Julius Bär

BUSINESS REVIEW 2018

JULIUS BAER GROUP

ABOUT JULIUS BAER

Julius Baer is the leading Swiss wealth management group. We focus on providing personal advice to private clients around the world, powered by high-end services and expertise. As pioneers, we actively embrace change to remain at the forefront of our industry – as we have done for nearly 130 years.

We manage our company for the long term and with an exclusive strategic focus on wealth management.

Our strategy is built on three principles: delivering a best-in-class experience to our clients, being the most admired and respected firm in our sector and pursuing sustainable profitability (see also page 21f).

We help our clients to achieve their financial aspirations through holistic solutions that take into account what truly matters to them – in their business and personal life, today and for future generations.

With almost 6,700 employees, we stand for:

SOLID FOUNDATIONS

PURE WEALTH MANAGEMENT

PERSONAL CONNECTIONS

INTERNATIONAL NETWORK

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KEY FIGURES JULIUS BAER GROUP[1]

	2018 CHF m	2017 CHF m	Change in %
Consolidated income statement			
Operating income	3,367.8	3,252.2	3.6
Adjusted operating expenses	2,390.7	2,263.6	5.6
Profit before taxes	977.1	988.6	-1.2
Adjusted net profit for the Group	809.7	805.6	0.5
IFRS net profit for the Group[2]	735.3	715.9	2.7
Cost/income ratio[3]	70.6%	69.0%	-
Pre-tax margin (basis points)	24.8	27.3	-
	31.12.2018	31.12.2017	*Change in %*
Assets under management (CHF bn)			
Assets under management	382.1	388.4	-1.6
Net new money	17.4	22.2	-
Consolidated balance sheet (CHF m)			
Total assets	102,898.3	97,917.6	5.1
Total equity	6,041.9	5,854.0	3.2
BIS total capital ratio	18.7%	21.2%[4]	-
BIS CET1 capital ratio	12.8%	13.5%[4]	-
Return on tangible equity (RoTE)[5]	28%	30%	-
Return on common equity Tier 1 (RoCET1)[6]	30%	32%	-
Personnel (FTE)			
Number of employees	6,693	6,292	6.4
Number of relationship managers	1,501	1,396	7.6
Capital structure			
Number of shares	223,809,448	223,809,448	-
Market capitalisation (CHF m)	7,836	13,339	-41.3
Moody's rating Bank Julius Baer & Co. Ltd.			
Long-term deposit rating	Aa2	Aa2	
Short-term deposit rating	Prime-1	Prime-1	

[1] Adjusted results derived by excluding from the audited IFRS financial statements the integration and restructuring expenses as well as the amortisation of intangible assets related to previous acquisitions or divestments and the taxes on those respective items.
[2] Reconciliation with adjusted net profit for the Group is detailed in the table on page 8.
[3] Calculated using adjusted operating expenses, excluding provisions and losses.
[4] Basel III fully-applied
[5] Adjusted net profit attributable to shareholders/(half-yearly) average shareholders' equity less goodwill and other intangible assets.
[6] Adjusted net profit attributable to shareholders/(half-yearly) average CET1 capital.

FOREWORD

Dear Reader

Financial market volatility took centre stage again in the second half of 2018, affecting the annual performance of most asset classes. After almost a decade of sustained economic growth and with global liquidity in decline, questions whether corporate earnings or indeed economic growth itself had reached their peak were reflective of more bearish market sentiment. This uncertainty also weighed on client activity. While asset flows were resilient throughout the year, with net new money growth of 4.5% well within our 4–6% target range, in terms of profitability 2018 was really a tale of two halves: record results up to 30 June and a more challenging period in the last six months of the year.

'We manage our business with the prudence to offset the impact of cyclical financial markets on the Group's profitability.'

Such cyclicality is inherent to our industry. While Julius Baer is not immune to it, our aim is to manage our business with the prudence to offset its impact on the Group's profitability. To compensate for the market-driven revenue fluctuations in the second half of the year, we have accelerated the steps to improve our efficiency and initiated immediate cuts in discretionary spending.

We continued to prioritise our Group's presence, client offering and growth investments in strategic markets. In the past year, we broadened our presence in the important markets of Germany and the United Kingdom with the opening of several new offices. In Brazil, the acquisition of Reliance Group significantly enlarged our already strong market standing. At the same time, we reassessed our business priorities in Latin America. Among other steps, we initiated the closure of our offices in Lima and Panama City and the discontinuation of our services to clients from selected countries. In Europe, our Luxembourg booking centre further gained in importance as a hub for servicing clients from across the EU. As it no longer fitted our strategic requirements, we sold our local business in the Netherlands (Amsterdam). We also made targeted moves in defined growth markets. We entered strategic partnerships with Siam Commercial Bank in Thailand and with Nomura in Japan, and opened an advisory office in South Africa (Johannesburg).

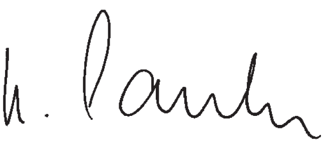
[1] Cf. footnote 1 to the table on page 5

We continued to evolve our wealth management, planning and financing solutions to meet the sophisticated needs of our clients in strategic markets. Digitalisation creates a new benchmark for how we deliver advice. By investing in technology and by fostering innovation, we improve client experience, develop new business opportunities and work more efficiently. Our *Digital Advisory Suite*, for instance, supports our relationship managers in delivering advice that is personalised for each client, compliant with new regulation, pro-active and event-driven.

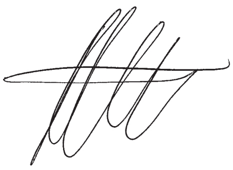
The implementation of our strategy is well supported by our compliance and risk framework, in which we continue to invest, and our strong capital base. At the end of December 2018, the BIS CET1 capital ratio was 12.8%, and the BIS total capital ratio stood at 18.7%. At these levels, the capital ratios remain comfortably above the Group's floors of 11% and 15%, respectively, and significantly above the regulatory floors of 8.1% and 12.3%, respectively. The Board of Directors intends to propose to the Annual General Meeting on 10 April 2019 an increased dividend of CHF 1.50 per share. The total proposed dividend payout amounts to CHF 336 million, up from CHF 313 million in 2018, or 41% of the adjusted net profit[1] for 2018, in line with the Group's target payout percentage.

Based on our compelling value proposition, our trusted brand and our focused business model, we are well positioned for the future. We thank all our stakeholders for their trust in us and look forward to their continued support.

Daniel J. Sauter
Chairman



Bernhard Hodler
Chief Executive Officer



FINANCIAL PERFORMANCE IN 2018

Growth in adjusted net profit[1] was limited due to the challenging market environment in the second half of 2018. The gross margin declined by 4 basis points, impacted by a decline in client transaction activity and lower performance fees at Kairos. The Group's capital position remained solid.

Dieter A. Enkelmann, Chief Financial Officer

Assets under management (AuM) decreased by 2%, or CHF 6 billion, to CHF 382 billion. AuM were supported by net new money of CHF 17 billion and a net acquisition impact of CHF 3 billion. However, these positive contributions were more than offset by negative market performance of CHF 22 billion, following the sharp decline in global stock markets in the second half of 2018, and a negative currency impact of CHF 5 billion, driven mainly by the decline in the euro.

The annualised net new money growth rate of 4.5% was inside the Group's medium-term target range (4–6%). Net new money was well balanced throughout the year and across European and growth markets, with particularly strong contributions from clients domiciled in Europe (especially the UK, Monaco, Germany, Luxembourg and Spain), Asia (mainly Hong Kong, Singapore, India, China and Japan), the Middle East (in particular the UAE) and Brazil.

Including assets under custody of CHF 62 billion, total client assets decreased by 3% to CHF 444 billion.

Operating income rose to CHF 3,368 million. With an increase of 4%, it grew less than monthly average AuM (up 9% to CHF 394 billion), resulting in a decline of 4 basis points (bp) in the gross margin to 86 bp.

Net commission and fee income declined by 1% to CHF 1,903 million. Brokerage commissions decreased by 6%, reflecting a sharp drop in client transaction volumes as the market environment deteriorated in the second half of the year. Asset-based fee income was flat due to the impact of considerably lower performance fees at Kairos compared to 2017. Excluding Kairos, asset-based fee income grew by 8%, in line with the increase in average AuM.

Net interest and dividend income decreased by 7% to CHF 919 million. It included CHF 178 million of dividend income on trading portfolios, down CHF 17 million. Excluding this item, underlying net interest and dividend income was down 6% to CHF 741 million, as the increase in interest income on loans was more than offset by a decline in interest income on the Group's treasury portfolio and higher interest expense. Interest income on loans improved on the back of higher US interest rates and an increase in average credit volumes. Interest income on the Group's treasury portfolio decreased following a

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

CONSOLIDATED INCOME STATEMENT[1]

	2018 CHF m	2017 CHF m	Change %
Net interest and dividend income	919.2	987.8	-6.9
Net commission and fee income	1,902.9	1,930.6	-1.4
Net trading income	530.2	303.6	74.6
Net impairment losses/(recoveries) on financial assets	3.0	-	-
Other ordinary results	18.5	30.3	-38.8
Operating income	**3,367.8**	3,252.2	3.6
Personnel expenses	1,618.8	1,549.0	4.5
General expenses[2]	681.4	626.4	8.8
Depreciation and amortisation	90.5	88.2	2.6
Adjusted operating expenses	**2,390.7**	2,263.6	5.6
Profit before taxes	**977.1**	988.6	-1.2
Income taxes	167.4	183.0	-8.5
Adjusted net profit for the Group	**809.7**	805.6	0.5
IFRS net profit for the Group[3]	**735.3**	715.9	2.7
Adjusted net profit attributable to:			
Shareholders of Julius Baer Group Ltd.	809.7	792.9	2.1
Non-controlling interests	-0.1	12.8	-
Adjusted EPS attributable to shareholders of Julius Baer Group Ltd. (CHF)	3.72	3.66	1.6
Key performance ratios			
Cost/income ratio[4]	70.6%	69.0%	-
Gross margin (basis points)	85.5	89.7	-
Pre-tax margin (basis points)	24.8	27.3	-
Tax rate	17.1%	18.5%	-

[1] Adjusted results derived by excluding from the audited IFRS financial statements the integration and restructuring expenses as well as the amortisation of intangible assets related to previous acquisitions or divestments and the taxes on those respective items.
[2] Including provisions and losses.
[3] Reconciliation with adjusted net profit for the Group is detailed in the table on page 8.
[4] Calculated using adjusted operating expenses, excluding provisions and losses.

year-on-year decline in the average size of the portfolio. Interest expense went up as the result of an increase in US dollar non-current accounts where payable rates rose throughout the year, as well as a rise in negative interest payable. The latter was the result of an increase in excess USD deposits being swapped into Swiss francs and then deposited with the Swiss National Bank (SNB).

