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# Speeches

at the Ordinary Annual General Meeting 2013
of Julius Baer Group Ltd.

Zurich, 10 April 2013

Chairman's address

Daniel J. Sauter
Chairman of the Board of Directors

Presentation of the business development 2012

Boris F.J. Collardi
Chief Executive Officer

Check against delivery.

# Chairman's address

## Daniel J. Sauter, Chairman of the Board of Directors

Dear shareholders, guests, fellow members of the Board of Directors, and employees of the Julius Baer Group

I am pleased to welcome you to the Ordinary Annual General Meeting 2013 of Julius Baer Group Ltd. We look back on a financial year today which considering the business climate and the diverse changes, joins the ranks of a long line of difficult years. It is also a very special year from the perspective of Julius Baer: with the announcement in August 2012 of the acquisition of the International Wealth Management business of Bank of America Merrill Lynch, we took another major and important step in the corporate development of Julius Baer. At the Extraordinary General Meeting of last September, you approved the capital increase necessary for this and participated in the subsequent rights offering. Thank you again for your trust in our actions. After receiving regulatory approvals at key locations of the acquired wealth management business of Merrill Lynch outside the USA, the Principal Closing took place on 1 February of this year, allowing us to begin with the actual integration of the business. Boris Collardi will provide you with more information on the status of the integration in his review of the financial year.

After six years now on the Board of Directors and one year as its Chairman, I would like to take this opportunity to share my understanding of the duties of this corporate body – that is, apart from the well-known responsibilities under the law. This function requires besides enthusiasm also commitment and satisfaction in dealing with people. I took on the responsibility as Chairman of the Board because I am convinced of the successful future of private banking and wealth management and because I am impressed with the high quality and motivation of our leadership team and the entire staff. The constant changes in our industry and their consequences for the strategy, structure and processes of the company are watched closely and analysed by the Board with the help of the Group's senior management and demand a significant professional, personal and time commitment from the entire Board. We conscientiously exercise our responsibility of overall leadership, supervision and control on behalf of all shareholders, the employees and our clientele as well as for the company itself.

In 2012 – as in other years since 2008 – we certainly did not lack challenges. The financial, debt and banking crisis reached a fragile intermediate state thanks mainly to the decisive intervention of the European Central Bank (ECB) and other central banks. Given the virtually unlimited supply of liquidity to the markets and banks, the fight against symptoms reached a new creative high point which was also welcomed by the financial markets. Rising bond and now equity prices, especially in the first few months of this year, have resulted in good performance for our clients and have therefore also produced attractive growth in the assets managed by our Group.

The newly gained stability in the world still seems a bit shaky and unlikely to be sustainable, however, because the underlying structural problems remain unresolved and still plague the global economy and thus also the financial system. The industrialised nations along with their banks are still collectively caught up in a phase of sorting out the past. The extravagant 'expenditure parties' that took place with borrowed money will burden these economies for some time to come. In this environment, Switzerland fortunately stands out. Lacking a significant power base or substantial natural resources, and ever exposed to international competition in import and export markets as well as to the increasingly unfavourable trend of exchange rates in recent years, there has always been a very strong propensity and willpower for self-renewal. This willpower comes from within and is self-motivated. And it has given rise to a dynamic economy which fears no confrontation and embraces each challenge even if sometimes there is no level playing field.

This healthy external opportunism is balanced by internal pragmatism: the general framework should allow for healthy competition in which market forces take on the main role. This inner strength has enabled Switzerland to pull through the various crises relatively unscathed and to maintain solid government finances as well as a robust overall economic base with healthy growth. We need to be careful, however, that we do not weaken our liberal, quite social and market forces driven economic system through constricting 'own initiatives' and thus rob ourselves of this excellent general framework!

These features together with high-quality services which stand up to any and all international competition have turned our country into a secure and desirable financial centre over the decades, but they have also made it the target of tax demands by our economic partner nations in recent times. The Swiss financial centre has received and also understood the message. It is currently in the midst of sorting out the past and newly positioning itself. The development and partial introduction of the final withholding tax, the acceptance of only taxed assets as well as the regularisation of existing tax non-compliant client assets are the clear consequences of this new positioning.

