities

Year of issue	Interest rate %		Notional amount CHF 1000	31.12.2011 Total CHF 1000	31.12.2010 Total CHF 1000
Julius Baer Group Ltd.					
2011[1]	4.50	Lower tier 2 bond	250 000	**242 135**	-
Julius Baer Capital (Guernsey) I Ltd.					
2005[2]	3.63	Preferred securities	225 000	**225 000**	225 000
Total				**467 135**	225 000

[1] Own bonds of CHF 3.65 million are offset with bonds outstanding.
See details regarding lower tier 2 bond on page 86

[2] See details regarding preferred securities on page 86

18a Deferred tax assets

	31.12.2011 *CHF 1000*	31.12.2010 *CHF 1000*
Balance at the beginning of the year	**10 074**	3 474
Income statement – credit	**4 978**	4 606
Income statement – charge	**-2 445**	-28
Acquisition of subsidiaries	**-**	3 313
Recognised directly in equity	**-9**	10
Translation differences and other adjustments	**-203**	-1 301
Balance at the end of the year	**12 395**	10 074

The components of deferred tax assets are as follows:

Operating loss carryforwards	**10 254**	7 071
Employee compensation and benefits	**-**	108
Property and equipment	**148**	92
Valuation adjustments on loans	**1 993**	2 793
Other	**-**	10
Total deferred tax assets	**12 395**	10 074

18b Deferred tax liabilities

	31.12.2011 *CHF 1000*	31.12.2010 *CHF 1000*
Balance at the beginning of the year	**121 893**	85 761
Income statement – charge	**1 128**	-
Income statement – credit	**-276**	-450
Acquisition of subsidiaries	**-**	33 034
Recognised directly in equity	**-5 458**	4 042
Translation differences and other adjustments	**-76**	-494
Balance at the end of the year	**117 211**	121 893

The components of deferred tax liabilities are as follows:

Provisions	**54 401**	53 976
Property and equipment	**12 679**	13 812
Financial investments available-for-sale	**21 435**	24 072
Intangible assets	**26 647**	30 033
Other	**2 049**	-
Total deferred tax liabilities	**117 211**	121 893

19 Provisions

	Restructuring CHF 1000	Legal risks CHF 1000	Other CHF 1000	**2011** **Total** CHF 1000	2010 Total CHF 1000
Balance at the beginning of the year	**7 314**	**22 544**	**2 338**	**32 196**	17 291
Utilised during the year	**-5 629**	**-68 207**	**-989**	**-74 825**	-22 840
Recoveries	**-**	**14 573**	**-**	**14 573**	-
Provisions made during the year	**25 728**	**71 669**	**215**	**97 612**	25 988
Provisions reversed during the year	**-**	**-15 438**	**-**	**-15 438**	-956
Acquisition of subsidiaries	**-**	**-**	**-**	**-**	14 384
Translation differences	**-19**	**-48**	**-**	**-67**	-1 671
Balance at the end of the year	**27 394**	**25 093**	**1 564**	**54 051**	32 196
Maturity of provisions					
Up to one year	**24 274**	**8 726**	**-**	**33 000**	8 888
Over one year	**3 120**	**16 367**	**1 564**	**21 051**	23 308

Details to restructuring provisions		
Balance at the beginning of the year	**7 314**	-
Provisions made during the year	**25 728**	15 420
Provisions used:		
– Personnel	**-5 497**	-7 800
– Occupancy expense	**-132**	-306
Translation differences	**-19**	-
Balance at the end of the year	**27 394**	7 314

The restructuring provisions made during the 2010 financial year and relating to the acquisition of ING Bank (Switzerland) Ltd have been almost entirely utilised in 2011.

The Group announced a new cost reduction plan in November 2011 in response to the continued challenging general business environment. The cost reduction efforts structurally curb general as well as personnel expenses. A restructuring provision in the amount of CHF 25.7 million has been made in order to account for related expenses in the following years.

The Group is involved in various legal, regulatory and arbitration proceedings concerning matters arising within the course of normal business operations. The current business environment involves substantial legal and regulatory risks, the impact of which on the financial position or profitability of the Group – depending on the status of related proceedings – is difficult to assess. The Group establishes provisions for pending and threatened legal proceedings if the management is of the opinion that such proceedings are more likely than not to result in a financial obligation or loss or if the dispute for economic reasons should be settled without acknowledgment of any wrongdoing on the part of the Group and if the amount of such obligation or loss can be reasonably estimated. The Group does not believe that it can estimate an amount of reasonably possible losses for certain of its proceedings because e.g. of the complexity of the proceedings, the early stage of the proceedings and limited amount of discovery that has occurred and/or other factors. Described below are certain proceedings that might have a material effect on the Group.

In connection with certain private banking client accounts managed by an external asset manager and previously held with the former New York branch of Bank Julius Baer & Co. Ltd. ("the Bank"), as custodian and lender, there are civil legal proceedings pending before New York State Court against the Bank (the principal operating entity of the Group) alleging breach of contract, breach of fiduciary duty, negligence, conversion, unjust enrichment and/or fraud, and unauthorised pledging of client assets arising from and before 2001 when an external asset manager sent forged statements to certain clients and moved funds from certain clients' accounts, and pledged assets in certain clients' accounts, to cover losses in others. Proceedings before a New York arbitration panel in the same matter involving some of the same claimants have been closed in 2010 largely in favour of the Bank, among others also clearly rejecting any allegations of fraud, conspiracy and the like (disputed claims, without interest and unquantifiable claims for punitive damages and counterclaims, all court and arbitration proceedings – the latter closed in the meantime – initially amounted to approximately USD 105 million). Nevertheless, the affected claimants continue with their proceedings that include challenging the arbitration award in state court. The Bank is opposing these claims and has taken appropriate steps and measures to defend its interest.

In 2010 and 2011, litigation was commenced against the Bank and numerous other financial institutions by the liquidators of the Fairfield funds, having acted as feeder funds for the Madoff fraudulent investment schemes, in the courts of New York and the British Virgin Islands and by the Trustee of Madoff's Broker-Dealer Company, Bernard L. Madoff Investment Securities LLC, in the courts of New York. The complaints refer to, and in some cases include as defendants, the unnamed beneficial owners of the accounts on whose behalf the payments were made. The plaintiff(s) in these various actions have asserted claims to avoid and/or recover alleged fraudulent transfers under the relevant bankruptcy code provisions and for mistake and restitution. The combined claims seek to recover approximately USD 1.8 billion in payments made by the Fairfield funds and received by the more than 80 defendants. Only a fraction of this amount is sought against the Bank and, in some cases, its beneficial owners. Some of the complaints, however, aggregate the damages asserted against the many defendants so that a reliable allocation of the claimed amounts between the Bank and the other defendants cannot be made at this time. In addition, because the litigation largely remains in the preliminary procedural stages, a meaningful assessment of the potential outcome is not yet possible. The Bank is challenging these actions on procedural and substantive grounds and has taken further measures to defend and protect its interests.

In summer 2011 the Bank has been informed by Swiss authorities that the US Department of Justice (DOJ) named it as one of at that time ten Swiss banks being in the focus and investigated in connection with their cross-border private banking services provided to US private clients. The Bank is in contact with the DOJ and has established cooperation with the US authorities within the confines of applicable laws with the aim to reach a settlement. In parallel, Swiss authorities are in negotiations with the DOJ and the US Internal Revenue Service (IRS) as regards a resolution for the ongoing dispute on tax matters between the US and the Swiss financial industry that aims amongst others at supporting and facilitating settlement solutions for the named banks and at clarifying the scope and extent of administrative assistance and provision of certain client data under the applicable double taxation treaty. The Bank, whilst also cooperating with its home regulator FINMA in this matter, is supporting such efforts of the Swiss government. In the context of its cooperation the Bank has provided the US authorities data with regard to its historical US business. Based on the current stage of such negotiations and cooperation, however, the potential outcome (likelihood and potential content of a settlement) and the financial (potential settlement amount and other costs) and business impact are open and currently not reliably assessable.

Additional information
20 Reporting by segment

Julius Baer Group engages exclusively in private banking activities primarily in Switzerland, Europe and Asia. This focus on pure-play private banking includes certain internal supporting functions which serve entirely the core business activities. Revenues from private banking activities primarily encompass fees charged for servicing and advising private clients as well as net interest income on financial instruments.

The Group's external segment reporting is based on the internal reporting to the chief operating decision-maker, who is responsible for allocating resources and assesses the financial performance of the business. The CEO has been identified as the chief operating decision-maker, as he is responsible for the operational management of the whole Group.

Various management reports with discrete financial information are prepared at regular intervals for various management levels. However, the CEO reviews and uses for his management decisions the aggregated financial information on the level of the Group only.

In accordance with the applicable rules and based on the analysis of the relevant factors determining segments, the Group consists of the single reportable segment Private Banking. This is in line with the strategy and business model of Julius Baer Group and reflects the management structure and the use of information by management in making operating decisions.

Therefore, the Group does not disclose separate segment information, as the external reporting provided in these financial statements reflects the internal management accounting.

Entity-wide disclosures

	31.12.2011	31.12.2010	**2011**	2010	**2011**	2010
	Total assets		Operating income		Investments	
	CHF m	*CHF m*	*CHF m*	*CHF m*	*CHF 1000*	*CHF 1000*
Switzerland	**45 523**	37 919	**1 460**	1 488	**70 939**	271 932
Europe (excl. Switzerland)	**14 807**	11 653	**128**	162	**3 350**	28 198
Americas	**1 265**	1 816	**50**	44	**211**	519
Asia and other countries	**6 329**	5 422	**191**	179	**13 873**	10 624
Less consolidation items	**14 995**	10 523	**76**	79		
Total	**52 929**	46 287	**1 753**	1 794	**88 373**	311 273

The information about geographical areas is based on the domicile of the reporting entity. This geographical information is provided to comply with IFRS and does not reflect the way the Group is managed.