Net trading income grew by 75% to CHF 530 million. Including the dividend income related to trading portfolios, underlying net trading income increased by 42% to CHF 708 million. This was partly driven by a rise in structured products-related trading income, benefitting from the further internalisation of structured products issuance, and to a large extent (CHF 91 million) related to growing treasury swap income following the increased placement of excess US dollar deposits into Swiss franc treasury swap positions, thereby capitalising on the rising spread between US and Swiss rates. The rise in treasury swap trading income significantly exceeded the combined impact of the aforementioned decline in treasury interest income and rise in negative interest payable to the SNB.

In analysing the result (excluding dividend on trading portfolios), the sum of total net interest income and treasury-swap trading income increased by 4%, representing an almost stable year-on-year contribution to the gross margin of 24 bp (2017: 25 bp).

BREAKDOWN OF ASSETS UNDER MANAGEMENT BY CURRENCY

	31.12.2018	31.12.2017
USD	46%	45%
EUR	22%	23%
CHF	10%	10%
GBP	4%	4%
HKD	3%	4%
SGD	2%	2%
RUB	1%	1%
CAD	1%	1%
Other	11%	10%

Other ordinary results declined from CHF 30 million to CHF 19 million, driven mainly by a negative result on the disposal of investments from the treasury portfolio.

Operating expenses according to IFRS went up by 5% to CHF 2,474 million, driven by a 4% rise in *personnel expenses* to CHF 1,621 million, a 6% increase in *general expenses* to CHF 688 million, a 6% increase in *amortisation* to CHF 126 million and a 9% decrease in *depreciation* to CHF 38 million.

As in previous years, in the analysis and discussion of the results in the Business Review, *adjusted operating expenses* exclude acquisition-related integration and restructuring expenses (CHF 10 million, 2017: CHF 30 million) as well as the acquisition-related amortisation of intangible assets (CHF 74 million, 2017: CHF 72 million).

Adjusted operating expenses rose by 6% to CHF 2,391 million, less than the increase in average AuM, leading to a decline in the expense margin to 60 bp (2017: 62 bp). Expenses included CHF 34 million of costs (2017: CHF 13 million) related to the ongoing project to advance the client documentation to the highest industry standards and CHF 20 million of additional legal and (non acquisition-related) restructuring costs. Excluding these latter items, adjusted operating expenses increased by 4% to CHF 2,337 million.

At 6,693 full-time equivalents (FTEs), personnel increased by 6%, or 401 FTEs. The monthly average number of employees went up by 6% to 6,576. The number of relationship managers (RMs) rose to 1,501, an increase of 105, or 8%, reflecting successful hiring and internal talent development as well as the inclusion of 13 RMs from Reliance Group. *Adjusted personnel expenses* grew by 5% to CHF 1,619 million.

Adjusted general expenses went up by 9% to CHF 681 million, driven mainly by higher regulatory and legal costs, a rise in general expenses resulting from increased staff levels, and, to a lesser extent, an increase in marketing spend (mainly in the first half of 2018). Provisions and losses fell by CHF 6 million to CHF 14 million.

ASSETS UNDER MANAGEMENT

	31.12.2018 CHF bn	31.12.2017 CHF bn	Change %
Assets under management	**382.1**	388.4	-1.6
Change through net new money	*17.4*	*22.2*	-
Change through market and currency impacts	*-26.8*	*35.9*	-
Change through acquisition	*4.5*	*0.4*	-
Change through divestment[1]	*-1.4*	*-0.1*	-
Change through other effects[2]	*-0.1*	*-6.1*	-
Average assets under management	**393.9**	362.5	8.6

[1] Assets under management were affected by the Group's decision to discontinue its offering to clients from a number of selected countries.
[2] Includes assets which have been reclassified following the completed roll-out of the new client advisory models in Switzerland and continental Europe.

Adjusted depreciation decreased by 8% to CHF 38 million and *adjusted amortisation* rose by 13% to CHF 52 million. The growth in amortisation mainly reflects the rise in IT-related investments in recent years.

Despite the realised positive operating leverage from a larger average client asset base, the adjusted *cost/income ratio*[1] went up from 69.0% to 70.6%, above the 64–68% medium-term target range, driven by the second-half decline in the gross margin and extraordinary expenses.

BREAKDOWN OF ASSETS UNDER MANAGEMENT BY ASSET MIX

	31.12.2018	31.12.2017
Equities	26%	28%
Investment funds	25%	26%
Bonds/convertibles	20%	19%
Client deposits	19%	18%
Structured products	5%	5%
Money market instruments	4%	3%
Other	1%	1%

IFRS *profit before taxes* rose by 1% to CHF 894 million. As income taxes fell by 7% to CHF 159 million, *net profit for the Group* grew by 3% to CHF 735 million. After considering non-controlling interests in 2017 of CHF 11 million (negligible in 2018), the increase in net profit attributable to shareholders of Julius Baer Group Ltd. was 4%, and EPS rose, also by 4%, to CHF 3.37.

Adjusted profit before taxes decreased by 1% to CHF 977 million and the adjusted pre-tax margin declined by 2 bp to 25 bp, below the 30 bp medium-term target. The related income taxes fell by 8% to CHF 167 million, representing a tax rate of 17.1%, compared to 18.5% in 2017.

Adjusted net profit for the Group[2] increased slightly to CHF 810 million (2017: CHF 806 million). After considering adjusted non-controlling interests in 2017 of CHF 13 million (negligible in 2018), the rise in adjusted net profit attributable to shareholders of Julius Baer Group Ltd. was 2%, and adjusted EPS grew, also by 2%, to CHF 3.72.

The return on CET1 capital (RoCET1), defined as adjusted net profit attributable to shareholders of Julius Baer Group Ltd. divided by average CET1 capital, was 30% (2017: 32%).

[1] Calculated using adjusted operating expenses, excluding provisions and losses.
[2] Cf. footnote 1 to the table on page 5

Total assets went up by 5%, to CHF 103 billion. The total loan book declined by CHF 1 billion to CHF 45 billion, a reduction of 3%, slightly more than the 2% decrease in AuM. The loan book comprised CHF 36 billion of Lombard loans (a decrease of 2%) and CHF 9 billion of mortgages (a decline of 5%). As deposits rose by CHF 4 billion, or 6%, to CHF 72 billion, the loan-to-deposit ratio came down to 63% (end of 2017: 69%). Total equity attributable to shareholders of Julius Baer Group Ltd. increased by 4% to CHF 6 billion.

BALANCE SHEET AND CAPITAL DEVELOPMENT

Despite the partial reinvestment in 2018 of the Group's excess capital into accretive acquisitions – i.e. the residual 20% stake in Kairos (Italy) acquired in January 2018 and the acquisition of Reliance Group (Brazil) in June 2018 – and an increase in the dividend accrual, CET1 capital rose by 3% to CHF 2.7 billion (compared to fully-applied CET1 capital of CHF 2.6 billion at the end of 2017). Following the redemption (in March 2018) of CHF 250 million of perpetual Tier 1 bonds issued on 18 September 2012, BIS Tier 1 capital decreased by 4% to CHF 3.9 billion (compared to fully-applied Tier 1 capital of CHF 4.1 billion at the end of 2017) and BIS total capital by 4% to CHF 4.0 billion (compared to fully-applied total capital of CHF 4.2 billion at the end of 2017).

As risk-weighted assets increased by 9% to CHF 21.3 billion, the *BIS CET1 capital ratio* declined to 12.8% (compared to 13.5% fully-applied at the end of 2017) while the *BIS total capital ratio* decreased to 18.7% (compared to 21.2% fully-applied at the end of 2017). The redemption of the Tier 1 bonds and a 5% rise in the leverage exposure, to CHF 102 billion, were the main drivers of the reduction in the Tier 1 leverage ratio to 3.9% (compared to 4.2% fully-applied at the end of 2017).

At these levels, the Group's capitalisation continued to be solid: the CET1 and total capital ratios remained well above the Group's own floors of 11% and 15% and significantly in excess of the regulatory minimums of 8.1% and 12.3%, respectively, while the Tier 1 leverage ratio continued to be comfortably above the 3.0% regulatory minimum.