The series of crises has also produced an unprecedented flood of rules and regulations on an international level. These include:

- Basle III, the tighter capital adequacy rules of the Bank for International Settlements, which will be implemented in Switzerland as of this year and which we already fulfil. The EU will follow only as of 2014, whereas the USA has not yet set a date – because its banks will be unable to meet these targets in the foreseeable future.
- MiFID, the directive on 'Markets in Financial Instruments' and thus the core of financial market regulation in the EU, is soon to be reissued in a second, more stringent version. It will particularly affect Switzerland's access to the important EU market.
- The Foreign Account Tax Compliance Act (FATCA), the tax legislation rolled out worldwide by the United States, places the international financial sector in the service of the US tax authorities, though the agreement allows several important simplifications for Switzerland thanks to successful negotiations.

The list of new rules and regulations could go on here indefinitely.

It is wrong, however, to portray Switzerland as a shining economic role model. Some of the business policies of the Swiss financial sector have turned out to be unsustainable or even mistaken in hindsight. The resulting consequences are far reaching and dramatic. As previously mentioned, we began the necessary change processes immediately – with courage, great energy and the requisite foresight – and we have made significant progress in implementing them.

In what direction then are the Board of Directors and the management of Julius Baer steering the company and to what aim? Those who remain static in this rapidly changing environment and do not regularly renew themselves risk stagnating or even perishing. Preventing this is the strategy responsibility of the Board: safely steering our company in the clearly challenging regulatory environment to where our traditional client segments of wealthy individuals already exist, primarily in Europe, or are very quickly developing, as in the growth markets in Asia, the Middle East, Eastern Europe and Latin America. In this process, we intend to achieve sustainable growth for our Group – or, to put it more precisely, profitable growth, by emphasising strict control of the cost/income ratio in all business initiatives. The rapidly changing regulatory environment also produces rising costs! As a result of this, the critical corporate mass has further increased, which apart from strong organic growth, also makes growth through selective acquisitions necessary. In this process, our most important criterion is that this growth leads to synergies and that we can offset the rising fixed costs through disproportionate growth of income. This creates added value for our shareholders.

Thanks to the similar business model, the focus on private clients and the comparable corporate culture, the wealth management business of Merrill Lynch is highly compatible with that of Julius Baer. It will also provide significant scale effects. This acquisition fits smoothly within the strategic realignment and development of our Group pursued since 2005. If the Board of Directors had not boldly and proactively opened the capital structure of the Group at that time, strengthened our management and acquired the three private banks from UBS, the name Julius Baer would perhaps no longer have the same allure as it has today – provided that we would even have been able to maintain our independence. We owe those who led the way at that time our thanks and respect!

We have meanwhile become the leading Swiss private banking group, operate from a position of strength and can adapt as we see fit to the increasingly demanding environment. The Merrill Lynch transaction should also be viewed in this light: after completing the integration, we expect to have around 40% more assets under management than we had at the time of the announcement. Our exposure to growth markets will increase to approximately 50% – compared with around one third currently and less than 10% in 2005. In Europe, we will add around a half dozen new locations in key markets, most of them already with critical mass. The broader asset base and the prospective synergies will sustainably strengthen the earnings power of the Julius Baer Group.

The Board of Directors and the Senior Management have very firmly pursued this geographic realignment of the Group over the last eight years – on a scale and at a pace which are rather exceptional by Swiss standards, especially for a private bank. There are certainly some risks connected with this determined approach, but we have taken them on knowingly and in a controlled manner and expect to be compensated for them – I have mentioned the stronger earnings power. We have always openly communicated our growth initiatives and the underlying strategy and will continue to do so in the future. That is because the most important thing in our business is trust.