21 Related party transactions

	31.12.2011 *CHF 1000*	31.12.2010 *CHF 1000*
Key management personnel compensation[1]		
Salaries and other short-term employee benefits	**11 177**	13 025
Post-employment benefits	**659**	678
Other long-term benefits	**4**	-
Participation plans	**6 105**	5 466
Total	**17 945**	19 169
Receivables from		
associated companies	**-**	-
key management personnel	**22 241**	18 531
Total	**22 241**	18 531
Liabilities to		
associated companies	**-**	-
key management personnel	**14 821**	16 842
own pension funds	**3 104**	3 542
Total	**17 925**	20 384
Credit guarantees to		
key management personnel	**1 024**	875
Total	**1 024**	875
Income from services provided to		
associated companies	**-**	-
key management personnel	**522**	386
Total	**522**	386

[1] Key management personnel consists of the Board of Directors and the Executive Board of Julius Baer Group Ltd.
The Executive Board of the Group company consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Communications Officer, the General Counsel, the Chief Risk Officer and the Private Banking Representative.

For compensation, loans and share and option holdings of the Board of Directors and Senior Management, see pages 140 to 147.

The loans granted to key management personnel consist of Lombard loans on a secured basis (through pledging of the securities portfolios) and mortgage loans on a fixed and variable basis.

The interest rates of the Lombard loans and mortgage loans are in line with the terms and conditions that are available to other employees, which are in line with the terms and conditions granted to third parties adjusted for reduced credit risk.

22 Pension plans and other employee benefits

	2011 CHF 1000	2010 CHF 1000
1. Development of pension obligations and assets		
Present value of funded obligation at the beginning of the year	**-1 690 951**	-1 368 939
Acquisitions/transfer from restructuring reserve	**-**	-141 494
Service cost	**-74 466**	-76 791
Past service cost	**-21 322**	-
Interest cost	**-45 023**	-49 500
Settlements	**12 075**	2 351
Benefits paid	**47 849**	56 704
Actuarial gain/(loss)	**2 371**	-122 718
Translation differences	**467**	9 436
Present value of funded obligation at the end of the year	**-1 769 000**	-1 690 951
Fair value of plan assets at the beginning of the year	**1 604 911**	1 375 805
Acquisitions/transfer from restructuring reserve	**-**	124 664
Expected return on plan assets	**62 686**	68 311
Employer's contributions	**60 401**	59 034
Employees' contributions	**27 218**	26 163
Settlements	**-13 019**	-2 351
Benefits paid	**-47 849**	-56 704
Actuarial gain/(loss)	**-76 376**	18 734
Translation differences	**-492**	-8 745
Fair value of plan assets at the end of the year	**1 617 480**	1 604 911

	31.12.2011 CHF 1000	31.12.2010 CHF 1000
2. Balance sheet		
Fair value of plan assets	**1 617 480**	1 604 911
Present value of funded obligation	**-1 769 000**	-1 690 951
(Unfunded)/funded status	**-151 520**	-86 040
Unrecognised past service cost	**15 802**	-
Unrecognised net actuarial (gain)/loss	**161 581**	88 317
Translation differences	**-1 410**	-1 390
(Accrued)/prepaid pension cost	**24 453**	887

The pension plan assets are invested in accordance with local laws and do not include shares of Julius Baer Group Ltd.

3. Income statement	2011 CHF 1000	2010 CHF 1000
Service cost	**-74 466**	-76 791
Interest cost	**-45 023**	-49 500
Expected net return on plan assets	**62 686**	68 311
Amortisation of actuarial gain/(loss)	**-130**	43
Past service cost	**-5 520**	-
Recognised actuarial gain/(loss)	**-**	-32 776
Increase/(decrease) of unrecognised plan assets	**-**	11 083
Settlements	**-1 555**	-
Net periodic pension cost	**-64 008**	-79 630
Employees' contributions	**27 218**	26 163
Expense recognised in the income statement	**-36 790**	-53 467

4. Movement in the net asset or (liability)	2011 CHF 1000	2010 CHF 1000
(Accrued)/prepaid pension cost at the beginning of the year	**887**	12 280
Acquisitions	**-**	-16 830
Translation differences	**-45**	-130
Expense recognised in the income statement	**-36 790**	-53 467
Employer's contributions	**60 401**	59 034
Amount recognised in the balance sheet	**24 453**	887
Prepaid pension cost	**26 072**	2 679
Accrued pension liability	**-1 619**	-1 792
(Accrued)/prepaid pension cost	**24 453**	887
Actual return on plan assets	**-13 690**	87 045

5. Asset allocation	2011 %	2010 %
Cash	**4.96**	2.75
Debt instruments	**39.79**	37.49
Equity instruments	**23.63**	26.59
Real estate	**13.86**	12.52
Other	**17.76**	20.65
Total	**100.00**	100.00

	31.12.2011 *CHF 1000*	31.12.2010 *CHF 1000*	31.12.2009 *CHF 1000*	31.12.2008 *CHF 1000*
6. Defined benefit pension plans				
Fair value of plan assets	**1 617 480**	1 604 911	1 375 805	1 213 546
Present value of funded obligation	**-1 769 000**	-1 690 951	-1 368 939	-1 356 481
(Unfunded)/funded status	**-151 520**	-86 040	6 866	-142 935
Experience adjustment on plan liabilities	**7 875**	-38 674	71 267	-3 064
Change in assumptions adjustment on plan liabilities	**-5 504**	-84 044	-6 985	37 660
Experience adjustment on plan assets	**-76 376**	18 734	46 451	-238 520
Total actuarial gain/(loss)	**-74 005**	-103 984	110 733	-203 924

Defined contribution pension plans

The Group maintains a number of defined contribution pension plans, primarily outside Switzerland. In the case of defined contribution pension plans, the pension expenses are charged to the income statement in the corresponding financial year. The expenses for contributions to these pension plans amounted to CHF 16.2 million for the 2011 financial year (2010: CHF 15.0 million).

Actuarial calculation of pension assets and obligations

The latest actuarial calculation was carried out as at 31 December 2011. The actuarial assumptions are based on local economic conditions and are as follows for Switzerland which accounts for about 96% of all benefit obligations and plan assets:

	2011	2010
Discount rate	**2.25%**	2.60%
Expected net return on plan assets	**3.50%**	3.80%
Average future salary increases	**1.00%**	2.00%
Future pension increases	**0.00%**	0.00%

The expected return on funded pension plan assets is based on long-term historical performance of the asset categories as well as expectations for future market performance.

The expected employer contributions for the 2012 financial year are estimated at CHF 62.8 million.

The Group had outstanding liabilities to various pension plans in the amount of CHF 3.1 million (2010: CHF 3.5 million).

23 Securities transactions

	31.12.2011 *CHF m*	31.12.2010 *CHF m*
Securities lending and borrowing transactions / repurchase and reverse repurchase transactions		
Receivables from cash collateral provided in securities borrowing and reverse repurchase transactions	**1 696.0**	402.5
Obligations to return cash collateral received in securities lending and repurchase transactions	**579.6**	585.3
Own securities lent as well as securities provided as collateral for borrowed securities under securities borrowing and repurchase transactions	**1 757.8**	1 105.0
of which securities the right to pledge or sell has been granted without restriction	***1 757.8***	*1 105.0*
Securities borrowed as well as securities received as collateral for loaned securities under securities lending and reverse repurchase transactions	**6 169.2**	4 536.4
of which repledged or resold securities	***3 702.3***	*3 783.5*

24 Derivative financial instruments

Derivatives held for trading

	Contract/ Notional amount *CHF m*	Positive replacement value *CHF m*	Negative replacement value *CHF m*
Foreign exchange derivatives			
Forward contracts	64 546.7	767.4	746.5
Futures	55.4	-	0.1
Options (OTC)	50 586.4	695.6	626.2
Total foreign exchange derivatives 31.12.2011	**115 188.5**	**1 463.0**	**1 372.8**
Total foreign exchange derivatives 31.12.2010	138 534.2	2 239.7	2 263.8
Interest rate derivatives			
Swaps	5 352.0	57.4	61.5
Futures	344.2	1.4	2.8
Options (OTC)	410.4	1.9	2.2
Total interest rate derivatives 31.12.2011	**6 106.6**	**60.7**	**66.5**
Total interest rate derivatives 31.12.2010	4 578.9	33.1	34.3
Precious metals derivatives			
Forward contracts	4 671.6	139.9	155.6
Futures	268.9	7.2	-
Options (OTC)	7 168.4	164.0	145.7
Total precious metals derivatives 31.12.2011	**12 108.9**	**311.1**	**301.3**
Total precious metals derivatives 31.12.2010	16 083.8	238.4	232.9
Equity/indices derivatives			
Futures	386.0	8.8	1.1
Options (OTC)	6 321.4	127.5	280.6
Options traded	1 387.6	136.5	80.1
Total equity/indices derivatives 31.12.2011	**8 095.0**	**272.8**	**361.8**
Total equity/indices derivatives 31.12.2010	12 190.5	201.4	215.7
Other derivatives			
Futures	219.1	6.0	0.2
Total other derivatives 31.12.2011	**219.1**	**6.0**	**0.2**
Total other derivatives 31.12.2010	223.8	-	19.8
Total derivatives held for trading 31.12.2011	**141 718.1**	**2 113.6**	**2 102.6**
Total derivatives held for trading 31.12.2010	171 611.2	2 712.6	2 766.5

Derivatives held for hedging

	Contract/ Notional amount *CHF m*	Positive replacement value *CHF m*	Negative replacement value *CHF m*
Derivatives designated as cash flow hedges			
Interest rate swaps	100.0	0.4	8.5
Derivatives designated as fair value hedges			
Equity options (OTC)	4.9	-	4.9
Total derivatives held for hedging 31.12.2011	**104.9**	**0.4**	**13.4**
Total derivatives held for hedging 31.12.2010	38.8	0.5	5.9
Total derivative financial instruments 31.12.2011	**141 823.0**	**2 114.0**	**2 116.0**
Total derivative financial instruments 31.12.2010	171 650.0	2 713.1	2 772.4