RECONCILIATION CONSOLIDATED FINANCIAL STATEMENT[1]
IFRS TO ADJUSTED NET PROFIT

	2018 *CHF m*	2017 *CHF m*	Change *to 2017 in %*
IFRS net profit attributable to shareholders of Julius Baer Group Ltd.	**735.4**	704.8	4.3
Non-controlling interests	-0.1	11.1	-
IFRS net profit for the Group	**735.3**	715.9	2.7
Amortisation of intangible assets related to previous acquisitions or divestments[2]	73.5	71.9	2.2
Integration, restructuring and transaction costs	9.6	30.2	-68.1
Tax impact	-8.9	-12.4	-28.5
Net impact	**74.3**	89.8	-17.2
Adjusted net profit for the Group	**809.7**	805.6	0.5

[1] Detailed financial statements are available in the Annual Report 2018

[2] Further details on transaction-related amortisation can be found in the presentation to Investors, Analysts and Media

CONSOLIDATED BALANCE SHEET

	31.12.2018 CHF m	31.12.2017 CHF m	Change %
Assets			
Due from banks	9,228.8	8,308.9	11.1
Loans to customers[1]	45,323.2	46,623.7	-2.8
Trading assets	8,415.6	12,751.8	-34.0
Financial assets measured at fair value through other comprehensive income (FVOCI)	14,587.6	12,246.5	19.1
Goodwill and other intangible assets	2,932.2	2,872.4	2.1
Other assets	22,411.1	15,114.4	48.3
Total assets	**102,898.3**	97,917.6	5.1
Liabilities and equity			
Due to banks	6,892.2	7,209.5	-4.4
Deposits from customers	71,506.4	67,636.8	5.7
Financial liabilities designated at fair value	13,703.6	11,836.7	15.8
Other liabilities	4,754.2	5,380.5	-11.6
Total liabilities	96,856.4	92,063.6	5.2
Equity attributable to shareholders of Julius Baer Group Ltd.	6,039.9	5,824.5	3.7
Non-controlling interests	1.9	29.5	-
Total equity	6,041.9	5,854.0	3.2
Total liabilities and equity	**102,898.3**	97,917.6	5.1
Key performance ratios			
Loan-to-deposit ratio	63%	69%	-
Book value per share outstanding (CHF)[2]	28.4	27.3	4.1
Return on tangible equity (RoTE)[3]	28%	30%	-
Return on common equity Tier 1 (RoCET1)[4]	30%	32%	-
BIS statistics			
Risk-weighted assets	**21,338.4**	19,576.0	9.0
BIS total capital	**3,991.2**	4,298.5	-7.1
BIS total capital ratio	**18.7%**	21.2%[5]	-
BIS CET1 capital ratio	**12.8%**	13.5%[5]	-

[1] Mostly Lombard lending and mortgages to clients
[2] Based on shareholders' equity
[3] Adjusted net profit attributable to shareholders/(half-yearly) average shareholders' equity less goodwill and other intangible assets
[4] Adjusted net profit attributable to shareholders/(half-yearly) average CET1 capital
[5] Basel III fully-applied

DEVELOPMENTS IN 2018

As part of our strategy to concentrate on focus markets, we continued to prioritise our Group's presence, client offering and growth investments in 2018. We expanded our presence in key growth markets and entered strategic cooperation agreements. In addition, we accelerated our efforts to make our business more scalable and efficient in the longer term.

TECHNOLOGY, PLATFORM AND INNOVATION

Our Group's strategy is built around three principles: delivering a best-in-class wealth management experience to our clients, being the most admired and respected firm in our sector and pursuing sustainable profitability. These principles are designed to ensure industry leadership in the world of tomorrow and guide multiple efforts throughout our Group, including our investments in technology.

Julius Baer's new core banking system in Asia was introduced successfully at the end of March 2018. Based on Temenos T24 banking software, the platform has been implemented in the Asian booking centres of Singapore and Hong Kong. It lays the operational and technical foundation for Julius Baer's further growth in the region and the digitalisation of business processes.

The Group's European hub in Luxembourg is rapidly gaining in importance for servicing clients from across the EU. The local platform's capabilities have been further enhanced through the *Integrated Advisory Platform* to even better support the user in the integrated end-to-end advisory process, ensuring a consistent client experience as well as compliance with local rules and regulations primarily focusing on customer protection.

Following last year's implementation of the MIFID II processes in the Group's European locations and the enhancements achieved in the first half of 2018, the focus is now on preparing the Bank for similar legislation in Switzerland, the FinfraG (infrastructure) and FIDLEG (services) legislation. Currently in federal consultation, the two laws are to enter into force together with their ordinances on 1 January 2020. Gap analysis will ensure that requirements beyond MIFID II functionalities will be covered. Some related regulations, such as the enhanced transaction reporting rules, have already been or are in the process of being implemented in a number of the Group's booking centres. In order to facilitate the work of our relationship managers (RMs) and to address all compliance- and client-related constraints comprehensively, a powerful set of new advisory tools has been implemented on our Luxembourg platform and is currently rolled out in Switzerland (see also page 18).

Evolving regulatory frameworks, such as the Common Reporting Standard (CRS) for the Automatic Exchange of Information (AEI), the Qualified Investor (QI) rules, the US Foreign Account Tax Compliance Act (FATCA), the EU's General Data Protection Regulation or international tax offence prevention initiatives, resulted in system updates across the Group. In parallel, the Group's compliance framework was further strengthened in both scope and effectiveness. Apart from the increasing use of automated monitoring, compliance awareness and knowledge among employees remain key. Related compliance training efforts were rolled out to the entire Group – client-facing staff in particular – including mandatory certification programmes and corresponding refresher courses.

The first reporting under the CRS for all the Group's booking centres was successfully completed at the end of September 2018. Amid the movement towards international tax transparency, we maintained a constructive, proactive stance with our clients, informing them about developments and opportunities to solve potentially outstanding tax issues. The tax treatment of investment vehicles gained in importance in various markets and triggered projects focused on automation, allowing us to test some external solutions provided by FinTech start-ups.

Digitalisation continues to be the focus of various initiatives towards new and further improved tools and channels. The overarching aim is to constantly improve the client and user experience throughout all stages of the client journey. Clients' acceptance continued to rise: in 2018, we recorded more than one million yearly e-banking interactions for the first time. Operationally, digital solutions help us to benefit from reduced time required to address future business needs and from a further increase in operational efficiency. An example is the continued digitalisation of client documents in Switzerland.

To foster innovation further, our cooperation with Switzerland's *F10 FinTech Incubator & Accelerator* association has proven beneficial. We are evaluating a number of FinTech solutions for possible integration into our value chain, product offering or the management thereof. Furthermore, a new global robotics competence centre established in Switzerland, Luxembourg and Asia provides a standard platform and the related methodology that allows for assessing and implementing robotics cases within weeks. At the end of 2018, about 50 various significant robots were operational across the Bank.

At the end of November 2018, Julius Baer was named *Private Bank of the Year (International)* at the *Spear's Wealth Management Awards*, which recognise innovation, success and outstanding contribution in the wealth management world.

SWITZERLAND

As the leading Swiss wealth management group, we are well positioned to expand our share in our first home market. Its fragmentation and diversity still offer considerable growth potential.

With our focus on pure wealth management, client centricity is at the core of how we address the particular requirements of ultra-high net worth individuals (UHNWI), high net worth individuals (HNWI) and intermediaries. Thanks to our 14 locations across the country as well as our suite of fast growing digital channels, we continued to benefit from our close client proximity.

Our offering is structured to take into account the specific preferences of our clients resident in Switzerland, either of Swiss or foreign nationality. Factors we consider include risk appetite, home bias and pension provisioning, as well as aspects related to their specific profession, non-financial assets and succession dynamics.

With the introduction of the final toolset of *Julius Baer – Your Wealth* at the beginning of February 2018, we further improved our offering. *Your Wealth* is the Group's holistic advisory approach to serving clients through all stages of their lives. It enables Julius Baer to fully harness the Group's broad investment, financing and wealth structuring expertise for the benefit of our clients.

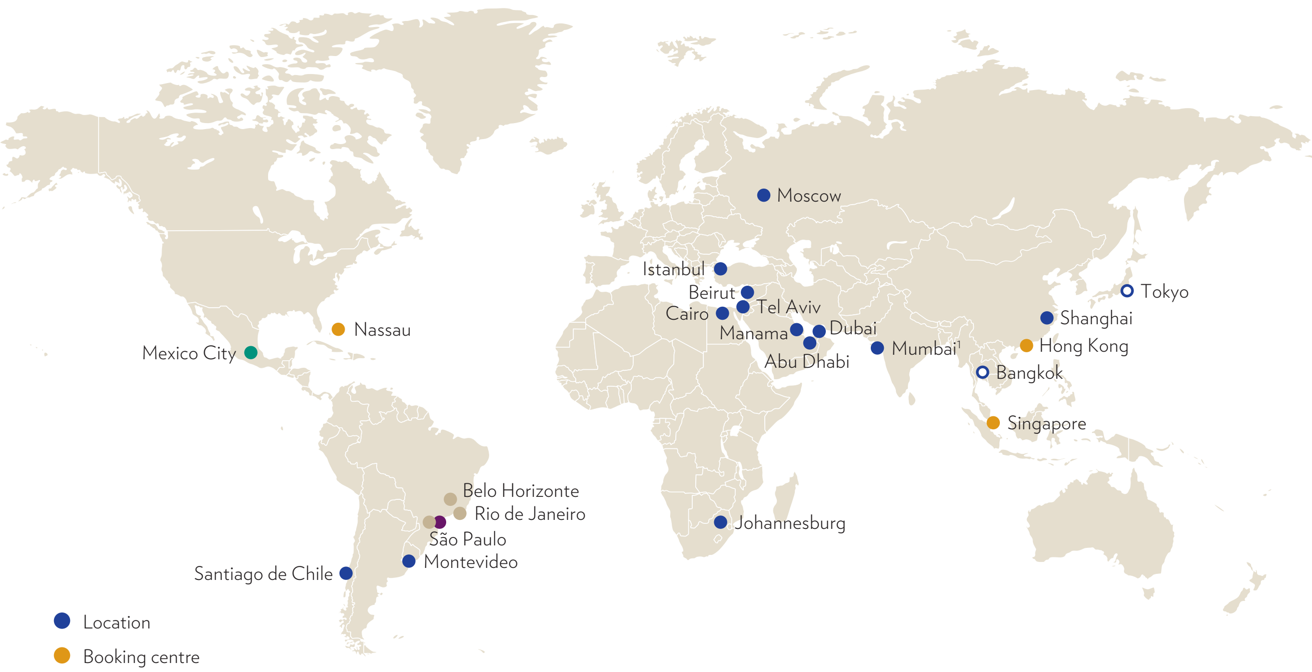
In this context, our suite of wealth planning services continued to gain in importance. The size of our domestic business allows us to effectively introduce specialised solutions that make a difference for our clients, support our growth ambitions and at the same time foster client retention. Recent areas include innovative solutions in real estate financing and advisory as well as financing solutions for entrepreneurs, also in cooperation with external partners.

