

Capital Adequacy **2010**
Julius Baer Group Ltd.

according to FINMA Circular 2008/22
“Capital Adequacy Disclosure Banks”

Capital Adequacy 2010 Julius Baer Group Ltd.

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Introduction

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

The required qualitative information is disclosed in the Annual Report 2010 (AR 2010) of Julius Baer Group Ltd. under “Comment on risk and capital management” (pages 61-86). This specifically includes the description of the strategy, processes and organisation employed for managing credit risks or counterparty risks, risks in the trading book and banking book as well as operational risks.

In the section “Credit risk” (pages 64ff, AR 2010), the risk practice and the practice in relation to collateral are explained. External ratings from Moody’s, Standard & Poor’s and Fitch are employed for determining the risk weighting of amounts due from banks and of the interest rate instruments reported under financial investments. For the risk weighting of bonds issued by central governments and central banks, also the ratings of the Swiss Export Risk Insurance (SERV) are employed. The standardised approach and subsidiary approaches for calculating capital requirements for credit risks are described in section “Approaches used for calculating required capital” on page 8 of this document.

In the section “Market risk (trading book)” (pages 74ff, AR 2010), the methods and processes employed for measuring and limiting market risks are explained. For the trading book, the Group calculates the capital requirements based on its internal value at risk (VaR) model.

The assumptions employed for determining interest rate risk are described in the section “Liquidity, financing and interest rate risks in the banking book” (pages 78ff, AR 2010). This section also contains an explanation of the methods used in practice to hedge or reduce the risks related to changes in interest rates. Quantitative figures on the income effect of a major change in interest rates in the banking book are also provided in the aforementioned section.

The standardised approach is used for calculating the capital adequacy for operational risks. Management and control of the operational risks are described in the AR 2010, pages 82f.

The section “Management of capital including regulatory capital” (pages 84ff, AR 2010) describes the capital management principles, the legal parameters and the consolidation scope used for calculating the required capital. The therein disclosed capital adequacy according to the capital guidelines of the Basel Committee on Banking Supervision is supplemented in section “Capital adequacy”, pages 5ff of this document, with the disclosure of figures according to Swiss law (SA-CH approach).

Capital adequacy

Capital ratios

The Group discloses the capital adequacy figures in the AR 2010 according to the revised capital guidelines (Basel II) of the Basel Committee on Banking Supervision (BIS guidelines).

For calculating the capital adequacy under Swiss law, the standardised approach (SA-CH) according to the Ordinance concerning Capital Adequacy and Risk Diversification for Banks and Securities Traders (Capital Adequacy Ordinance, CAO) is used. In the table below, the calculations under the Swiss approach are disclosed.

The disclosure of the capital adequacy figures of the Group uses the same basis as the financial report as of 31 December 2010. In the capital adequacy statements as of 31 December 2009, the Group is presented as if it had already existed on 1 January 2008. See the section "Separation of the business of the former Julius Baer Holding Ltd." in the AR 2010, page 50, for more details.

Capital ratios

	31.12.2010 <i>CHF m</i>	31.12.2009 <i>CHF m</i>
Risk-weighted positions		
Credit risk	8 797.8	7 903.2
Non-counterparty-related risk	2 093.2	1 802.6
Market risk ¹	514.2	708.6
Operational risk ¹	2 896.3	2 656.2
Total	14 301.5	13 070.6
Eligible capital		
Eligible tier 1 capital	2 873.4	2 656.6
<i>of which hybrid tier 1 capital</i>	225.0	225.0
Eligible tier 1 and tier 2 capital	2 908.1	2 702.3
SA-CH tier 1 ratio	20.1%	20.3%
SA-CH tier 1 and tier 2 ratio	20.3%	20.7%
Ratio of eligible/required capital under Swiss law	254.2%	258.4%

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

Capital Adequacy**Hybrid tier 1 capital**

Hybrid tier 1 capital represents 7.8% (2009: 8.5%) of the Group's 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.