25a Financial instruments by category

Financial assets

	31.12.2011 Book value CHF m	31.12.2011 Fair value CHF m	31.12.2010 Book value CHF m	31.12.2010 Fair value CHF m
Cash, loans and receivables				
Cash	**4 241.5**	**4 241.5**	1 121.3	1 121.3
Due from banks	**10 048.1**	**10 061.8**	6 586.6	6 598.9
Loans	**16 408.4**	**16 710.3**	14 570.4	14 774.0
Accrued income	**172.1**	**172.1**	154.6	154.6
Total	**30 870.1**	**31 185.7**	22 432.9	22 648.8
Held for trading				
Trading assets	**4 082.0**	**4 082.0**	3 287.8	3 287.8
Derivative financial instruments	**2 113.6**	**2 113.6**	2 712.6	2 712.6
Total	**6 195.6**	**6 195.6**	6 000.4	6 000.4
Derivatives designated as hedging instruments				
Derivative financial instruments	**0.4**	**0.4**	0.5	0.5
Total	**0.4**	**0.4**	0.5	0.5
Designated at fair value				
Financial assets designated at fair value	-	-	1 006.1	1 006.1
Total	-	-	1 006.1	1 006.1
Available-for-sale				
Financial investments available-for-sale	**12 168.0**	**12 168.0**	13 885.1	13 885.1
Total	**12 168.0**	**12 168.0**	13 885.1	13 885.1
Total financial assets	**49 234.1**	**49 549.7**	43 325.0	43 540.9

Financial liabilities

	31.12.2011 Book value CHF m	Fair value CHF m	31.12.2010 Book value CHF m	Fair value CHF m
Financial liabilities at amortised costs				
Due to banks	**5 670.2**	**5 672.1**	4 251.8	4 255.1
Due to customers	**34 841.2**	**34 844.8**	28 846.7	28 850.0
Debt issued	**475.8**	**527.4**	240.2	269.3
Accrued expenses	**96.9**	**96.9**	104.3	104.3
Total	**41 084.1**	**41 141.2**	33 443.0	33 478.7
Held for trading				
Trading liabilities	**814.1**	**814.1**	800.9	800.9
Derivative financial instruments	**2 102.6**	**2 102.6**	2 766.5	2 766.5
Total	**2 916.7**	**2 916.7**	3 567.4	3 567.4
Derivatives designated as hedging instruments				
Derivative financial instruments	**13.4**	**13.4**	5.9	5.9
Total	**13.4**	**13.4**	5.9	5.9
Designated at fair value				
Financial liabilities designated at fair value	**3 494.6**	**3 494.6**	4 160.6	4 160.6
Total	**3 494.6**	**3 494.6**	4 160.6	4 160.6
Total financial liabilities	**47 508.8**	**47 565.9**	41 176.9	41 212.6

The following methods are used in calculating the fair value of financial instruments in the balance sheet:

Short-term financial instruments

Financial instruments with a maturity or a refinancing profile of one year or less are generally classified as short-term. This applies for the balance sheet items cash and money market instruments. Depending on the maturity, it also includes the following: due from banks; loans; mortgages; due to banks; due to customers and debt issued. For short-term financial instruments which do not have a market price published by a recognised stock exchange or notable market (referred to hereinafter as a market price), the book value fundamentally approximates the fair value.

Long-term financial instruments

Depending on the maturity, these include the following balance sheet items: due from banks; loans; mortgages; due to banks; due to customers and debt issued. The fair value of long-term financial instruments which have a maturity or a refinancing profile of more than one year is derived by using the net present-value method.

Trading assets, financial investments available-for-sale and derivative financial instruments

Refer to Note 25b for details regarding the valuation of these instruments.

25b Financial instruments – Fair value determination

For trading assets and financial investments available-for-sale as well as for exchange-traded derivatives and other financial instruments whose prices are quoted in an active market, the fair value is determined directly from the quoted market prices (level 1).

For financial instruments for which quoted market prices are not directly available, fair values are estimated using valuation techniques or models based wherever possible on assumptions supported by observable market prices or rates existing on the balance sheet date (level 2). This is the case for the majority of OTC derivatives, most unquoted financial instruments, and other items that are not traded in active markets. The main pricing models and valuation techniques applied include forward pricing and swap models using present-value calculations, and option models such as the Black-Scholes model or generalisations of that model. The values derived from applying these models and techniques are significantly impacted by the choice of the valuation model used and the underlying assumptions made, such as the amounts and timing of future cash flows, discount rates, volatility, or credit risk.

For certain financial instruments, neither quoted market prices nor valuation techniques or models based on observable market prices are available for determining the fair value. In these cases, fair value is estimated indirectly using valuation techniques or models based on reasonable assumptions reflecting market conditions (level 3). In 2011, the Julius Baer Group did not have or transfer any such instruments.

The fair value of financial instruments carried at fair value is determined as follows:

Determination of fair values	Quoted market price Level 1 *CHF m*	Valuation technique market- observable inputs Level 2 *CHF m*	**31.12.2011** **Total** *CHF m*
Trading assets	3 300.70	781.3	**4 082.0**
Derivative financial instruments	166.1	1 947.9	**2 114.0**
Financial investments available-for-sale	7 994.6	4 173.4	**12 168.0**
Total assets at fair value	**11 461.4**	**6 902.6**	**18 364.0**
Trading liabilities	380.0	434.1	**814.1**
Derivative financial instruments	90.4	2 025.6	**2 116.0**
Financial liabilities designated at fair value	1 103.3	2 391.3	**3 494.6**
Total liabilities at fair value	**1 573.7**	**4 851.0**	**6 424.7**

Determination of fair values	Quoted market price Level 1 *CHF m*	Valuation technique market- observable inputs Level 2 *CHF m*	31.12.2010 Total *CHF m*
Trading assets	2 456.5	831.3	3 287.8
Derivative financial instruments	50.0	2 663.1	2 713.1
Financial assets designated at fair value	937.1	69.0	1 006.1
Financial investments available-for-sale	7 086.1	6 799.0	13 885.1
Total assets at fair value	10 529.7	10 362.4	20 892.1
Trading liabilities	535.1	265.8	800.9
Derivative financial instruments	107.5	2 664.9	2 772.4
Financial liabilities designated at fair value	2 966.4	1 194.2	4 160.6
Total liabilities at fair value	3 609.0	4 124.9	7 733.9

In the past, each financial instrument with a price adjustment was classified as a level 2 instrument. As of the financial year 2011, the Group classifies financial instruments with price adjustments which are not significant into level 1. The previous year has been adjusted accordingly (trading assets CHF 597.5 million from level 1 to level 2 and financial investments available-for-sale CHF 6 510.0 million from level 2 to level 1).

26 Companies consolidated as at 31 December 2011

Listed company which is consolidated

	Place of listing	Head Office	Currency	Share capital m	Capitalisation as at 31.12.11 m
Julius Baer Group Ltd.	SIX Swiss Exchange	Zurich	CHF	4.1	7 592

Swiss securities number: 10 248 496, Bloomberg: BAER VX, Reuters: BAER.VX

Unlisted companies which are consolidated

	Head Office	Currency	Share capital m	Equity interest %
Banks				
Bank Julius Baer & Co. Ltd.	Zurich	CHF	575.000	100
Branches in Ascona, Basle, Berne, Crans-Montana, Geneva, Guernsey,				
Hong Kong, Kreuzlingen, Lausanne, Lucerne, Lugano, Singapore,				
Sion, St. Gallen, St. Moritz, Verbier, Zug				
Representative Offices in Abu Dhabi, Dubai, Istanbul,				
Moscow, Santiago de Chile, Shanghai				
including				
Bank Julius Baer Nominees (Singapore) Pte. Ltd.	*Singapore*	*SGD*	*0.000*	*100*
Arpese SA	*Lugano*	*CHF*	*0.400*	*100*
Julius Baer Wealth Management (Europe) SA	*Luxembourg*	*CHF*	*0.200*	*100*
including				
- Julius Baer Patrimoine Conseil Sàrl	*Paris*	*EUR*	*0.065*	*100*
Ferrier Lullin Trust Management SA	*Geneva*	*CHF*	*0.050*	*100*
Bank Julius Bär Europe AG	Frankfurt	EUR	15.000	100
Branches in Duesseldorf, Hamburg, Kiel, Munich,				
Stuttgart, Würzburg				
including				
Julius Bär Capital GmbH	*Frankfurt*	*EUR*	*0.024*	*100*
Bank Julius Baer (Monaco) S.A.M.	Monaco	EUR	30.000	100
Julius Baer Bank and Trust Company Ltd.	Grand Cayman	CHF	20.000	100
including				
Julius Baer Trust Company (Cayman) Ltd.	*Grand Cayman*	*CHF*	*1.000*	*100*
including				
C.I. Directors Ltd.	*Grand Cayman*	*USD*	*0.020*	*100*

	Head Office	Currency	Share capital m	Equity interest %
Finance companies				
Julius Baer Investment Ltd.	Zurich	CHF	0.100	100
including				
Julius Baer Life (Bahamas) Ltd.	*Bahamas*	*USD*	*1.000*	*100*
Julius Baer Consultores S.A.	*Caracas*	*USD*	*0.800*	*100*
Julius Baer Trust Company (Singapore) Ltd.	*Singapore*	*SGD*	*2.812*	*100*
Julius Baer Advisory S.A.E.	Cairo	EGP	12.847	100
Julius Baer Family Office & Trust Ltd.	Zurich	CHF	0.100	100
including				
Julius Baer Trust Company (New Zealand) Limited	*Auckland*	*CHF*	*0.005*	*100*
Bronte International SA	*BVI*	*USD*	*0.000*	*100*
Cantrade Corporate Directors Ltd.	*BVI*	*USD*	*0.000*	*100*
Infidar Investment Advisory Ltd.	Zurich	CHF	1.000	73
including				
Infidar (Liechtenstein) AG	*Vaduz*	*CHF*	*0.100*	*73*
JB Swiss Capital Market Research Ltd.	Zurich	CHF	0.100	100
Julius Baer (Hong Kong) Limited	Hong Kong	HKD	273.894	100
Julius Baer (Middle East) Ltd.	Dubai	USD	22.000	100
Julius Baer (Uruguay) S.A.	Montevideo	UYU	21.760	100
Julius Baer Capital (Guernsey) I Ltd.	Guernsey	CHF	0.000	100
Julius Baer Consultores (Peru) S.A.C.	Lima	PEN	3.000	100
Julius Baer Fiduciaria S.r.l.	Milan	EUR	0.100	100