GLOBAL PRESENCE

EUROPE

SWITZERLAND

OUR LOCATIONS IN OTHER PARTS OF THE WORLD



- Location
- Booking centre
- GPS, a fully owned subsidiary
- Reliance Group, majority participation of 95% and fully consolidated subsidiary
- NSC Asesores, strategic minority participation of 40%
- Strategic partnerships: In Bangkok, Thailand, with Siam Commercial Bank and in Tokyo, Japan, with Nomura Holdings Inc.
- Kairos Investment Management S.p.A., a fully owned subsidiary
  Julius Baer is present in Milan with Julius Baer Fiduciaria S.p.A.

[1] Additional advisory locations in Bangalore, Chennai, Kolkata and New Delhi

Our international sponsoring cooperation with FIA Formula E reached another high point with the *Julius Baer Zurich E-Prix 2018* at the beginning of June. This event, the first circuit motor race in Switzerland in more than 60 years, was also a huge opportunity to showcase Julius Baer's capabilities in our home market. By opening a window into the future beyond the obvious topic of mobility, the innovative campaign centred on the motto *How we invest today is how we live tomorrow*. The next Swiss E-Prix will take place in the country's capital of Berne on 22 June 2019, with Julius Baer again as proud title sponsor.

Recognising our strong domestic franchise, Julius Baer was named *Outstanding Private Bank Switzerland – Domestic Players 2018* by the leading trade journal *Private Banker International* at the end of December.

Overall, net new money development remained challenging in 2018. While asset-based income remained broadly stable, transaction-related income suffered from clients' risk aversion, weighing on margins.

EUROPE

Europe is an important region for our Group where we see plenty of growth opportunities. Our booking centre in Luxembourg complements those in Switzerland, Germany, Guernsey and Monaco and was renamed Bank Julius Baer Europe S.A. effective 1 July 2018. This setup allows us to establish a fully streamlined operating model supported by unified booking centre capabilities for private clients and intermediaries of our advisory locations principally in Luxembourg, Madrid, Dublin and soon Monaco, in line with the latest regulatory requirements.

In 2018, we achieved strong net new money inflows from European clients. At the same time, the introduction of MIFID II dampened client activity, weighing on margins. Revenues, however, held up well, supported by the increase in advisory mandate penetration over the past years.

Germany is one of the most attractive wealth management markets in Europe and served from a number of Group locations. Despite being fragmented and mature, the German market continues to show sustainable growth rates. The strong reputation of the Julius Baer brand underlines the competitive market standing we have achieved through the successful expansion of our franchise in recent years. In the period under review, we continued to broaden our base of experienced RMs. We further developed our services for UHNWI clients, recently complemented by a new, dedicated offering for family offices, in cooperation with an external provider.

Client proximity and local focus are essential differentiating factors for retaining existing clients and winning new ones. In 2018, we further extended our network of local offices by opening new branches in Hanover and Berlin. This increases our network to ten locations across the country.

Frankfurt-based Bank Julius Bär Deutschland AG's locally booked private client business showed robust momentum in 2018. Net new money inflows strongly contributed to the overall net new money result of the Group during this period. Market performance, however, weighed on overall asset levels. Mandate penetration increased further, contributing to a rising share of asset-based income.

The seeming dominance of a few large universal banks obscures the true business potential for clients seeking pure wealth management services in ***Spain***. We were able to attract further teams of RMs. As a result, our Madrid unit achieved strong net new money inflows, contributing to higher asset levels.

We continued to gain market share in ***Monaco*** in 2018. The Bank now ranks among the top three wealth managers in the Principality. On the back of the continued expansion of our RM base, net new money inflows were very strong. The significantly higher asset base and sustained client activity resulted in rising revenues. We aim to further leverage the wealth management and booking centre capabilities of this important Group location, primarily for the benefit of our large and growing local client base but also for private clients and intermediaries from selected markets in Western and Eastern Europe, the Middle East and Latin America.

Italy is served from different Swiss locations. Local activities centre on specialised wealth and asset manager Kairos and on Julius Baer Fiduciaria S.p.A. in Milan, one of the largest fiduciary companies in the country. This combination of activities helped to increase the awareness of our brand among local clients. Italy's business potential as one of the largest European markets in terms of savings remains intact despite intense competition. However, persistent political uncertainty limited business momentum and net new money development.

At the beginning of 2018, the Group increased its participation in Kairos from 80% to 100%. After a gratifying first half of 2018, domestic political and international financial market developments increasingly hampered investment performance, which in turn impacted revenues.

Our local business activities in the ***United Kingdom*** progressed well in 2018. Our regional offices in Manchester, Leeds and Edinburgh formally opened in early 2018, significantly increasing the scope of the addressable market. Clients based outside of London and the South East, which account for two thirds of the UK's wealth, show a higher propensity for wealth planning and discretionary solutions, which favours our compelling and growing offering in these differentiating areas. On the back of a further strong increase of our RM base, both in London and in the regions, we achieved very solid net new money inflows. The vast majority of this was invested in advisory and discretionary mandates. The share of asset-based income thus further increased. Combined with higher asset levels, this resulted in growing revenues.

Our business in the smaller yet dynamic wealth management market of ***Ireland*** is served from Dublin. With healthy net new money inflows and rising revenues, results were good in 2018.

RUSSIA, CENTRAL & EASTERN EUROPE

This geographic area continues to be a key region for our growth investments. Given persistent geopolitical, regulatory and economic uncertainties, however, the business environment was challenging in 2018. The size of our franchise, our market reach and our brand recognition continue to set us apart. Our aim is to gain market share, also through our expanding base of RMs. Strong net new money inflows contributed to higher asset levels. Together with increased client activity, this led to higher revenues. Some deleveraging and rising cash allocations, however, indicated clients' more cautious risk stance.

Foreseeable change in legislation led us to upgrade our current setup in Moscow and to establish an advisory office, which will become operational in the first quarter 2019. This will allow us to increase our client proximity and service offering in Russia, our biggest target market in the region. In Central and Eastern Europe, we focus on servicing clients in the Czech Republic, Hungary and Poland. In addition to our office in Moscow, we look after clients in this attractive region also from various Group locations in Europe, the Middle East and Asia.

At the end of November, Julius Baer was named *Best International Private Bank* at the *III Russian Global Citizen Awards*.

ASIA

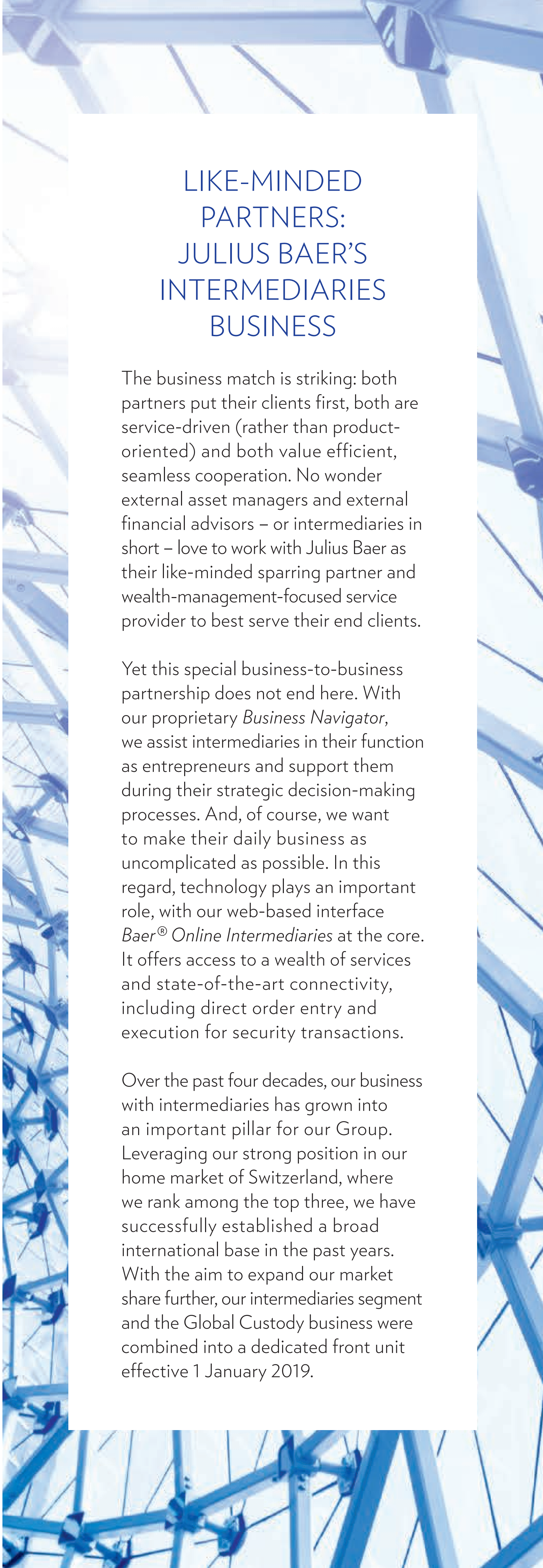
Asia continues to feature many of the world's fastest growing countries for wealth creation. As a result, the region now harbours the largest number of UHNWIs and HNWIs worldwide and outpaces all other regions in the growth of this client segment's wealth. Julius Baer is one of the region's largest and most focused wealth management providers, and therefore we call Asia the Group's second home market. This makes us the first address for clients and intermediaries in search of a trusted advisor and service provider and puts us in an excellent position to take advantage of the region's strong rise in investable assets.

Julius Baer serves this diverse region from a number of locations, including Singapore, Hong Kong and India. We are currently focusing on five key markets to achieve organic growth: mainland China, Hong Kong, Indonesia, Singapore and India. Other promising markets in the region include Thailand, the Philippines as well as Japan. As a testament to our strong growth in the region, the front office teams in Singapore relocated to new premises at the beginning of June and now occupy one of the largest prime grade-A office floors in Asia.