Building trust is one of the most important tasks of the Board of Directors, and this goes hand in hand with its duty to balance interests. Strategic changes and their implementation can produce uncertainty. It is the responsibility of the Board to build trust in the new and different situation resulting from the changes – so that the positives come out on top. To this end, the

Board must balance the interests of the various stakeholder groups in order to safeguard and nurture the culture and identity of the company. What we advocate, what can be counted on from us and what values our actions and self-image rest on must be clear to all stakeholder groups at all times.

We sum this up in our core values of Care, Passion and Excellence. With great commitment and professionalism, we tend to all the concerns of our clients! These core values are our guiding principles we practice and they embody that which distinguishes us in our daily work as Julius Baer and contribute to our high standing not only with our clientele:

- The exclusive dedication to private banking
- The low risk profile of our business activities
- Bespoke investment advice
- High service quality
- Complete independence regarding products (i.e. no proprietary funds, etc.)
- The high and thus very solid capital base of our Group

Trust in the financial industry has been partially lost – whether in the wake of the financial crisis or the tax discussions with various nations – and must be restored: we therefore strive for a cooperative rapport with the Swiss government in such areas as the ongoing efforts to sort out the past and the new financial centre strategy, and we seek close contact and an open exchange with our regulatory agency FINMA and with the SNB. The public views us as an esteemed and responsible employer which provides jobs for a staff of over 3 000 in Switzerland. That is 20% more than in 2005. Our shareholders consider us a solid investment, one which has produced a profit and paid dividends each year since going public in 1980.

The ongoing refocusing of the Swiss financial centre on henceforth managing only taxed assets is a logical consequence which is fully supported by Julius Baer and has already been implemented in our business. It will undoubtedly lead to a few painful adjustments. Nonetheless, it is helping to significantly strengthen our industry, especially in an international context. Bank-client confidentiality is and should remain an important element of the protection of a person's personality as well as privacy.

By concentrating on the essentials, the Swiss financial centre can especially now bring its strengths to bear. The future of Julius Baer lies in the great professional expertise of its employees and in the resulting quality of its offering. We combine private banking tradition with a strong work ethic, a cosmopolitan attitude and an emphasis on discretion. We offer first-class investment advisory and wealth management services – as bespoke and individual as our clients' desire, and everywhere in the world our clients expect us to be. This client-centric approach is exemplary in our industry and will be further enhanced by the Merrill Lynch employees who join us.

The Board of Directors' strategy responsibility together with its duty to balance interests add up to the overriding duty of ensuring the long-term preservation, the profitable ongoing development and the economic success of the Julius Baer Group. Quality and professional expertise are decisive factors for responsibly fulfilling this duty. With its high level of professional expertise, the Board of the Julius Baer Group is very well constituted in all areas important for us. I am proud to guide the destiny of the company together with such committed and highly dedicated colleagues. Incidentally, this conclusion was recently also reached by an independent third party in its widely respected annual ranking of good corporate governance: Julius Baer is said to have the best-organised board of directors among the SMI-listed companies. The high degree of independence and the strict separation of powers are highlighted. This acclaim motivates us to push firmly ahead on the Group's chosen path of development.

Julius Baer performed very well again last year in the face of a strongly changing world. This is the result of our clear strategy, its resolute implementation by our capable leadership team and your support, dear shareholders. For this, I wish to express my sincere gratitude. Through their strong identification with Julius Baer and their high level of professional expertise and motivation, our employees are the ones who make the decisive difference for the benefit of our sophisticated clientele around the globe. For this tireless commitment, they have earned our recognition and resounding thanks.

The Julius Baer Group started well in 2013. The pleasingly positive stock market environment also brightened the mood of investors in the first few months of the year. It remains to be seen whether this good mood will continue in view of the various problems. Regardless of the answer, I am confident we will successfully keep Julius Baer on the chosen course and simultaneously achieve the integration of Merrill Lynch's wealth management business on schedule. I look forward to welcoming the new colleagues from Merrill Lynch into our ranks and, together with them, shaping an even better future for the Julius Baer Group.

Dear shareholders, I thank you for your loyalty and devotion to our company and I now hand the floor to our CEO, Boris Collardi.