	Head Office	Currency	Share capital m	Equity interest %
Finance companies				
Julius Baer Financial Consultancy S.A.	Buenos Aires	USD	0.493	100
Julius Baer International Ltd.	London	GBP	16.300	100
Julius Baer International (Panama) Inc.	Panama	CHF	1.387	100
including				
Julius Baer Bank & Trust (Bahamas) Ltd.	*Bahamas*	*CHF*	*2.000*	*100*
including				
Julius Baer Trust Company (Bahamas) Ltd.	*Bahamas*	*CHF*	*2.000*	*100*
Julius Baer Investment Advisory GesmbH	Vienna	EUR	0.050	100
Julius Bär Lizenzverwertungsgesellschaft AG	Zug	CHF	0.100	100
Julius Baer Participações Brasil Ltda.	São Paulo	BRL	96.161	100
Julius Baer Società Di Intermediazione Mobiliare S.p.A.	Milan	EUR	3.500	100
including				
Representative Office in Rome				
Julius Baer Trust Company (Channel Islands) Ltd.	Guernsey	CHF	0.100	100
Julius Baer Wealth Management (Monaco) S.A.M.	Monaco	EUR	0.465	100
PT Julius Baer Advisors (Indonesia)	Jakarta	IDR	2 000.000	100
Ursa Company Ltd.	Grand Cayman	CHF	0.500	100
Real estate company				
Aktiengesellschaft, formerly Waser Söhne & Cie., Werdmühle, Altstetten	Zurich	CHF	2.260	100
Foundation				
Loteco Foundation	Zurich	CHF	0.100	100
Associates				
GPS – Global Portfolio Strategists	São Paulo	BRL	0.280	30

Major changes in the companies consolidated:

- Baer Alternative Solutions Limited, Guernsey, liquidated as of 24 October 2011

27a Acquisitions

On 15 January 2010, Julius Baer Group acquired ING Bank (Switzerland) Ltd, a fully owned subsidiary of ING Group NV, including its subsidiaries in Monaco and Jersey. The Group paid a total consideration of CHF 499.1 million in cash. The purchase price was fully funded by existing excess capital of the Group. ING Bank (Switzerland) Ltd, which was active in private banking business, has been fully integrated into Bank Julius Baer & Co. Ltd. At the time of acquisition, the assets under management amounted to CHF 13.5 billion.

The assets and liabilities of the acquired entity were recorded as follows:

	Fair value *CHF 1000*
Assets	
Cash	265 214
Due from banks	1 745 884
Loans[1]	1 185 488
Financial investments available-for-sale	349 989
Customer relationships	163 007
Goodwill	4 348
Deferred tax assets	3 313
All other assets	83 209
Total	3 800 452
Liabilities and equity	
Due to banks	1 118 446
Due to customers	2 053 444
Deferred tax liabilities	33 034
All other liabilities	96 457
Total liabilities	3 301 381
Equity	499 071
Total	3 800 452

[1]At the acquisition date, the gross contractual amount of loans acquired was CHF 1223.2 million.

The transaction resulted in goodwill of CHF 4.3 million, which represents expected synergies and growth opportunities from the combined private banking activities. Other intangible assets recognised consist of CHF 163.0 million for the existing customer relationships of the acquired entity, which are amortised over an expected useful life of ten years.

On 3 May 2011, Julius Baer Group acquired 30% of São Paulo-based GPS Investimentos e Participações S.A., which includes GPS Planejamento Financeiro Ltda. and CFO Administração de Recursos Ltda. ("GPS"). The Group paid a total consideration of CHF 52.2 million in cash. The Group also received options to acquire additional interests in GPS at a predetermined relative price. The options will be exercisable two to four years after the initial acquisition.

GPS is specialised in discretionary portfolio management and advisory services. The minority participation is treated as a strategic investment and the future close co-operation will further add growth momentum for GPS. In addition, the acquisition supports the Group's strategic intention to build its wealth management business in one of the most attractive and promising domestic wealth management markets.

The associated company had the following balance sheet and income statement totals on an aggregated basis as of the acquisition date:

	CHF 1000
Assets	5 753
Liabilities	2 000
Operating income	6 940
Net profit	4 230

27b Disposal group held for sale

The assets and liabilities held for sale (CHF 566 million and CHF 565 million, respectively) relate to the expected disposal of the business of investment contracts where the beneficiary bears all the related risks and rewards from the investments. Previously the amounts were included in financial assets designated at fair value and financial liabilities designated at fair value, respectively. The portfolio which is concentrated in Julius Baer Life (Bahamas) Ltd. is expected to be disposed of in 2012.

28 Share-based payments

Equity-based incentives

The Compensation Committee of the Board of Directors is responsible for determining and making changes to all of the equity-based incentives. The programmes described below reflect the plan landscape as at 31 December 2011. However, the two new plans (i.e. Premium Share Plan and Incentive Share Plan, see below) have not yet been implemented fully. The shares of Julius Baer Group Ltd. required for the equity-based incentives are procured from the market.

Staff Participation Plan

The Staff Participation Plan of the Julius Baer Group offers employees once a year the opportunity to purchase shares of the Company at a discount. The discount is defined annually and may change from year to year. The shares acquired by the participants are blocked from sale for three years following purchase.

The objective of this plan is to strengthen the identification with the Group and its future development of employees on all levels of the organisation. The offer price for the 2011 Staff Participation Plan was 25% below the average weighted market value of the shares of Julius Baer Group Ltd. for the period from 1 March until 11 March 2011.

Equity Bonus Plan

Up to 2006, eligible senior managers had the possibility to choose to have part or all of their bonus paid out in the form of the former Julius Baer Holding Ltd. shares and/or options on such shares at market price. The shares and options acquired in this way are subject to a sales restriction period.

Long-Term Incentive Plan

The purpose of the Julius Baer Group Long-Term Incentive Plan (LTI) is to strengthen long-term commitment to the Company and to foster interdisciplinary teamwork required for the long-term success of the organisation as a whole. The LTI is part of the total compensation of the Board of Directors and in some individual cases is used to compensate new hires for their lost long-term incentives forfeited by their previous employer due to resignation. In addition, it may be granted in special cases to employees who have a significant influence on the Julius Baer Group's long-term development and financial results.

The LTI runs over a three-year plan period and is applied with two different vesting schedules. Under the first vesting schedule, the participants are granted a number of shares which vest in equal one-third tranches over the period of three years. Under the second vesting schedule, participants are granted a number of shares which cliff-vest in one single tranche at the end of the three-year period.

The shares are transferred to participants at vesting dates, subject to continued employment and any other conditions set out in the plan rules, and remain blocked from sale until the third anniversary of the grant. In case of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested shares will be forfeited.

Until vesting, the granted shares are managed by the Loteco Foundation. The Loteco Foundation hedges its liabilities from the LTI on grant date through the purchase of the corresponding shares from the market.

Equity-based incentives with a deferral component

The two plans described below are mutually exclusive, i.e. an employee can only receive a grant from one of the plans described in any given year.

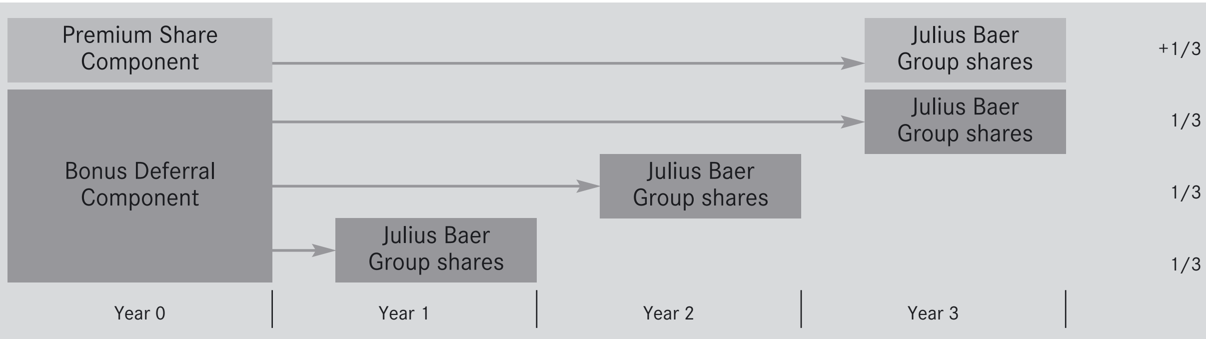
Premium Share Plan

The Premium Share Plan (PSP) is a three-year deferred equity plan which applies to senior members of the staff whose variable compensation amounts to CHF 150 000 or more (or a local equivalent). A PSP grant is made once a year as part of annual variable compensation and participation is determined on an annual basis.

The plan is designed to link and tie a portion of the employee's variable compensation to the long-term development and success of the Group through its share price.

At the start of the plan period, 15% to 40% (the maximum deferral percentage applies to variable compensation of CHF 1.0 million and above or, as it may be, the local equivalent) of the employee's variable incentive is deferred to the PSP, and the employee is then granted a number of shares equal in value to the deferred element. These shares vest in equal one-third tranches over a three-year plan period. At the end of the plan period, subject to continued employment, the employee receives an additional share award representing one-third of the number of shares granted to him/her at the plan beginning.

PSP structure and payout schedule



Until vested, the shares are subject to forfeiture in certain circumstances including resignation by the employee, termination for cause, substantial breaches of legal or regulatory requirements, financial losses and a variety of other events where the employee's behaviour has substantially contributed to a financial loss of the Group or caused reputational damage.

The plan was implemented as part of the variable compensation for 2011.

Incentive Share Plan
The Incentive Share Plan (ISP) applies to the members of the Senior Management and some other key members of staff whose contributions are decisive for the long-term development of the Julius Baer Group and whose variable compensation amounts to CHF 150 000 or more (or a local equivalent). ISP grant is made once a year as part of annual variable compensation and participation is determined on an annual basis.