Besides fostering organic growth, we also seek other means of developing our business in the region. At the beginning of March, we announced the establishment of a joint venture with Siam Commercial Bank in ***Thailand***, targeting the rising demand for international wealth management services from the growing group of wealthy Thai private clients. At the end of September, we announced a strategic partnership with Nomura in ***Japan*** with the aim to introduce our bespoke discretionary mandate services to Nomura's local high net worth client base. As part of the agreement, Nomura acquired 40% of our Group's locally active subsidiary, which consequently was renamed Julius Baer Nomura Wealth Management Ltd.

While we continue to invest in our base of experienced RMs, our hiring efforts are highly selective, accompanied by strict performance management. Combined with continued deleveraging in clients' portfolios, this tempered the inflow of net new money, which nevertheless remained at substantial levels. On the back of higher asset levels and further increased mandate penetration, revenues improved year on year.

Our strong standing in the region also showed in a number of prestigious awards we received in 2018. At the beginning of the year, Julius Baer was named *Best Private Bank – Philippines International* for the first time as well as *Best Private Bank – IAM Services* for the fifth time in the *Asian Private Banker Awards for Distinction 2017*. At the *Private Banker International's Global Wealth Awards 2018*, Julius Baer was named *Outstanding Global Private Bank – Asia Pacific* and won the *Outstanding Private Bank for Growth Strategy – M&A* award for the third consecutive year. In addition, Julius Baer was named *Best Boutique Private Bank in Asia* for the ninth consecutive time by *The Asset*.



LIKE-MINDED PARTNERS: JULIUS BAER'S INTERMEDIARIES BUSINESS

The business match is striking: both partners put their clients first, both are service-driven (rather than product-oriented) and both value efficient, seamless cooperation. No wonder external asset managers and external financial advisors – or intermediaries in short – love to work with Julius Baer as their like-minded sparring partner and wealth-management-focused service provider to best serve their end clients.

Yet this special business-to-business partnership does not end here. With our proprietary *Business Navigator*, we assist intermediaries in their function as entrepreneurs and support them during their strategic decision-making processes. And, of course, we want to make their daily business as uncomplicated as possible. In this regard, technology plays an important role, with our web-based interface *Baer® Online Intermediaries* at the core. It offers access to a wealth of services and state-of-the-art connectivity, including direct order entry and execution for security transactions.

Over the past four decades, our business with intermediaries has grown into an important pillar for our Group. Leveraging our strong position in our home market of Switzerland, where we rank among the top three, we have successfully established a broad international base in the past years. With the aim to expand our market share further, our intermediaries segment and the Global Custody business were combined into a dedicated front unit effective 1 January 2019.

Julius Baer is one of the largest and best established foreign wealth managers in ***India.*** The domestic Indian market is covered from the five major cities of Mumbai, New Delhi, Kolkata, Chennai and Bangalore. In addition, Julius Baer serves a large and rising global base of non-resident Indians from different Group locations in Asia, the Middle East and Europe. This *Global India* approach is a key differentiating factor of Julius Baer and was further streamlined to enhance client coverage.

Business momentum was strong in 2018. We successfully broadened our RM base both domestically and in the Group's dedicated desks and started cooperating with a domestic distributor. Our open product platform was further enhanced to include specialised, domestic-oriented external solutions.

EASTERN MEDITERRANEAN, MIDDLE EAST & AFRICA

Despite the challenging political environment, subdued economic expansion and ever-changing regulatory regimes, we were able to maintain positive business momentum across the Eastern Mediterranean region as well as our chosen markets in the Middle East and Africa. We serve this diverse region primarily from our main regional hub in Dubai, complemented by local offices in Istanbul, Beirut, Manama, Abu Dhabi and Cairo, as well as from a growing number of Group locations in Europe and Asia.

We successfully broadened our base of experienced RMs in several teams in 2018. At the beginning of November, we opened an advisory office in Johannesburg, offering fully licensed investment advice to private clients in South Africa.

Overall, net new money inflows continued at attractive levels but somewhat below potential. While clients' risk appetite remained subdued, their interest in discretionary solutions continued to rise, as a result of which revenues held up well.

In November, Julius Baer was named *Best Private Bank in the UAE* by the *Global Private Banking Awards 2018*, which are presented by the renowned Financial Times publications *The Banker* and *PWM Professional Wealth Management*.

Julius Baer ranks among the top foreign wealth managers in ***Israel***. We serve this appealing but highly competitive market from a number of Group locations and locally from our Tel Aviv office. We target Israel's significant wealth creation both domestically in a specific fashion and via the global Israeli community. On the back of an expanding domestic economy and particularly tech-oriented sectors, net new money inflows remained strong in 2018.

LATIN AMERICA

Latin America is a demographically young region with a well-educated middle class and rapidly growing population of entrepreneurs. While the overall capacity for wealth creation is considerable, economic and political uncertainty prevented the highly diverse region from realising its full potential in 2018.

We are serving Latin American private clients and intermediaries both locally and increasingly from other key Group locations. This combination of local proximity with our international investment expertise differentiates us from most local providers. As one of the top ten international wealth managers in Latin America, our holistic approach to investment advice and our comprehensive offering appeal to the region's HNWIs and UHNWIs. Institutional uncertainty and growth concerns as well as negative exchange rate movements generally weighed on business momentum. Net new money inflows showed a wide disparity between individual markets, but overall ended the year in positive territory.

To better capture the potential of this promising region, we sharpened our focus on key markets and started to reduce complexity. While maintaining market coverage, we are in the process of closing our offices in Lima and Panama City. In other selected markets, we initiated the discontinuation of services to clients. At the same time, we continued to develop our key markets, also by expanding our base of experienced RMs. In Brazil, the takeover of the well-established Reliance Group, announced in January this year, was completed at the beginning of June. This step substantially strengthened our existing local business managed under the GPS brand and contributed to robust domestic growth. On the back of our growing RM base and brand recognition, the business with Mexican clients yielded substantial net new money inflows. At the same time, however, the change in the Mexican government led clients to take a cautious investment stance. The cooperation with NSC Asesores in Mexico, in which Julius Baer holds a 40% participation, was further deepened.

INTERMEDIARIES BUSINESS

Our business with intermediaries, i.e. external asset managers (EAMs) and external financial advisors (EFAs), developed well in 2018. We were able to grow our intermediaries franchise in our home market of Switzerland as well as in selected key markets across Europe, Latin America and Asia. This development mirrored the findings of the latest independent market surveys, confirming that Julius Baer has one of the largest and best-reputed franchises for intermediaries.

In order to further strengthen the collaboration with this important target group, the Bank decided to create a new front unit Intermediaries & Global Custody effective 1 January 2019. The aim is to deploy the Group's solution capabilities, including our investment and wealth planning expertise, our product structuring capabilities and our connectivity and execution services, to the full benefit of the intermediaries and their end clients. Within this dedicated B2B strategy, we will support intermediaries along their entire value chain, and contribute directly to the success of their business ambitions (see also page 15).

Technology is important in our service proposition to intermediaries. Julius Baer provides an attractive digital access and offering via its dedicated intermediary platforms. Of particular relevance are connectivity services, which allow intermediaries to connect their systems more efficiently with ours for automated end-to-end processing. With the completion of the technology and platform upgrade of Julius Baer's European hub in Luxembourg, the locally booked intermediaries now benefit from an expanded service and product offering, accessible via the web-based interface *Baer® Online Intermediaries*.

JULIUS BAER'S SCOPE OF INVESTMENT, ADVISORY AND EXECUTION COMPETENCE

The timely availability of investment views and recommendations as well as their skilful implementation in mandates and portfolios are ensured by our specialised units Investment Management (IM), Advisory Solutions (AS) and Markets, complemented by Global Custody.

INVESTMENT MANAGEMENT

IM is entrusted with managing our clients' wealth through complex market environments and identifying opportunities every market regime presents. We achieve this mission through a disciplined investment approach focused on long-term trends. Our managed investment solutions are designed to capture opportunities arising from such secular trends. Implementing our investment expertise in our discretionary mandates and in-house fund solutions, we aim to deliver consistent risk-adjusted investment returns for our clients.

In a very challenging 2018, when the majority of asset classes posted negative performance, Julius Baer's multiasset discretionary mandates performed in line with the markets.

At a time when investors must have discipline and profound know-how to manage risks, clients' demand to delegate investment decisions is rising. In order to meet the ever-growing and evolving client needs, we are persistently building new capabilities along a long-term strategic roadmap fostering specialisation and scalability. This includes designing new solutions around our offering to ensure future needs of clients are met, enabled by the latest technological advancements.

ADVISORY SOLUTIONS

An important responsibility of AS is to support our front units in delivering ***Julius Baer – Your Wealth***, our holistic client advisory approach, in a concerted manner across functions. The *Your Wealth* initiative encompasses three distinctive but complementary dimensions: *Holistic Advice*, the related *Advisory Process* and its *Advisory Platform*.

In order to assess our clients' needs for financial solutions, we use a *Holistic Advice* approach. Our RMs are supported in this service by Julius Baer experts in the areas of *wealth planning*, *wealth management* and *wealth financing*. The result is a consistent client experience that matches the solutions we derive to the individual preferences of our clients – taking into account their financial, business and personal requirements. The *Holistic Advice* service was rolled out in Switzerland at the beginning of February 2018 and in the UK in September 2018.

Once we have the full picture of what matters to our clients, it is the turn of our enhanced Julius Baer *Advisory Process* to align individual needs with our comprehensive *wealth management* capabilities. Depending on the level of expert input required, we can provide corresponding portfolio monitoring, investment ideas and strategies. Our Advice Advanced and Advice Premium advisory models are designed to offer clients the level of financial advice they are looking for from our experienced and dedicated experts. Since the implementation of the new advisory models in Switzerland and the European advisory locations booked in Luxembourg, the models have seen substantial growth both in terms of number of accounts and related assets under management. The roll-out for clients advised out of the UK is almost completed and preparation is advanced for their launch in our Middle East locations.