Capital components

The main adjustments to capital are the addition of the innovative capital instruments (hybrid tier 1 capital) and the deduction of intangible assets to get to the total of eligible capital. These capital components

are shown separately in the table below. Additionally a total of CHF 22 million (2009: CHF 47 million) is deducted from core capital tier 1 for treasury shares of Julius Baer Group Ltd.

Capital components

	31.12.2010 <i>CHF m</i>	31.12.2009 <i>CHF m</i>
Gross tier 1 capital after deduction of treasury shares	4 586.0	4 329.3
<i>of which non-controlling interests</i>	2.2	1.7
<i>of which innovative capital instruments</i>	225.0	225.0
Goodwill and other intangible assets	-1 635.4	-1 572.2
Other deductions	-77.2	-100.5
Eligible tier 1 capital	2 873.4	2 656.6
Tier 2 capital	34.7	45.7
Eligible tier 1 and tier 2 capital	2 908.1	2 702.3

Minimum capital requirement

The capital requirement for credit risk (see table below), which arises from amounts due from banks, loans, financial investments, derivative financial instruments, other assets exposed to credit risk and off-balance-sheet positions exposed to credit risk, represents 61% (2009: 61%) of the total required capital according to SA-CH. The capital requirement for non-counterparty-related risk amounts to 15% (2009: 14%) of the total required capital. Under SA-CH, the positions bank premises are weighted at

250%, and capitalised other property and equipment as well as software, which are disclosed under the category of non-counterparty-related risk, are weighted at 625% respectively. The total weighted amount is subject to a capital requirement of 8%.

The capital requirement for market risk represents 4% (2009: 5%) of the total required capital. The share of operational risk represents 20% (2009: 20%).

Minimum capital requirement

	31.12.2010 <i>CHF m</i>	31.12.2009 <i>CHF m</i>
Credit risk	703.8	632.3
<i>of which for equity securities in the banking book</i>	16.2	18.0
Non-counterparty-related risk	167.5	144.2
Market risk	41.1	56.7
Operational risk	231.7	212.5
Total	1 144.1	1 045.7

Credit risk

Approaches used for calculating required capital

For calculating the required capital for credit risk, the Group uses the standardised approach under the BIS guidelines (i.e. the SA-BIS approach before application of the multipliers according to the Swiss Capital Adequacy Ordinance (CAO)) for disclosure of the capital figures in the AR 2010 as well as the standardised approach under Swiss law (SA-CH) for disclosure of the capital figures according to Swiss law. In the CAO and the circulars referred to therein, the calculation procedures for both approaches are described in detail.

In addition, the following subsidiary approaches are used:

- Collateral is handled under the comprehensive approach, which means that the credit position is netted against the collateral provided. This takes into account add-ons or haircuts on the receivable and the collateral to reflect possible changes in value based on market developments. The resulting net unsecured position remains in the original position category and is risk weighted according to the criteria applicable to this category.
- Lombard loans are also handled under the comprehensive approach described above.
- The regulatory standard haircuts are used for collateral eligible under the comprehensive approach.
- Credit equivalents for derivatives are calculated using the mark-to-market method. The credit equivalent corresponds to the sum of the current replacement value and the add-on which is calculated on the basis of the notional amount of the contract.
- Securities lending, repo and repo-style transactions are handled under the comprehensive approach, whereas under the SA-CH approach for qualifying counterparties capital is only required to cover the difference between the margin provided (without any regulatory standard haircuts) and the securities position. For non-qualifying counterparties capital is required to cover the difference between the margin provided less a haircut and the securities position plus a risk premium.

Credit risk by legal risk weights

The credit risk breakdown, as presented in the table on page 9, is provided before deduction of the eligible collateral. All positions subject to capital adequacy requirements and exposed to credit risk are disclosed, with the exception of the balance sheet positions accrued income and prepaid expenses, deferred tax assets and other assets.