The ISP is designed to link part of the variable compensation of the executive directly to the long-term performance of the Company and part of the payout depends on achievement against two key performance indicators (KPIs) over a three-year period:

Economic Profit, which measures value creation of the Julius Baer Group against the strategic three-year plan of the Company over the three-year plan period.

Relative Share Price, which compares the performance of the Julius Baer Group share against the STOXX Europe 600 Banks Index.

The three-year performance period and the targets reflect the Group's underlying business cycle and its short- and long-term risk profile.

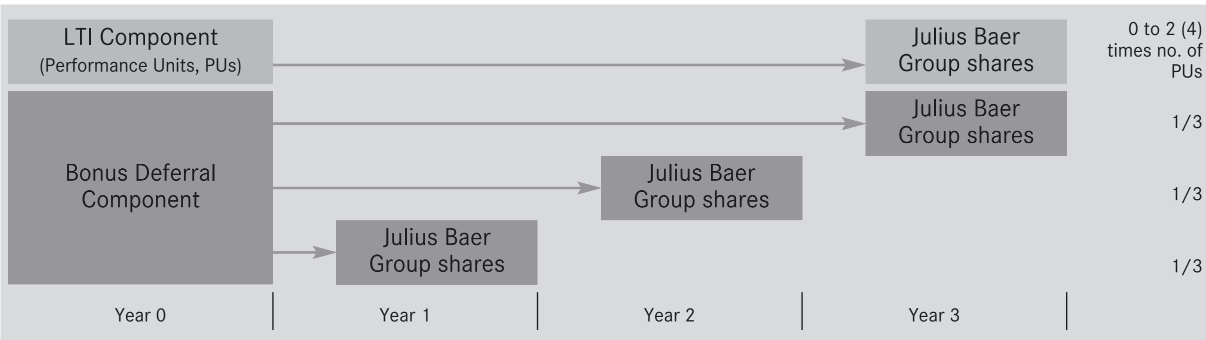
At the start of the plan period, 15% to 40% (the maximum deferral percentage applies to variable compensation of CHF 1.0 million and above or, as it may be, the local equivalent) of the executive's variable incentive is deferred to the ISP and the employee is then granted a number of shares equal in value to the deferred element. These shares vest in equal one-third tranches over the three-year plan period, subject to continued employment.

Also at the start of the plan period, the executives are granted one performance unit (PU) for each granted ISP share which, subject to the achievement of the predefined targets and continued employment, vest at the end of the three-year performance period and are settled in the form of Julius Baer Group shares. At settlement the number of these additional shares can be between zero and two times the number of PUs for plan participants other than members of the Senior Management and of the Executive Board of Bank Julius Baer and zero to four times the number of PUs for members of the Senior Management and of the Executive Board of Bank Julius Baer. The final ratio between the granted PUs and the number of shares at settlement is determined by a final payout factor which is derived from the two KPIs which both carry equal weight in determining the final payout factor.

The plan provides participants with a symmetric upside (capped at 2 or 4) and downside (limited to 0) potential.

Including the value development of the PUs the ISP can represent between 15% and 67% (77% for members of the Senior Management) of the total variable compensation of the executive.

ISP structure and payout schedule



Until vested, the PUs/shares are subject to forfeiture in certain circumstances including resignation by the employee, termination for cause, substantial breaches of legal or regulatory requirements, financial losses and a variety of other events where the employee's behaviour has substantially contributed to a financial loss of the Group or caused reputational damage.

The ISP was applied for the first time to the members of the Senior Management and selected key staff as part of the variable compensation for 2010. The Compensation Committee approved the list of ISP participants and the individual allocations as part of the variable compensation for 2011 on 23 January 2012.

Movements in shares granted under various participation plans are as follows:

	31.12.2011	31.12.2010
Staff Participation Plan		
Number of shares taken up	**340 842**	347 994
Preferential price per share (CHF)	**31.04** [1]	26.71 [2]
Compensation expense (CHF 1000)	**3 528**	3 097

[1]The preferential price was 25% below the weighted average market value of Julius Baer Group Ltd. for the period from 1 March until 11 March 2011.
[2]The preferential price was 25% below the weighted average market value of Julius Baer Group Ltd. for the period from 1 March until 12 March 2010.

Equity Bonus Plan

Bonuses paid in the form of shares are recognised in the year in which the corresponding service is performed. Bonuses paid in the form of options which can be cash-settled are also recognised in the year in which the service is performed, and until realisation (sale or exercise) these options are recognised in the balance sheet as a liability at fair value. The net compensation expense recognised for the financial year resulted in an income due to favourable changes in the fair value of the liabilities and amounted to CHF 0.3 million in 2010, CHF nil in 2011.

	31.12.2011	31.12.2010
Long-Term Incentive Plan		
Unvested shares outstanding, at the beginning of the year	**515 001**	472 668
Granted during the year	**179 377**	293 634
Vested during the year	**-314 193**	-244 749
Forfeited during the year	**-27 033**	-6 552
Unvested shares outstanding, at the end of the year	**353 152**	515 001
Weighted average fair value per share granted (CHF)	**36.80**	34.12
Fair value of outstanding shares at the end of the year (CHF 1000)	**12 975**	22 557

	31.12.2011	31.12.2010
Incentive Share Plan		
Unvested shares outstanding, at the beginning of the year	**-**	-
Granted during the year	**272 020**	-
Vested during the year	**-**	-
Forfeited during the year	**-1 352**	-
Unvested shares outstanding, at the end of the year	**270 668**	-
Weighted average fair value per share granted (CHF)	**43.10**	-
Fair value of outstanding shares at the end of the year (CHF 1000)	**9 944**	-

Movements in options/units granted under various participation plans are as follows:

		31.12.2011		31.12.2010
Equity Bonus Plan	Number of options	Weighted average exercise price *CHF*	Number of options	Weighted average exercise price *CHF*
Options outstanding, at the beginning of the year	-	-	191 380	55.00
Exercised during the year	-	-	-191 380	55.00
Options outstanding, at the end of the year	-	-	-	-

		31.12.2011		31.12.2010
Long-Term Incentive Plan	Number of options	Weighted average exercise price *CHF*	Number of options	Weighted average exercise price *CHF*
Options outstanding, at the beginning of the year	-	-	479 196	91.20
Vested/exercised during the year	-	-	-479 196	91.20
Options outstanding, at the end of the year	-	-	-	-

		31.12.2011		31.12.2010
Incentive Share Plan	Number of units Economic Profit	Number of units Relative Share Price	Number of units Economic Profit	Number of units Relative Share Price
Unvested units outstanding, at the beginning of the year	-	-	-	-
Granted during the year	**126 500**	**126 500**	-	-
Forfeited during the year	**-2 973**	**-2 973**	-	-
Unvested units outstanding, at the end of the year	**123 527**	**123 527**	-	-

The compensation expense recognised for the Long-Term Incentive Plan amounted to CHF 9.3 million (2010: CHF 17.6 million).

The compensation expense recognised for the Incentive Share Plan amounted to CHF 10.0 million.

29 Assets under management

Assets under management include all bankable assets managed by or deposited with the Group for investment purposes. Assets included are portfolios of wealth management clients for which the Group provides discretionary or advisory asset management services. Assets deposited with the Group held for transactional or safekeeping/custody purposes, and where the Group does not offer advice on how the assets should be invested, are excluded from assets under management. In general, transactional or safekeeping/custody assets belong to banks, brokers, securities traders, custodians, or certain institutional investors. Non-bankable assets (e.g. art collections, real estate), asset flows driven more by liquidity requirements than investment purposes or assets primarily used for cash management, funding or trading purposes are also not considered assets under management.

Assets with discretionary mandate are defined as assets for which the investment decisions are made by the Group, and cover assets deposited with Group companies as well as assets deposited at third-party institutions. Other assets under management are defined as the assets for which the investment decision is made by the client himself. Both assets with discretionary mandate and other assets under management take into account client deposits as well as market values of securities, precious metals, and fiduciary investments placed at third-party institutions.

When assets under management are subject to more than one level of asset management services, double counting arises within the total assets under management. Each such separate discretionary or advisory service provides additional benefits to the respective client and generates additional revenue to the Group.

Net new money consists of new client acquisitions, client departures and in- or outflows attributable to existing clients. It is calculated through the direct method, which is based on individual client transactions. New or repaid loans and related interest expenses result in net new money flows. Interest and dividend income from assets under management, market or currency movements as well as fees and commissions are not included in the net new money result. Effects resulting from any acquisition or divestment of a Group subsidiary or business are stated separately. Reclassifications between assets under management and assets held for transactional or safekeeping/custody purposes result in corresponding net new money in- or outflows.

Assets under management are stated according to the Guidelines of the Swiss Financial Market Supervisory Authority (FINMA) governing financial statement reporting.

Assets under management

	2011 CHF m	2010 CHF m	Change %
Assets with discretionary mandate	**24 422**	22 955	6.4
Other assets under management	**145 898**	146 715	-0.6
Total assets under management (including double counting)[1]	**170 320**	169 670	0.4
of which double counting	***2 491***	*2 851*	*-12.6*
Change through net new money	**10 196**	8 753	
Change through market and currency impacts	**-9 546**	-6 195	
Change through acquisition	**-**	13 510 [2]	
Client assets	**258 113**	267 313	-3.4

[1] On 3 May 2011, the Group acquired 30% of São Paulo-based GPS Investimentos e Participações S.A. with assets under management of BRL 9 billion as at 31 December 2011. Assets under management of this company are not consolidated by the Group and are therefore not included in these numbers.
[2] On 15 January 2010, the Group acquired ING Bank (Switzerland) Ltd.

Breakdown of assets under management

	2011 %	2010 %
By types of investment		
Equities	**25**	26
Bonds (including convertible bonds)	**23**	22
Investment funds	**19**	20
Money market instruments	**8**	9
Client deposits	**18**	15
Structured products	**5**	6
Other	**2**	2
Total	**100**	100

Client assets are defined as all bankable assets managed by or deposited with the Group companies for investment purposes and only those deposited assets held for transactional, safekeeping/custody or administrative purposes for which additional services, for example analysis and reporting or securities lending and borrowing, are provided. Non-bankable assets (e.g. art collections, real estate), asset flows driven more by liquidity requirements than investment purposes, assets primarily used for cash management, funding or trading purposes or deposited assets held purely for transactional or safekeeping/custody purposes are excluded from client assets.