INVESTMENT RESEARCH: 2018 IN REVIEW

If, to use a cinematic analogy, 2017 was like 'La La Land', then 2018 felt more like a sequel to 'Die Hard'. In 2017, risk assets climbed the wall of worry peacefully and in harmony, with only minor setbacks. In 2018, early euphoria gave way to major slips and subsequent headaches, testing investors' stamina.

The difference between 2017 and 2018 was due to a regime shift that goes beyond the cyclical nature of asset markets. Indeed, for the first time in more than 30 years, it seems as if bond yields have started to rise for good. This change in investment regime confronts an investor community that has never had to deal with structurally rising rates in their careers. The last time bond markets went from deflation to reflation was, in fact, back in the 1950s.

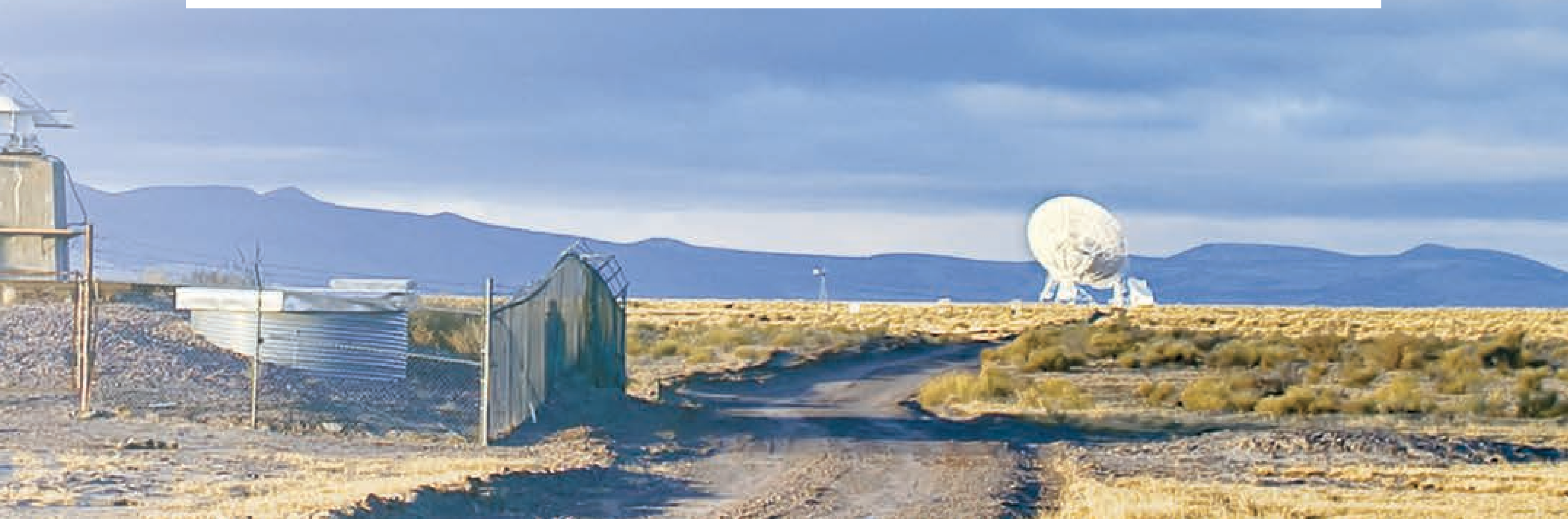
2019: LATE-CYCLE GROWTH/ INFLATION MIX, NOT STAGFLATION

Against this long-term shift in investment regime there has to be an assessment of shorter-term dynamics as well. As the last official US recession was in 2009, investors are wondering how much life is left in the current cycle. Looking at the growth/ inflation dynamics, we think 2019 will prove to be a solid year for growth, with some upside risks to inflation rates. 'Growth topping and inflation rising – is this stagflation in the making?', we hear investors wonder. No, stagflation is quite a different animal. With more than 3.5% growth and 'only' 3.5% inflation expected in 2019, the global economy could not be further away from the stagflation misery that haunted it back in the 1970s. Yet it is a typical late-cycle environment.

THE CHALLENGE: STAYING RICH WITH BONDS WHILE GETTING RICH WITH EQUITIES

Rising rates are a challenge for investors, both for cyclical and structural reasons. The return generator in bond markets stutters, as losses on the principal are only partly offset by the income generated. Looking at the US bond market, we see that this process is underway. Expecting the federal fund rates to plateau at 3.5% in 2019, we think that lower-quality investment-grade bonds are worthwhile reconsidering at a yield of around 4–4.5%. Until we get there, however, the challenge remains to preserve wealth in fixed income.

As for stocks, an environment of rising rates presents challenges of its own. Most importantly, fluctuations in stock prices increase as the lower-risk asset, i.e. bonds, becomes comparatively more attractive. Historically, the rate cycle leads price fluctuations in stocks by roughly two years. Therefore, to ensure capital gains in equities in 2019, equity investors will have to be a lot nimbler than during the usual buy-and-hold markets of stable or falling rates.



Our ***Wealth Planning*** services are supported by a growing network of internal and external specialists, enabling us to provide the increasingly multifaceted advice relevant both locally and across borders. Furthermore, our ability to offer multidimensional insurance solutions, for example insurance across numerous markets, is underpinned by our detailed market analyses and ongoing investments in digital technologies.

Our client advisory approach is supported by our *Advisory Platform*, which enables us to share opportunities and address risks with our clients, in tune with financial market development. A key element is our *Digital Advisory Suite* (DiAS). DiAS is a key technology representing our journey towards a more comprehensive advisory approach, and guarantor to keep the promises of our advisory service models. It drives operational efficiency while, at the same time, allows us to embrace the ever-growing complexity of the finance world and to comply with its manifold regulatory requirements. DiAS has been successfully implemented for European locations booked in Luxembourg, with the Swiss roll-out currently underway.

In the pursuit of greater transparency and suitability of products for clients, regulations across the globe are increasing in number and complexity. The new EU regulation MIFID II came into force at the beginning of 2018. Our ***Research*** services correspondingly redefined their processes with regard to the use and compensation of primary research sourced externally. As a result, the secondary research produced by our research analysts is now more focused and transparent. In parallel, Julius Baer entered into a relationship with the independent research company Morningstar to broaden our equity universe globally across all sectors and regions. The Julius Baer core universe will continue to be covered by our experienced analysts based in Switzerland, Hong Kong and Singapore.

Our dedicated Advisory Solutions team in Asia serves our clients in line with local needs and consistent with our global approach. Both wealth planning and advisory mandates continued to record strong growth year on year. We constantly seek out opportunities to provide our clients with access to top-notch private investments and deals. The eighth edition of our annual flagship publication for the region, *Julius Baer Wealth Report: Asia*, was published on 4 December 2018 and again raised considerable media and client interest.

MARKETS

The Markets unit delivers trade execution, product structuring and advisory services across all asset classes. Our efficient transaction and risk management infrastructure, combined with comprehensive market access via a large counterparty network, ensures the high quality level of our execution and trading activities. Between the centres in Zurich and Singapore, we offer 24-hour availability for sophisticated clients. The access to our experts for RMs and direct clients ensures comprehensive support in all execution, trading and structuring-related matters.

The Markets unit plays an important role as manufacturer of structured products issued from Julius Baer Group's balance sheet. The continued development of our structured products offering across all asset classes is addressing the diverse needs of our global customer base.

The *Markets Toolbox*, a real-time platform for structured products, currencies and precious metals, is a key enabler to achieve a high level of customer experience and service efficiency. Continued investments in the *Markets Toolbox* and the structured product offering have further supported the remarkable growth of this important asset class.

GLOBAL CUSTODY

As a dedicated provider of custodian services and solutions in Switzerland, this unit enjoys an excellent reputation as a best-in-class global custodian in its well-defined areas of specialised expertise for institutional clients as well as private clients with institutional requirements.

The business covers the full range of country-specific expertise and client-oriented solutions comprising a wide variety of products and services, including custody, asset and depository services as well as transaction banking and access to a wealth of other value-adding bank capabilities such as analytics and reporting. With its modular offering, clients benefit from a high degree of flexibility regarding daily business processes and individualised services to cover their needs.

OUR STRATEGY

Julius Baer's long-term strategy is focused exclusively on wealth management. This strategy was introduced in 2009 with the Group's separation from its asset management business, a move accompanied by the independent listing of today's Julius Baer Group.

The execution of this pure wealth management strategy has been marked ever since by realising profitable growth – through organic development, capital market transactions and cooperation agreements. The Group's international footprint and regional strength, combined with its client-centric service model, form the basis for its aim to create long-term sustainable value for clients and investors.

APPLYING A CLIENT-CENTRIC BUSINESS MODEL

In its pure wealth management business model, Julius Baer targets wealthy private clients, family offices and external asset managers. The Group's position of strength as the leading Swiss wealth management group with international reach is derived from its unmatched focus on providing clients with holistic advice tailored to their needs, fully compliant with local rules and regulations. Personal interaction is a key element, ensured through a dedicated relationship manager for each client. The front organisation is closely supported by Julius Baer's wealth management, wealth planning and wealth financing specialists and is powered by an open product platform, proprietary research and state-of-the-art digital execution capabilities. Combined, this results in comprehensive solutions aligned with clients' aspirations, mirroring what truly matters to them – in their business and personal life, today and for future generations.

GENERATING SUSTAINABLE GROWTH

Julius Baer's strategy is aimed at delivering profitable growth organically as well as inorganically through acquisitions and cooperation agreements.

Organic growth is achieved by generating steady net new money inflows across the economic cycle: by attracting new clients, increasing the share of wallet with existing clients as well as targeted hiring of experienced relationship managers with an impeccable professional record. In this process, the Group's pure wealth management focus and offering, its distinctive corporate culture, its strong brand name, its conservatively managed balance sheet and its steady strategy execution contribute equally to Julius Baer's appeal as a highly attractive employer for top relationship managers and as a first-rate wealth management bank for clients.