The unrealised gains on the available-for-sale financial investments are deducted from the total amount of the financial investments. The total amount of the

derivative financial instruments corresponds to the total of positive current replacement values, plus the calculated add-ons, minus permissible netting under netting agreements. The totals of the positions contingent liabilities and irrevocable commitments correspond to the calculated credit equivalents. The total of securities lending and repo transactions correspond to the market values of the disclosed transactions plus risk premiums, which have to be calculated for specific counterparty types.

The secured portion of credit, which corresponds to the collateral after adjusting for the haircuts (use of regulatory standard haircuts), is assigned to the 0% column; the 0% column represents 53% (2009: 52%) of the total credit volume. The largest portion of the credit volume after deduction of the collateral is found in the risk weighting range from 25% to 75%; the corresponding share of the total credit volume

amounts to 41% (2009: 43%). The remaining unsecured credit volume is concentrated primarily in the weighting category of 100%, though the equity holdings reported under the balance sheet position financial investments that are not traded on a regulated stock exchange and the subordinate claims are weighted at 250%.

Credit risk by legal risk weights

	31.12.2010									
	0%	25%	35%	50%	75%	100%	125%	150%	250%	Total
	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m
Due from banks ¹	2 444	3 684	-	73	-6	11	-	16	-	6 222
Loans ²	9 745	8	2 844	297	559	1 089	-	28	-	14 570
Financial investments available-for-sale	4 166	6 915	-	2 275	-	62	8	21	349	13 796
Derivative financial instruments ³	1 116	425	-	381	7	373	-	-	-	2 302
Contingent liabilities ⁴	723	8	-	-	6	81	-	-	-	818
Irrevocable commitments ⁴	9	28	-	-	1	7	-	-	-	45
Securities lending and repo transactions ⁵	4 698	38	-	-	-	388	-	-	-	5 124
Total	22 901	11 106	2 844	3 026	567	2 011	8	65	349	42 877

	31.12.2009									
	0%	25%	35%	50%	75%	100%	125%	150%	250%	Total
	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m
Due from banks ¹	2 364	2 832	-	79	-9	7	-	12	-	5 285
Loans ²	7 343	12	1 922	35	339	740	-	40	-	10 431
Financial investments available-for-sale	3 706	8 433	-	2 229	-	91	10	1	426	14 896
Derivative financial instruments ³	700	299	-	205	9	317	-	-	-	1 530
Contingent liabilities ⁴	666	-	-	-	5	67	-	-	-	738
Irrevocable commitments ⁴	7	11	-	-	1	1	-	-	-	20
Securities lending and repo transactions ⁵	4 956	142	-	-	-	235	-	-	-	5 333
Total	19 742	11 729	1 922	2 548	345	1 458	10	53	426	38 233

¹Reverse repurchase transactions deducted; collective allowance deducted (weighted with 75%)

²Collective allowance deducted (weighted with 75%)

³Positive current replacement values plus the security supplement (add-ons) taking into account existing netting agreements

⁴Converted in credit equivalent

⁵Including reverse repurchase transactions

Credit risk

Additional numeric credit risk breakdowns by region, by sector and after deduction of recognised financial collaterals are presented in the AR 2010, pages

65-67, according to the BIS approach. Corresponding tables according to the SA-CH approach are not presented in this document.

Additional information

In the following table the risk-weighted, impaired loans are disclosed broken down by geographical region.

Impaired loans by region

	31.12.2010		31.12.2009	
	Gross loans CHF 1000	Specific allowance CHF 1000	Gross loans CHF 1000	Specific allowance CHF 1000
Switzerland	3 862	-3 862	3 669	-3 669
Europe	6 048	-5 556	2 046	-2 025
Americas	51 772	-26 942	63 144	-35 827
Asia/Pacific	-	-	-	-
Other countries	1 522	-803	1 582	-774
Total	63 204	-37 163	70 441	-42 295

The Group does not disclose open credit derivatives as at the end of 2010 and 2009.

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