30 Requirements of Swiss banking law

The Group is subject to supervision by the Swiss Financial Market Supervisory Authority (FINMA), which requires Swiss-domiciled banks using International Financial Reporting Standards (IFRS) as their primary accounting standard to provide a narrative explanation of the major differences between IFRS and Swiss GAAP. Swiss GAAP is ruled by the principal provisions of the Banking Ordinance and the related Guidelines governing financial statement reporting.

The following main differences exist between IFRS and Swiss GAAP (true and fair view) which are relevant to the Group:

Under IFRS, changes in the fair value of financial investments available-for-sale are directly recognised in equity. Under Swiss GAAP, such investments are recorded at the lower of cost or market, with changes in value where required recorded in the income statement.

Under IFRS, all income and expenses are attributed to ordinary business operations. Under Swiss GAAP, certain income and expenses are classified as extraordinary, e.g. if they are from non-operating transactions or are non-recurring.

Under IFRS, goodwill is not amortised but must be tested for impairment annually and a write-off is made if the recoverable amount is less than the carrying amount. Under Swiss GAAP, goodwill is amortised over its useful life, generally not exceeding five years (in justified cases up to twenty years), and tested for impairment.

Under IFRS, intangible assets with indefinite lives are not amortised but tested for impairment on an annual basis. Under Swiss GAAP, such intangible assets are amortised over the useful lives up to a maximum of five years, and tested for impairment.

31 Events after the balance sheet date

There are no events to report that had an influence on the balance sheet or the income statement for the 2011 financial year.

Report of the Statutory Auditor to the Ordinary Annual General Meeting of Julius Baer Group Ltd., Zurich

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Report of the Statutory Auditor on the Consolidated Financial Statements to the General Meeting of Shareholders of

Julius Baer Group Ltd., Zurich

As statutory auditor, we have audited the accompanying consolidated financial statements of Julius Baer Group Ltd., which comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes (pages 42 to 130) for the year ended 31 December 2011.

Board of Directors' Responsibility

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

KPMG

Julius Baer Group Ltd., Zurich
Report of the Statutory Auditor
on the Consolidated Financial Statements
to the General Meeting of Shareholders

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the board of directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

Daniel Senn	Hans Stamm
Licensed Audit Expert	*Licensed Audit Expert*
Auditor in Charge	

Zurich, 3 February 2012

III. Financial Statements Julius Baer Group Ltd. 2011

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Income statement

	2011 CHF 1000	2010 CHF 1000	Change %
Income			
Interest income	**10 575**	11 550	-8.4
Interest expense	**10 487**	10 384	1.0
Net interest income	**88**	1 166	-92.5
Commission income on services	**1 190**	615	93.5
Commission expense	**124**	83	49.4
Results from commission and service fee activities	**1 066**	532	100.4
Income from participations	**170 956**	166 526	2.7
Other ordinary results	**62 440**	67 604	-7.6
Operating income	**234 550**	235 828	-0.5
Expenses			
Personnel expenses	**15 035**	8 741	72.0
General expenses	**16 545**	12 054	37.3
Operating expenses	**31 580**	20 795	51.9
Gross profit	**202 970**	215 033	-5.6
Extraordinary expense	**790**	6 830	-88.4
Taxes	**5 273**	5 327	-1.0
Net profit	**196 907**	202 876	-2.9

Balance sheet

	31.12.2011 CHF 1000	31.12.2010 CHF 1000	Change CHF 1000
Assets			
Current assets			
Due from banks	**589 502**	624 269	-34 767
Other claims	**12 593**	19 050	-6 457
Accrued income and prepaid expenses	**164 309**	156 998	7 311
Other assets	**3 548**	4 347	-799
Non-current assets			
Participations	**3 199 161**	3 099 727	99 434
Other financial investments	**180 599**	180 597	2
Treasury shares	**253 719**	-	253 719
Total assets	**4 403 431**	4 084 988	318 443
Due from Group companies	**757 126**	822 590	-65 464
Liabilities and equity			
Liabilities			
Due to banks	**200 000**	200 000	-
Debt issued	**475 000**	225 000	250 000
Accrued expenses and deferred income	**22 144**	23 603	-1 459
Other liabilities	**6 265**	9 292	-3 027
Equity			
Share capital	**4 133**	4 133	-
Legal reserve	**2 434 449**	827	2 433 622
of which general reserve	***827***	*827*	-
of which share premium reserve/capital contribution reserve	***2 433 622*** [1]	-	*2 433 622*
including reserve for treasury shares	***253 719***	-	*253 719*
Other reserves	**1 058 218**	3 415 818	-2 357 600
of which share premium	**-** [1]	*2 557 601*	*-2 557 601*
Disposable profit	**203 222**	206 315	-3 093
of which retained earnings	***6 315***	*3 439*	*2 876*
of which net profit	***196 907***	*202 876*	*-5 969*
Total liabilities and equity	**4 403 431**	4 084 988	318 443
Due to Group companies	**227 398**	225 000	2 398

[1]The Swiss Federal Tax Administration approved the amount which qualifies as capital contribution reserve as at 31 December 2010.

Notes

	31.12.2011 CHF 1000	31.12.2010 CHF 1000	Change CHF 1000
Contingent liabilities			
Surety and guarantee obligations and assets pledged in favour of third parties	**1 392 717**	884 401	508 316

Participations
Please see consolidated financial statements, pages 118 to 120. Participation income from subsidiaries is recorded based on an economic standpoint, i.e. at the same time that the corresponding income is recorded at the subsidiary.

Treasury shares
In the statutory financial statements of Julius Baer Group Ltd., a reserve for treasury shares, comprising all treasury shares held in the financial investments of Julius Baer Group and its subsidiaries, is stated in equity in accordance with the Swiss Code of Obligations.

As part of the share buyback programme, Julius Baer Group Ltd. bought 7 592 954 shares for an average price of CHF 33.40. These figures also correspond to the closing balance.

Compliant with the corresponding provisions of the Swiss Code of Obligations and the Banking Ordinance, the shares of Julius Baer Group Ltd. held in the trading portfolio of Bank Julius Baer & Co. Ltd. are not included in this reserve. These shares serve merely to hedge written options. The applicable conditions for purchasing treasury shares as a means of protecting shareholders' equity are not affected by this (barring the return of contributions of the Swiss Code of Obligations).

Risk management
Please see consolidated financial statements, page 62 ff.

Lower tier 2 bond
Please see consolidated financial statements, page 86ff. and page 102.

Significant shareholders/participants

Based on notifications received by Julius Baer Group Ltd., each of the following shareholders/participants held more than 3% of the voting rights in Julius Baer Group Ltd. as at 31 December 2011: [1]

Shareholder/participant[4]	Disclosure of purchase positions [2]	Disclosure of sale positions [3]
MFS Investment Management[5]	10.02%	
Davis Selected Advisers L.P.[6]	8.46%	
Harris Associates L.P.[7]	5.02%	
BlackRock, Inc.[8]	5.01%	0.05%
Thornburg Investment Management[9]	3.81%	
Julius Baer Group Ltd.[10]	3.02%	0.14%

[1] The percentage holding of voting rights as well as the other terms as used herein have to be defined and read in the context of the relevant and applicable stock exchange rules.

[2] Equity securities, conversion and share purchase rights (art. 15 para. 1a SESTO-FINMA), granted (written) share sale rights (art. 15 para. 1b SESTO-FINMA) and financial instruments (art. 15 para. 1c and para. 2 SESTO-FINMA)

[3] Share sale rights (specifically put options) and granted (written) conversion and share purchase rights as well as financial instruments that provide for or permit cash settlement as well as other differential transactions (such as contracts for difference and financial futures)

[4] Please note that any change in the holding of voting rights between reportable thresholds does not trigger any notification duty.

[5] MFS Investment Management, Boston/USA (reported on 2 February 2011)

[6] Davis Selected Advisers L.P., Tucson/USA, as investment advisor (reported on 6 October 2009)

[7] Harris Associates L.P., Chicago/USA (reported on 13 May 2011)

[8] BlackRock, Inc., 40 East 52nd Street, New York, NY 10022, USA (reported on 5 November 2010)

[9] Thornburg Investment Management, Santa Fe/USA, as investment manager on behalf of clients (reported on 1 October 2009)

[10] Julius Baer Group Ltd., Bahnhofstrasse 36, 8001 Zurich/Switzerland, Bank Julius Baer & Co. Ltd., Bahnhofstrasse 36, 8001 Zurich/Switzerland, Loteco Stiftung, c/o Julius Baer Group Ltd., Bahnhofstrasse 36, 8001 Zurich/Switzerland, and Julius Baer Life (Bahamas) Ltd., Winterbotham Place, Marlborough and Queen Streets, 3026 Nassau/Bahamas (reported on 19 August 2011)

Compensation, loans and share and option holdings of the Board of Directors and Senior Management