Inorganic growth is a complementary element in support of the Group's overall growth strategy. It leverages the Group's key strengths to gain or reinforce domestic presence in promising markets, with a particular focus on growth markets. It comprises selective acquisitions as well as pioneering cooperation agreements with strong commercial partners that offer a valuable strategic and cultural fit.

Julius Baer's international footprint equips the Group to perform sustainably across economic cycles. In its allocation of resources to foster growth, the Group has always aimed to strike a balance between mature markets such as Switzerland and Europe and growth markets around the world – Asia, Latin America, the Middle East, Africa, as well as Central and Eastern Europe. As a result, the Group's assets under management by client domicile are about evenly spread between mature and growth markets.

In the long-term development of Julius Baer, the Group constantly works towards a fair balance between growing its asset base and fostering profitability. The main driver in this respect is the strong focus on what matters most to clients. The resulting high-end client solutions substantially drive its revenue development: via competitive pricing reflective of the value added to the client and via elevated levels of client satisfaction, which in turn support client retention and spur a growing share of wallet. Active cost management acts as an important complementary element, with a particular focus on fostering productivity. The latter is a constant process encompassing the deployment of technology-based tools and related organisational optimisation, which result in increased process efficiency and improved cost synergies over time.

CALIBRATING THE STRATEGY IN A CHANGING ENVIRONMENT

In 2018, as every year, Julius Baer's Board of Directors reviewed the Group's long-term strategy together with the Group's Management. The two bodies jointly concluded that, while the factors such as client needs, market conditions, regulatory requirements and competitive landscape will be in permanent flux, the core elements of the Group's long-term strategy continue to offer the potential for sustainable and profitable growth well into the future.

Over the coming years, in order to remain among the most profitable businesses in the sector, the Group's strategy will focus particularly on delivering a best-in-class wealth management experience for clients, strengthening the Group's position as a first-rate wealth management bank in its chosen markets and as a highly attractive employer for top wealth management professionals. This is to be achieved by concentrating on the following elements:

- Further enhancing the Group's market orientation. Investments are therefore channelled into focus markets or complementing growth opportunities. This includes the decision to expand Julius Baer's local presence in Brazil, Germany and the UK and to enter strategic cooperation agreements in Thailand and Japan. At the same time, the footprint is recalibrated by scaling back investments in other markets – such as the decision to close the offices in Peru and Panama and to sell the local business in the Netherlands (Amsterdam).

Julius Baer Group Ltd.

Board of Directors[1]
Daniel J. Sauter, Chairman

Chief Executive Officer
Bernhard Hodler

Chief Financial Officer	Chief Operating Officer	Chief Risk Officer	Chief Communications Officer	General Counsel
Dieter A. Enkelmann	Nic Dreckmann	Oliver Bartholet	Larissa Alghisi Rubner	Christoph Hiestand

Executive Board

[1] At the Annual General Meeting on 10 April 2019, the Board of Directors of Julius Baer Group Ltd. will propose Romeo Lacher for election as new non-executive Chairman of the Board. The Board of Directors further nominates Eunice Zehnder-Lai and Olga Zoutendijk for election as new members of the Board. They will complement the Board, as Andreas Amschwand and Gareth Penny are not seeking re-election.

- Further strengthening the Group's organisational structure and processes. This includes refining the well-established management structure of front-office teams, further deepening the Group's knowledge and understanding of its clients and asserting the efficacy of the Group's risk framework. Within an effective segmentation framework, the overarching aim is to ensure clients are served in a most individual, comprehensive and fully compliant fashion.
- Enhancing Julius Baer's holistic *Your Wealth* offering. This will be achieved through the further and wider roll-out of Julius Baer's advisory models and the strengthening of Julius Baer's investment management capabilities. The objective is to further grow the share of assets under management held in discretionary or advisory mandates, which amounted to 51.0% at the end of 2018, after 47.6% at the end of 2017.
- Increasing productivity, scalability and efficiency. This will be achieved through segmented offerings, process innovation and by focusing on target clients. In that respect, technology has become an increasingly important strategic enabler, encompassing systems automation, smart digital tools and robotics solutions.
- Further establishing Julius Baer as the global leader in pure wealth management and building on the Group's attractive employee value proposition.

CREATING SHAREHOLDER VALUE

The ambition of Julius Baer's strategy, with its disciplined execution, is to deliver controlled and profitable growth. This is reflected in the Group's medium-term financial targets:

- Growth: Julius Baer's focus on organic growth is reflected in the Group's medium-term target to realise between 4% and 6% net new money expansion per annum.
- Profitable growth: Julius Baer's focus on achieving profitable growth is echoed by its dual targets of realising an adjusted[1] cost/income ratio[2] of lower than 68% and an adjusted pre-tax margin[3] of between 25 and 28 basis points in the medium term.
- Return on capital: To clearer link profitability, capital efficiency and capital return ambitions, the Group aims to achieve a return on common equity Tier 1 (RoCET1)[4] of higher than 32%.
- Strong balance sheet, lower-risk business profile compared to universal banks: The focus on maintaining these two key competitive advantages partly manifests itself in Julius Baer's aim to maintain its BIS total capital ratio above 15% and its BIS core equity tier 1 ratio above 11%, three percentage points above the regulatory required minimum levels. In setting its floors at these levels, the Group believes it achieves an appropriate balance between preserving a solid capital buffer, maintaining sufficient leeway to steer and develop the business and continuing to generate attractive returns for its shareholders.
- Shareholder value: The continued successful execution of the long-term strategy is expected to result in a total return to shareholders above the average of the European banking sector, as represented by the STOXX Europe 600 Banks Index (gross return), across the economic cycle. This aim is further supported by the Group's intent to maintain its dividend payout ratio at approximately 40% of adjusted net profit and to return excess capital to shareholders if not required by the Group.
- Pay for performance: The Executive Board's compensation structure, with the cumulative economic profit and relative total shareholder return components of its equity performance plan, is aligned with the Group's focus on sustainable, profitable growth and long-term shareholder value creation.

This section of the Business Review is an excerpt from the yearly updated Corporate Governance chapter of the Group's Annual Report.

[1] Adjusted results derived by excluding from the Group's IFRS financial statements the integration and restructuring expenses as well as the amortisation of intangible assets related to previous acquisitions or divestments and the taxes on those respective items.
[2] Calculated using adjusted operating expenses, excluding provisions and losses.
[3] Adjusted profit before taxes/average assets under management in basis points.
[4] Adjusted net profit attributable to shareholders/(half-yearly) average CET1 capital.

CEO BERNHARD HODLER ABOUT THE IMPORTANCE OF SUSTAINABILITY AT JULIUS BAER

Under the lead of CEO Bernhard Hodler, the Bank further strengthened its commitment to corporate sustainability and responsible investment in 2018. In this interview, he shares his views and motivation with us.

HOW IMPORTANT WAS SUSTAINABILITY IN JULIUS BAER'S HISTORY?

'The fact that we have built a strong business over nearly 130 years, throughout different economic cycles – good and bad – and across times of war and peace, is in itself a testament to sustainability. Business practices that are now considered *sustainable* were implemented early on, not least in reflection of the ethos of the Baer family. An example is the Julius Baer Foundation, which was the first charitable grant foundation established by a Swiss bank, in 1965. We were also a first mover with the introduction of our Sustainability Mandate in 2006 – a mandate that clients can still invest in. The solar panels on one of our head office buildings date back to 1983, and today we discover ways for our clients to invest in similar technologies as part of our Next Generation investment approach. The way we incorporated corporate sustainability may not have always been very structured or formalised, but it has always been part of who we are.'

WHY ARE STAKEHOLDERS PUTTING MORE EMPHASIS ON CORPORATE SUSTAINABILITY?

'On the one hand, you have a global political agenda, with initiatives such as the UN Sustainable Development Goals or the Paris Agreement, and new regulations that corporations have to follow and provide transparency on. On the other hand, people realise that environmental, social and governance issues are real and will affect their future. So it is not just about noble intentions or abiding by stricter laws, it is really about how we want to live tomorrow and how we want the coming generations to live. That is why clients ask for investments that are designed to promote a more sustainable economy. If you look at it from a purely rational point of view, you realise that companies with good corporate governance and proper management of sustainability issues have better protection against risks to their bottom line.'

WHAT CAN STAKEHOLDERS EXPECT FROM JULIUS BAER'S CORPORATE SUSTAINABILITY AND RESPONSIBLE INVESTMENT ROADMAP?

'We want to pursue long-term value creation for our clients, employees, shareholders and society by managing our organisation and our client offering responsibly, in line with our own and our clients' values. By being increasingly transparent about our corporate sustainability efforts and giving more prominence to our approach to responsible investment, we also make a clear commitment to constant improvement.'

CORPORATE SUSTAINABILITY

At Julius Baer, we pursue long-term value creation for our clients, employees, shareholders and society. We do this by managing our organisation and our client offering responsibly, in line with our own and our clients' values. We have embedded environmental, social and governance (ESG) factors into our corporate governance, advisory and investment management functions in response to social and economic change.

We operate in a complex environment and recognise several important social, economic and environmental trends currently affecting us:

- *Social expectations*: There is a mounting focus on companies' role in society. The private sector – particularly the financial sector – is increasingly expected to mobilise resources needed to tackle issues such as climate change and global wealth inequality.
- *Investing for impact*: In addition to sound financial returns, a growing number of investors also want to achieve positive social and environmental impact with their investments. More than 50% of our clients, surveyed in 2018, say they already practise or are interested in sustainable investing. For clients aged 34 or younger, this increases to over 60%.
- *New wealth and changing demographics*: In many countries, people live longer – and spend more of their lifetime in retirement. Even so, baby boomers have considerable unspent assets. Over the next twenty years, there will be a significant wealth transfer to younger generations, generally estimated at around USD 30 trillion.
  At the same time, we see the emergence of new wealth in some of our markets – in Asia, for example, as a result of economic growth.
- *Regulation*: In recent years, significant additional regulation in financial services has been adopted. Much of this regulation is a legacy of the 2007-2008 financial crisis, and as a result is aimed at increasing transparency and strengthening consumer protection. It includes EU market access, Basel IV and sustainable finance.
- *New digital technologies*: Because of technology, clients demand quick, seamless service. For banks to continue to attract and retain clients, they will have to offer a more individual, customised and reimagined experience.