Presentation of the business development 2012

Boris F.J. Collardi, Chief Executive Officer

Ladies and Gentlemen,

It is my pleasure to speak to you today about the business development of the Julius Baer Group in 2012 and about the strategy of our company.

In addition to the acquisition of Merrill Lynch's International Wealth management Business – or IWM in brief – the past financial year was extraordinary in many respects. Given the unprecedented supply of liquidity by the central banks, the international financial markets stabilised for the time being at least. However, ongoing uncertainties about the underlying structural problems continued to curb the risk appetite of investors. Against this backdrop, our clientele also remained conservative in their investment behaviour, but this in no way reduced the demand for well thought out and timely investment views and opinions. This again gave our relationship managers and investment experts plenty of opportunity to demonstrate the advisory expertise of our Bank. The fact that we successfully met this demand in all corners of the world is underscored by the various prestigious awards which we received once again in 2012.

**Assets under management at new record high – profitability maintained – very strong capital base**

| CHF m | 2012 | 2011 | Change 2012/2011 |
|---|---|---|---|
| Operating income | 1,737 | 1,753 | -1% |
| Adjusted operating expenses[1] | 1,216 | 1,279 | -5% |
| Adjusted net profit[1] | 433 | 401 | +8% |
| Cost/income ratio (%) | 71.0 | 68.0 | – |
| Assets under management (CHF bn) | 189.3 | 170.3 | +11% |
| Net new money (CHF bn) | 9.7 | 10.2 | – |
| Growth rate p.a. | 6% | 6% | – |
| Number of employees (FTE) | 3,721 | 3,643 | +2% |
| BIS tier 1 ratio | 29.3% | 21.8% | – |

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

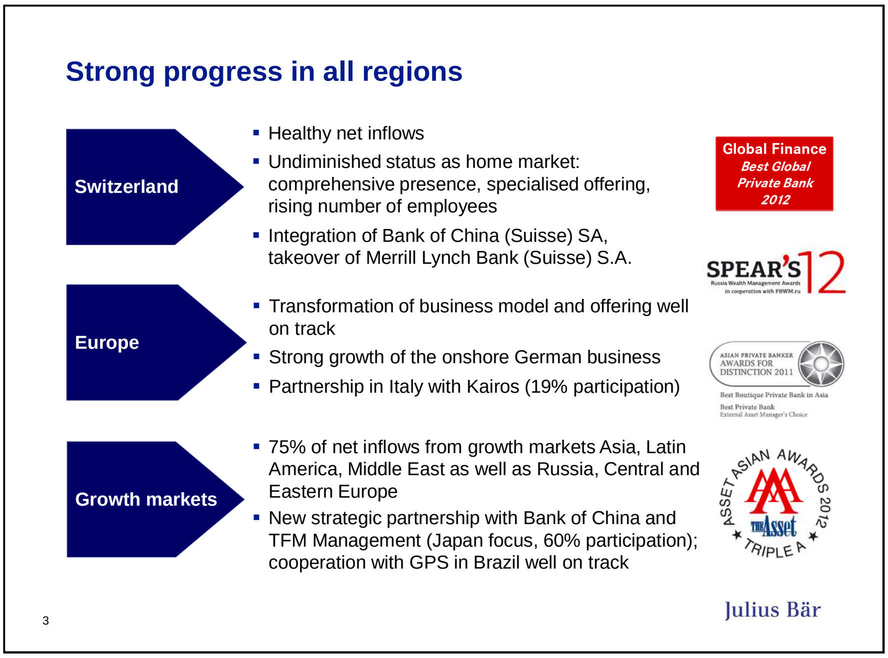
[1] Excluding integration and restructuring expenses and amortisation of intangible assets. Also excluding charges related to the demerger and expenses in relation to acquisitions.