Compensation of the members of the Board of Directors[1]		Base salary CHF	Performance payment cash[4] CHF	Performance payment shares[4] CHF	Share-based payments[5] CHF	Pension fund contribution and varia CHF	**Total** CHF
Raymond J. Baer – Chairman[2]	**2011**	**1 160 000**	**900 000**	**-**	**430 596**	**111 013**	**2 601 609**
	2010	1 200 000	1 000 000	300 000	404 244	112 508	3 016 752
Peter Kuepfer – Independent Lead Director	**2011**	**159 600**	**-**	**-**	**103 662**	**8 666**	**271 928**
	2010	162 000	-	-	-	8 616	170 616
Heinrich Baumann (joined Board in 2011)	**2011**	**163 800**	**-**	**-**	**310 986**	**10 271**	**485 057**
	2010	n/a	-	-	-	n/a	n/a
Leonhard H. Fischer	**2011**	**142 800**	**-**	**-**	**-**	**8 551**	**151 351**
	2010	153 000	-	-	-	8 226	161 226
Claire Giraut	**2011**	**109 200**	**-**	**-**	**-**	**6 719**	**115 919**
	2010	108 000	-	-	194 636	6 710	309 346
Rolf P. Jetzer (passed away in 2010)[3]	**2011**	**-**	**-**	**-**	**-**	**-**	**-**
	2010	137 000	-	-	291 954	15 532	444 486
Gareth Penny[6]	**2011**	**100 800**	**-**	**-**	**-**	**26 251**	**127 051**
	2010	108 000	-	-	291 954	5 744	405 698
Daniel J. Sauter	**2011**	**159 600**	**-**	**-**	**-**	**9 772**	**169 372**
	2010	162 000	-	-	291 954	8 616	462 570
Charles G. T. Stonehill	**2011**	**126 000**	**-**	**-**	**310 986**	**7 545**	**444 531**
	2010	135 000	-	-	-	7 194	142 194
Total	**2011**	**2 121 800**	**900 000**	**-**	**1 156 230**	**188 788**	**4 366 818**
Total	2010	2 165 000	1 000 000	300 000	1 474 742	173 146	5 112 888

[1] The members of the Board of Directors of Julius Baer Group Ltd. assume the similar director role in the Board of Directors of Bank Julius Baer & Co. Ltd.
In September 2011, the members of the Board of Directors decided to voluntarily reduce their cash compensation for the period September 2011 to April 2012 (eight months) by 10%, thereby following the Executive Boards of the Group and the Bank who had taken a similar decision. For all Board members (except for the Chairman) this pro rata reduction is entirely reflected in the base salary disclosure for 2011. The base salary for the Chairman disclosed for 2011 includes such reduction for four months only (i.e. September to December 2011); the 10% reduction on the remaining four months will be part of the 2012 compensation and disclosure.
In 2011, Claire Giraut, Heinrich Baumann, Peter Kuepfer and Daniel Sauter were engaged in additional ad hoc Board Committees on the Bank level. The remuneration for such Committee work is included in the disclosed base salary amount for 2011 and was also subject to the 10% pro rata reduction as described above.
For more information on the detailed compensation components of the Board of Directors please refer to the Corporate Governance section of the Annual Report 2011, page 32 ff.

[2] The Chairman has a full-time employment relationship.

[3] Rolf P. Jetzer unexpectedly passed away on 19 September 2010. His compensation for 2010, however, was not cut to a pro rata payment.

[4] The performance payment made to the Chairman in 2010 was split between a cash component of CHF 1.0 million and a share-based award in the form of unblocked shares of Julius Baer Group Ltd. in the amount of CHF 0.3 million (with fair value of the shares on 25 F ebruary 2011).
In 2011, the Chairman was awarded with a cash performance payment only in the amount of CHF 0.9 million.

[5] Share-based payments to members of the Board of Directors (excl. the Chairman) are made in the year of election and/or re-election and for the entire term (normally three years).
In 2011, Heinrich Baumann has been elected to the Board of Directors for a three-year term. In addition, Peter Kuepfer has been re-elected for a one-year term and Charles G.T. Stonehill for a three-year term.
The share-based payments are valued at fair value at the grant date (CHF 37.43 per share of Julius Baer Group Ltd. as at 1 May 2010; CHF 39.87 per share of Julius Baer Group Ltd. as at 4 May 2011).

[6] The amount disclosed for 2011 under Varia for Gareth Penny includes a payment of CHF 20 000 under a separate – but in the meantime terminated – consultancy agreement to assist and advise the Julius Baer Group in further developing emerging markets.

The value of the share-based payments cannot be compared with Note 28 Share-based payments of the Financial Statements Group 2011 as the latter discloses the compensation expense for the shares and/or options that have been recognised during the reporting periods.

The members of the Board of Directors are only entitled to the granted shares and/or options provided that they fulfil the entire term for which they have been elected or re-elected (forfeiture clause). The share award made to Rolf P. Jetzer based on his re-election at the Ordinary Annual General Meeting 2010 fully vested with his passing away in September 2010.

In 2011, no compensation has been granted to Board members that left the Board in 2010 or earlier.

No compensation has been granted to closely linked parties of members of the Board of Directors.

		31.12.2011		31.12.2010
	Loans *CHF*	Loans to closely linked parties *CHF*	Loans *CHF*	Loans to closely linked parties *CHF*
Loans to the members of the Board of Directors				
Raymond J. Baer – Chairman	**6 778 877**	**-**	6 458 633	-
Peter Kuepfer – Independent Lead Director	**-**	**-**	-	-
Heinrich Baumann (joined Board in 2011)	**-**	**-**	n/a	n/a
Leonhard H. Fischer	**-**	**-**	-	-
Claire Giraut	**-**	**-**	-	-
Gareth Penny	**-**	**-**	-	-
Daniel J. Sauter	**7 731 341**	**4 209 817**	78 490	7 212 077
Charles G. T. Stonehill	**-**	**-**	-	12 505
Total	**14 510 218**	**4 209 817**	6 537 123	7 224 582

The loans granted to members of the Board of Directors consist of Lombard loans on a secured basis (through pledging of securities portfolios or other marketable coverage), fixed rate mortgages (on a fixed rate basis) as well as Libor mortgages and floating rate mortgages (both on a variable rate basis).

The interest rates of the Lombard loans and the mortgage loans are in line with normal market rates at the time the loans were granted (no preferential conditions).

Members of the Board of Directors benefit from preferential staff conditions for transactions (e.g. in securities) executed in-house.

No loans to former members of the Board of Directors (and their closely linked parties) are outstanding at year-end 2011 or have been granted in 2011 at conditions that were not at market rates.

Shareholdings of the members of the Board of Directors[1]		Number of shares
Raymond J. Baer – Chairman	**2011**	**1 328 882**
	2010	1 310 800
Peter Kuepfer – Independent Lead Director	**2011**	**91 520**
	2010	88 920
Heinrich Baumann (joined Board in 2011)	**2011**	**-**
	2010	n/a
Leonhard H. Fischer	**2011**	**5 200**
	2010	2 600
Claire Giraut	**2011**	**2 600**
	2010	-
Gareth Penny	**2011**	**10 400**
	2010	7 800
Daniel J. Sauter	**2011**	**34 120**
	2010	31 520
Charles G. T. Stonehill	**2011**	**13 000**
	2010	10 400
Total	**2011**	**1 485 722**
Total	2010	1 452 040

[1]Including shareholdings of closely linked parties

None of the Board members held any option positions on Julius Baer Group Ltd. shares as at year-end 2011 and 2010.

			Variable compensation				
				Deferred elements			
		Base salary [1] CHF	Cash CHF	Shares CHF	Performance units CHF	Pension fund contribution and varia CHF	**Total** CHF
Compensation of the members of the Senior Management							
Total[2]	**2011**	**2 905 175**	**4 037 568**	**2 148 765**	**2 740 572**	**622 985**	**12 455 065**
Total[3]	2010	2 959 053	5 389 559	3 160 441	3 768 310	639 994	15 917 357

[1] In September 2011, the members of the Executive Boards of the Group and the Bank decided to voluntarily reduce their base salary for the period September 2011 to June 2012 (ten months) by 5-10%. The disclosed base salary 2011 of the members of the Senior Management includes such reduction for four months. The reduction on the remaining six months (i.e. January to June 2012) will be part of the 2012 compensation and disclosure.

[2] The variable compensation for the members of the Senior Management for the 2011 financial year was composed of an unrestricted cash component and an equity-based incentive (awards of shares and performance units under the Incentive Share Plan [ISP]). For the reporting period 2011, the members of the Senior Management were granted a number of shares at fair value at grant date equal in value to the deferred amount shown under 'deferred shares', i.e. CHF 2.15 million (grant date of ISP 15 February 2012). In addition to the deferred shares, the members of the Senior Management were granted a performance unit award (shown under 'performance units'). Subject to the achievement of predefined targets and continued employment such performance units cliff-vest in the form of Julius Baer Group shares at the end of a three-year period. The total number of vested performance shares at the end of the performance period can be between zero and four times the number of initially granted performance units. The two performance targets evaluated over the three-year period are described in the Corporate Governance section of the Annual Report.

For the reporting period 2011, the members of the Senior Management (except the CEO) were awarded with the same number of performance units as the number of deferred shares. The fair value of a performance unit is 1.78 times the value determined for a Julius Baer Group deferred share, i.e. amounting to a total value of CHF 2.74 million under 'performance units'.

The fair value of the performance unit was based on a valuation of (i) the economic profit component using a probabilistic model regarding the potential deviation of the future Group results from its strategic three-year plan, and of (ii) the relative share price component applying a standard option pricing model using an expected volatility of 31.5% for Julius Baer Group shares and 32.0% for the STOXX Europe 600 Banks Index, assumed average Julius Baer Group dividend cash flows derived from the Group's strategic three-year plan, and an expected risk-free rate of 0.0% and 1.0% for CHF and EUR, respectively.

The Compensation Committee decided on 23 January 2012 on the participants of the ISP and on the individual allocations as part of the variable compensation for 2011.

For the reporting period 2011, the split between the base salary and the variable compensation of the members of the Senior Management was 24.6% : 75.4%. 54.8% of the variable compensation of the members of the Senior Management in the reporting period was deferred for a period of three years.

[3] The variable compensation for the members of the Senior Management for the 2010 financial year was composed of an unrestricted cash component and an equity-based incentive (awards of shares and performance units under the Incentive Share Plan [ISP]). For the reporting period 2010, the members of the Senior Management were granted a number of shares at fair value at grant date equal in value to the deferred amount shown under 'deferred shares', i.e. CHF 3.16 million (grant date of ISP 15 February 2011). In addition to the deferred shares, the members of the Senior Management were granted a performance unit award (shown under 'performance units'). Subject to the achievement of predefined targets and continued employment such performance units cliff-vest in the form of Julius Baer Group shares at the end of the three-year period. The total number of vested performance shares at the end of the performance period can be between zero and four times the number of initially granted performance units. The two performance targets evaluated over the three-year period are described in the Corporate Governance section of the Annual Report.

For the reporting period 2010, the members of the Senior Management (except the CEO) were awarded with the same number of performance units as the number of deferred shares. The fair value of a performance unit is 1.61 times the value determined for a Julius Baer Group deferred share, i.e. amounting to a total value of CHF 3.77 million under 'performance units'.

The fair value of the performance unit was based on a valuation of (i) the economic profit component using a probabilistic model regarding the potential deviation of the future Group results from its strategic three-year plan, and of (ii) the relative share price component applying a standard option pricing model using an expected volatility of 30% for both Julius Baer Group shares and the STOXX Europe 600 Banks Index, assumed average Julius Baer Group dividend cash flows derived from the Group's strategic three-year plan, and an expected risk-free rate of 0.7% and 1.5% for CHF and EUR, respectively.

The Compensation Committee decided on 25 January 2011 on the participants of the ISP and on the individual allocations as part of the variable compensation for 2010.

For the reporting period 2010, the split between the base salary and the variable compensation of the members of the Senior Management was 19.4% : 80.6%. 56.2% of the variable compensation of the members of the Senior Management in the reporting period was deferred for a period of three years.

In 2011, no compensation has been paid to former members of the Senior Management who left the Senior Management in 2011 or earlier that related to such members' prior function within the Senior Management.

No compensation has been granted to closely linked parties of members of the Senior Management or former members of the Senior Management.

Neither sign-on payments nor severance payments to members of the Senior Management were made in 2010 and 2011.

Details of the compensation of the highest-paid member of the Senior or former Senior Management			Variable compensation	Deferred elements			
		Base salary [1] CHF	Cash CHF	Shares CHF	Performance units CHF	Pension fund contribution and varia CHF	**Total** CHF
Boris F.J. Collardi, CEO[2]	**2011**	**943 467**	**2 000 000**	**1 333 333**	**1 289 067**	**103 397**	**5 669 264**
Boris F.J. Collardi, CEO[3]	2010	955 167	3 000 000	2 000 000	1 900 000	93 138	7 948 305

[1] In September 2011, the CEO decided to voluntarily reduce his base salary for the period September 2011 to June 2012 (ten months) by 10%. The disclosed base salary 2011 of the CEO includes such reduction for four months. The reduction on the remaining six months (i.e. January to June 2012) will be part of the 2012 compensation and disclosure.

[2] Analogous to the other members of the Senior Management, the variable compensation for the CEO for the 2011 financial year was composed of an unrestricted cash component and an equity-based incentive (awards of shares and performance units under the Incentive Share Plan [ISP]). For the reporting period 2011, the CEO was granted a number of shares at fair value at grant date equal in value to the deferred amount shown under ‘deferred shares’, i.e. CHF 1.33 million (grant date of ISP 15 February 2012). In addition to the deferred shares, the CEO was granted a performance unit award (shown under ‘performance units’). Subject to the achievement of predefined targets and continued employment such performance units cliff-vest in the form of Julius Baer Group shares at the end of the three-year period. The total number of vested performance shares at the end of the performance period can be between zero and four times the number of initially granted performance units. The two performance targets evaluated over the three-year period are described in the Corporate Governance section of the Annual Report.

For the reporting period 2011, the CEO was awarded with a number of performance units at fair value at grant date equal in value to the amount shown under ‘performance units’, i.e. CHF 1.29 million (grant date of ISP 15 February 2012). The fair value of a performance unit is 1.78 times the value determined for a Julius Baer Group deferred share.

The fair value of the performance unit was based on a valuation of (i) the economic profit component using a probabilistic model regarding the potential deviation of the future Group results from its strategic three-year plan, and of (ii) the relative share price component applying a standard option pricing model using an expected volatility of 31.5% for Julius Baer Group shares and 32.0% for the STOXX Europe 600 Banks Index, assumed average Julius Baer Group dividend cash flows derived from the Group’s strategic three-year plan, and an expected risk-free rate of 0.0% and 1.0% for CHF and EUR, respectively.

The Compensation Committee decided on 23 January 2012 on the ISP allocation to the CEO as part of the variable compensation for 2011.

For the reporting period 2011, the split between the base salary and the variable compensation of the CEO was 17% : 83%. 56.7% of the variable compensation of the CEO for the reporting period was deferred for a period of three years.

[3] Analogous to the other members of the Senior Management, the variable compensation for the CEO for the 2010 financial year was composed of an unrestricted cash component and an equity-based incentive (awards of shares and performance units under the Incentive Share Plan [ISP]). For the reporting period 2010, the CEO was granted a number of shares at fair value at grant date equal in value to the deferred amount shown under ‘deferred shares’, i.e. CHF 2 million (grant date of ISP 15 February 2011). In addition to the deferred shares, the CEO was granted a performance unit award (shown under ‘performance units’). Subject to the achievement of predefined targets and continued employment such performance units cliff-vest in the form of Julius Baer Group shares at the end of the three-year period. The total number of vested performance shares at the end of the performance period can be between zero and four times the number of initially granted performance units. The two performance targets evaluated over the three-year period are described in the Corporate Governance section of the Annual Report.

For the reporting period 2010, the CEO was awarded with a number of performance units at fair value at grant date equal in value to the amount shown under ‘performance units’, i.e. CHF 1.9 million (grant date of ISP 15 February 2011). The fair value of a performance unit is 1.61 times the value determined for a Julius Baer Group deferred share.

The fair value of the performance unit was based on a valuation of (i) the economic profit component using a probabilistic model regarding the potential deviation of the future Group results from its strategic three-year plan, and of (ii) the relative share price component applying a standard option pricing model using an expected volatility of 30% for both Julius Baer Group shares and the STOXX Europe 600 Banks Index, assumed average Julius Baer Group dividend cash flows derived from the Group’s strategic three-year plan, and an expected risk-free rate of 0.7% and 1.5% for CHF and EUR, respectively.

The Compensation Committee decided on 25 January 2011 on the ISP allocation to the CEO as part of the variable compensation for 2010.

For the reporting period 2010, the split between the base salary and the variable compensation of the CEO was 12.2% : 87.8%. 56.5% of the variable compensation of the CEO for the reporting period was deferred for a period of three years.

	31.12.2011		31.12.2010	
	Loans *CHF*	Loans to closely linked parties *CHF*	Loans *CHF*	Loans to closely linked parties *CHF*
Loans to the members of the Senior Management				
Total	**5 773 562**	**466 189**	5 876 235	-
of which the highest amount: Boris F.J. Collardi	***4 052 886***	-	*3 510 880*	-

The loans granted to the members of the Senior Management consist of Lombard loans on a secured basis (through pledging of securities portfolios or other marketable coverage), fixed rate mortgages (on a fixed rate basis) as well as Libor mortgages and floating rate mortgages (both on a variable rate basis).

The interest rates of the Lombard loans are in line with normal market rates at the time the loans were granted. Mortgage loans to employees and Senior Management members of the Group are granted at a discount of 1% for floating rate mortgage loans, whereas fixed rate mortgage loans are granted at refinancing rate plus 0.25% and Libor mortgage loans at refinancing rate plus 0.5%.

No loans to former members of the Senior Management (and their closely linked parties) are outstanding at year-end 2011 or have been granted in 2011 at conditions that were not at market.

Members of the Senior Management benefit from preferential staff conditions for transactions (e.g. in securities) executed in-house.

Shareholdings of the members of the Senior Management[1]		Number of shares
Boris F.J. Collardi, Chief Executive Officer	**2011**	**69 918**
	2010	43 054
Dieter A. Enkelmann, Chief Financial Officer	**2011**	**73 533**
	2010	74 654
Jan A. Bielinski, Chief Communications Officer	**2011**	**33 812**
	2010	29 005
Christoph Hiestand, General Counsel	**2011**	**4 807**
	2010	2 404
Bernhard Hodler, Chief Risk Officer	**2011**	**17 017**
	2010	15 977
Bernard Keller, Private Banking Representative	**2011**	**17 241**
	2010	8 830
Total	**2011**	**216 328**
Total	2010	173 924

[1] Including shareholdings of closely linked parties

None of the members of the Senior Management held any option positions on Julius Baer Group Ltd. shares as at year-end 2011 and 2010.

Proposal of the Board of Directors to the Ordinary Annual General Meeting on 11 April 2012

The Board of Directors proposes to the Ordinary Annual General Meeting that the disposable profit for the 2011 financial year of CHF 203 221 872, consisting of net profit for the financial year in the amount of CHF 196 906 894 plus CHF 6 314 978 of retained earnings brought forward from the prior financial year, be distributed as follows:

- Allocation to other reserves:
  CHF 200 000 000
- Balance brought forward:
  CHF 3 221 872

- Dividend of CHF 0.60
  per share at CHF 0.02 par value
- Special dividend of CHF 0.40
  per share at CHF 0.02 par value
- Total dividends on the 199 037 802 shares
  entitled to dividends:
  CHF 199 037 802
  Total distribution, fully charged to share premium reserve/capital contribution reserve

Dividends

	Gross *CHF*	35% withholding tax *CHF*	Net *CHF*
On approval of this proposal, the dividends amount to:			
Dividend per share	0.60	-	0.60
Special dividend per share	0.40	-	0.40

The dividends will be paid from 18 April 2012.

On behalf of the Board of Directors

The Chairman

Raymond J. Baer

Report of the Statutory Auditor to the Ordinary Annual General Meeting of Julius Baer Group Ltd., Zurich

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Report of the Statutory Auditor on the Financial Statements to the General Meeting of Shareholders of

Julius Baer Group Ltd., Zurich

As statutory auditor, we have audited the accompanying financial statements of Julius Baer Group Ltd., which comprise the balance sheet, income statement and notes (pages 136 to 148) for the year ended 31 December 2011.

Board of Directors' Responsibility

The board of directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2011 comply with Swiss law and the company's articles of incorporation.

KPMG

Julius Baer Group Ltd., Zurich
Report of the Statutory Auditor
on the Financial Statements
to the General Meeting of Shareholders

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the board of directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Daniel Senn
Licensed Audit Expert
Auditor in Charge

Hans Stamm
Licensed Audit Expert

Zurich, 3 February 2012

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