2 Julius Bär

All in all, we produced solid financial results in 2012. The lower transaction-based revenues weighed down profitability. Nevertheless, we were able to keep operating income at nearly the same level as in the previous year thanks to higher commission income on the increased assets under management and the higher interest and dividend income. Active cost management also remained a constant focus last year. Hence, we were able to keep the largest expense item, personnel expenses, stable despite a 2% rise in the number of employees, whereas the general expenses declined by 18%. All in all, the adjusted operating expenses decreased by 5%. A considerable block of expenses related to costs stemming from regularisation of the past as well as the more stringent regulatory requirements in many countries. This also involves the changes to our core banking system in response to the final withholding tax agreements with the United Kingdom and Austria as well as comparable preparations for the implementation of the US tax legislation FATCA at the beginning of next year. Alone the expenses incurred in 2012 in connection with the US tax situation amounted to 38 million francs. Excluding this amount, the cost/income ratio would have risen by two percentage points less, to only 69 per cent.

The high central bank liquidity especially boosted the equity markets but also lifted bonds. This also left its mark on our assets under management: the increase by 11% or 19 billion francs included market performance of nearly 11 billion francs. The inflow of net new money also remained very healthy: with nearly 10 billion francs, the growth rate stayed at the upper end of the medium-term target range of 4 to 6 per cent per year. As a result of this, the assets managed by our Group reached a new record high of 189 billion francs. Including the meanwhile acquired Merrill Lynch Bank (Suisse), we have currently exceeded the mark of 200 billion francs.

As in previous years, all of our market regions contributed positively to the new money inflows, with the largest portion coming from the growth markets: Asia, Latin America, the Middle East, Russia as well as Central and Eastern Europe. This is the gratifying result of our stronger focus on growth markets for several years now.




Of course, we also remain as strongly anchored as ever in our home market of Switzerland. In view of the healthy net new money inflows again in 2012, Julius Baer has remained well in favour with sophisticated private clients in Switzerland. There are good reasons for this: we have the largest network of branches of all the private banks and are present in all regions of the country. We have strongly adapted and expanded the product and service offering in recent years to suit the needs of individuals who live in Switzerland. We have thus continued to invest in Switzerland as a business location and have grown. This is also the result of various acquisitions, such as Bank of China (Suisse) in 2012 as part of international cooperation with the parent company Bank of China in China, and Merrill Lynch Bank (Suisse) as of 1 February 2013 as part of the IWM transaction. As a consequence of these actions, approximately three quarters of our current workforce of more than 4 000 are still employed in Switzerland. Since 2005, the number of employees in Switzerland has even grown disproportionately, by 25% versus 20% for the Group as a whole.

Europe proved to be a resilient region for Julius Baer in 2012. The transformation of our business model and range of offerings to meet the specific regulatory requirements of each individual market is already well on track. With our office in Frankfurt, our Group already has a booking platform which can be used for cross-border business in the EU and will be used for such as part of the IWM integration. Accordingly, we are already well prepared for the more stringent financial market regulations of MiFID II in this area. In Germany, we recorded very healthy new money inflows once again. In Italy, we have placed our local business in a cooperation agreement with Kairos, a major independent wealth manager in the Italian market.

At the same time, we have acquired a 19% stake in Kairos. Together we intend to build the leading independent wealth manager in Italy.

As already noted, the growth markets made the strongest contribution to new money inflows by a wide margin. We again enjoyed healthy development in Asia, where in 2012 we entered into a strategic cooperation agreement with Bank of China, the country's largest bank. At the beginning of February this year, we took an important step in the direction of Japan by acquiring a 60% stake in TFM Management domiciled in Zurich. This company holds two key licences granted by the Japan's FSA and, with its office in Tokyo, will serve as a foothold for us in further tapping into this large market. Very strong new money inflows were also recorded again in the Middle East, where we recruited an outstanding team of relationship managers to Julius Baer. In Eastern Europe, we maintained the high business momentum of the previous year, and the same holds true for Latin America, where our work is going well with GPS, the largest independent wealth manager in Brazil. Through our 30% stake, we also profit from the above-average growth of GPS, including its recent acquisition of a sizable local competitor.


The IWM transaction will cause a significant shift in the geographic weight our activities and expand them through added locations, which will boost Julius Baer's growth momentum. IWM represents a rare opportunity to markedly increase our position in key growth markets as well as to realise significant economies of scale at existing locations. In view of the rising regulatory costs, these economies of scale are important for us to be able to profitably maintain our position in an industry marked by growing competition. Thanks to IWM, our advisory expertise will further increase globally. Complemented through extensive cooperation with Bank of

America Merrill Lynch covering products and services, we are well on our way to creating the new reference in private banking.

We have already made significant progress on this path. Thanks to intensive preparatory work and close communication, our future colleagues are optimistic about the change. On 1 February 2013, the Principal Closing already marked the beginning of the actual integration phase. Merrill Lynch Bank (Suisse), with about 250 employees and approximately 11 billion francs of assets under management, also joined the Julius Baer Group on this date. A few days ago, on 2 April 2013, the transaction was also brought to a close locally at further locations such as Luxembourg, Monaco, Montevideo and Santiago de Chile, adding approximately another 280 employees in total.

**Transformation phase 2013/2014: Primary focus on IWM integration**

- Manageable complexity – integration in three waves
  - Transfer of business or legal entities
  - 80% of envisaged assets expected to be advised from the Julius Baer platform and reported there at the end of 2013
- Exploit economies of scale and broadened presence
  - *Europe*: Significant expansion of presence in London, adding new locations Amsterdam, Paris, Dublin, Luxembourg and Madrid
  - *Middle East*: Dubai and Tel Aviv, new locations Manama and Beirut
  - *Asia*: Doubling of size in Hong Kong and Singapore, market entry in India
  - *Latin America*: Significant expansion in Montevideo and Santiago de Chile, new location Panama City
- Deliver on revenue and efficiency targets
  - Realisation of business and financial benefits at a progressive rate
  - Impact on earnings per share neutral to slightly negative in 2013, positive in 2014 and strongly positive in 2015

5 Julius Bär

The integration of IWM is a complex undertaking in terms of both size and structure. We are talking about a total of up to 72 billion francs of assets under management, 12 legal entities and 10 local business units. In order to reduce this complexity, the integration is taking place in three waves, with the largest and most complex transfers occurring this year. We therefore expect that approximately 80% of the envisaged assets will be advised from the Julius Baer platform and reported there already at the end of 2013. The current year will thus be strongly marked by the IWM integration, and we are confident we will be reporting regularly about further progress around the globe.

Some of the individual steps will be very significant. As part of the first wave, for example, our presence in London will multiply measured in terms of the number of employees and the assets under management. In Europe, we will also gain an entire series of new locations in interesting markets, allowing us to resolutely further expand the acquired base. In the dynamic Middle East region, we will add scale to the existing locations of Dubai and Tel Aviv and welcome new offices in Manama and Beirut. With the doubling of our business activities in Asia, we will take a veritable quantum leap which will place us among the five largest providers in the region. With five locations in India, IWM will also give us access to this promising market. And in Latin America, we will acquire the largest wealth manager in Uruguay, strengthen our presence in Chile and add Panama as a new location.

Each additional successful local closing increases the earnings potential of our Group and simultaneously gives us the opportunity to structure the newly integrated units according to the same efficiency criteria as Julius Baer. These measures need time for their impact to be fully felt, but they will then strengthen our earnings power all the more strongly. We therefore expect the earnings contribution from the acquired IWM activities on an *adjusted basis* to be neutral to slightly negative in 2013 and to already be positive in 2014. For 2015, however, we still expect earnings per share accretion of around 15%, and we will do our best to achieve further efficiency gains in subsequent years.

Apart from the integration, we also intend to further develop the existing business in 2013 and offer our clients a comprehensive private banking experience. Parallel to this, we will do our best to ensure that the advantages from the IWM transaction as well as from the various cooperation agreements benefit our growing clientele as swiftly and directly as possible. The driving forces behind these efforts and the many individual steps of the integration are our experienced management team and our dedicated employees, who are successfully mastering a heavy workload. I would like to take this opportunity to sincerely thank them once more.

This brings me to the end of my comments. Ladies and gentlemen, thank you for listening.