OUR CORPORATE SUSTAINABILITY STRATEGY

Our corporate sustainability strategy helps us to respond to trends as well as to changes in clients' and society's expectations. It also ensures the incorporation of sustainable business practices into our daily investment and operational decisions.

Our Corporate Sustainability department is responsible for the development and implementation of this strategy. The department is part of the CEO Office. On matters of strategy, the department reports to the Sustainability Board, an Executive Board-level committee created in 2018, as a steering body for corporate sustainability and responsible investment.

Our corporate sustainability strategy has been adopted across all business units and regions. The following sections summarise our sustainability efforts. More details and results can be found in the latest comprehensive annual *Corporate Sustainability Report*, which is available at www.juliusbaer.com/cosreport and is published in March every year.

BUSINESS CONDUCT AND INTEGRITY

The highest professional standards are built into our decision-making. These are contained in our Code of Business Conduct (the Code), which covers topics such as tax, conflicts of interest, combating financial crime, confidentiality, human rights, diversity and environmental protection. Via our Integrity Platform, employees can confidentially report suspected Code violations.

Alongside the Code, we have policies to combat financial crime, including a client acceptance policy, a know-your-client (KYC) policy, an anti-money laundering policy, an anti-corruption and anti-bribery policy, and a sanctions and embargoes policy. These policies apply to all Julius Baer employees worldwide. Staff are regularly trained on the content and application of these policies. Some of the policies, including the Code, are also extended to business partners covered by our purchasing policy.

Extensive screening is carried out to make sure our policies are adhered to. The Bank operates a payments filter to ensure compliance with international sanctions and embargoes – as well as a rigorous tax compliance framework. This includes the implementation of international Automatic Exchange of Information standards (such as the OECD Common Reporting Standards or FATCA). As a matter of policy, we will not accept clients not fulfilling their tax obligations.

Our aim is to assess policy and regulatory proposals at an early stage. This allows us to engage and to shape policymaking in a way that benefits the Bank, our industry and society. Recently, in addition to our existing strong efforts in Switzerland, we have stepped up our engagement with EU policymakers and international industry organisations.

Taken together, these measures ensure full compliance with industry regulations, awareness of potential threats and risks to our business, and application of the highest possible standards of business conduct.

CLIENT EXPERIENCE

Given the personal nature of our business, it is important that we offer clients an outstanding service experience. To do so, Julius Baer needs to respond quickly to changing client expectations as well as new demographic and technological trends.

When advising clients, Julius Baer takes a personal and holistic approach, tailoring advice to clients' needs at every stage of their life across wealth planning, wealth management and wealth financing. With this approach, we map out 'client journeys' and recommend products and services best suited to our clients' requirements. Getting to know our clients' situation and personal values also gives us an opportunity to introduce responsible investment options.

At the same time, we are expanding our online banking platform to build on the development of new digital technologies.

With rising cyberthreats, there is increased risk of fraud, identity theft and system downtimes. To oversee and combat this, we have a formal security roadmap overseen by the Group's dedicated Security Committee. In 2018, we continued to invest in state-of-the-art data defence measures and successfully implemented workflow and tools to comply with the EU's General Data Protection Regulation (GDPR).

RESPONSIBLE INVESTMENT

As part of its approach to responsible investment (RI), Julius Baer includes financially material ESG risks in its overall investment process. This ensures that both financial and ESG risks are captured and it continues to create long-term value for our clients. We work to enrich our RI offering and raise awareness among both our clients and client-facing staff. In our approach, the aim is not to exclude specific investments, but to ensure we provide more effective investment advice to our clients, based on knowledge of possible risks. RI is one of the key topics overseen by the Sustainability Board.

Beyond ESG integration, RI offers many other investment opportunities. This is where Julius Baer best supports the UN's Sustainable Development Goals (SDGs) in working with clients to create a more sustainable approach to investment. Our RI offering currently covers four main areas:

- *Sustainability Mandate*: Launched in 2006, it offers clients the possibility of investing in forward-thinking, responsible and innovative companies around the world. Themes addressed include energy efficiency, education, mobility, biodiversity and water.
- *Recommended third-party impact investment offering*: Impact investment funds deliver social and/or environmental benefits as well as financial returns. At Julius Baer, our offering currently includes green bond funds (that finance sustainable projects) and microfinance funds (that provide small-scale support most often to companies in developing countries).
- *Recommended third-party sustainable investment offering*: These funds take a thematic and/or a best-in-class sustainability approach and may also apply exclusion screens.
- *Next Generation investment approach*: A thematic approach where the objective is to deliver superior investment returns by focusing on companies that have a competitive advantage within structurally growing markets. This approach taps into key global trends: Arising Asia, Digital Disruption, Energy Transition, Feeding the World, and Shifting Lifestyles.

In 2018, a portfolio management team was created to manage Julius Baer's new Next Generation Fund.

KEY RESPONSIBLE INVESTMENT INDICATORS

	2018	2017	Change in %
Assets with ESG integration in CHF m[1]	43,537	45,881	*-5.1*
Ratio of AuM with ESG integration compared to total AuM (%)	*11.4*	*11.8*	-
Discretionary Sustainability Mandates in CHF m[2]	973	736	*32.2*
Recommended Sustainable Investment and Impact Investment funds in CHF m[3]	435	215	*102.3*

[1] Based on AuM in central mandates (only front regions, excluding intermediaries).
[2] Including various asset classes and currencies.
[3] Total AuM invested through Julius Baer in recommended Sustainable Investment and Impact Investment funds on the open product platform.

OUR PEOPLE

At Julius Baer, our goal is to be the employer of choice in wealth management by attracting, developing and retaining highly qualified and engaged professionals.

To ensure access to both technical and soft skills, we invest in training and development. The Julius Baer Academy takes the lead in the creation of training programmes, including classroom sessions and e-learnings. To meet individual needs, our training covers leadership competencies, professional skills and dedicated programmes for young talent.

A more diverse and inclusive workforce leads to better decision-making, fosters innovation and increases employee engagement. Consequently, we have made diversity an integral part of our efforts to become an employer of choice in wealth management. A number of programmes were tested in pilot schemes in 2018, including reverse mentoring, unconscious-bias workshops and a career management tool that allows employees to design their own development roadmap. Aiming at gender equality at all levels, we agreed to work towards a target of at least 30% women in senior management positions by 2021.

CORPORATE CITIZENSHIP

We act as a responsible corporate citizen. This means supporting the communities we work in through engagement, donations or sponsorships.

The *Julius Baer Foundation* was established in 1965. Last year, the Foundation made grants of CHF 2.4 million. Most of this money went to projects in the Foundation's core areas: Vocational Training, Recycling PLUS, and Wealth Inequality.

Alongside the Foundation, *Julius Baer Cares*, an employee-driven community, organises philanthropic activities such as fundraising and volunteering.

There is a growing interest among employees for corporate volunteering. Currently, we are building programmes to support our company volunteering guidelines, which grant Julius Baer employees two days a year to work on local charity projects.

Julius Baer has supported Swiss contemporary art for more than 35 years, displaying many of the collection's more than 5,000 pieces in the Bank's offices for the benefit of clients and employees.

KEY HUMAN CAPITAL INDICATORS

	2018	2017	Change in %
Our people			
Total headcount (total workforce excl. externals)[1]	6,985	6,586	6.1
Of whom regular staff	*6,738*	*6,394*	*5.4*
Number of employees (FTE) (total workforce excl. externals)[1]	6,692.5	6,291.8	6.4
Of whom in Switzerland (%)	*52.8*	*54.4*	-
Of whom in rest of Europe (%)	*17.4*	*16.8*	-
Of whom in Asia-Pacific (%)	*21.4*	*21.4*	-
Of whom in Latin America (%)	*5.5*	*4.7*	-
Of whom in Middle East and Africa (%)	*2.8*	*2.7*	-
Total net employee turnover (%)[2]	8.8	8.9	-
People and diversity			
Ratio of women (% of total headcount regular staff)	41.9	41.2	-
Women in senior management (% of total senior management headcount)[3]	27.1	26.3	-

[1] Total workforce includes regular staff (employees with an ordinary open-ended Julius Baer contract on a full or part-time basis), temporary staff, trainees, apprentices and university graduates.

[2] Fluctuation rate / net turnover of regular staff in percentage, including resignations and terminations.

[3] Julius Baer defines all employees with the rank Director to Managing Director as senior management.

ENVIRONMENTAL MANAGEMENT

As a financial institution, Julius Baer does not have a large carbon footprint. We believe it is important, however, to manage our environmental impact responsibly. We have set clear targets for 2020: to reduce our energy consumption by 10% and to switch to renewable energy where possible. Also by then, water use will be reduced by 5%. We have also offset all our CO_2 emissions since 2015, making us carbon neutral.

So far, we are on course to meet our environmental targets and expect to remain on track when we publish the 2018 environmental figures in our next *Corporate Sustainability Report*.

Going forward, we will refocus environmental management efforts on our main impacts: business travel and renewable energy consumption. From 2019, all our Swiss offices will source 100% renewable energy.

KEY ENVIRONMENTAL INDICATORS[1,2]

	2017	2016	Change in %
Greenhouse gas emissions (tCO_2e)[3]	14,010	13,243	5.8
Of which business travel (tCO_2e)[4]	*7,678*	*6,438*	*19.3*
Water consumption (m^3)	119,193	119,641	-0.4

[1] The figures in this table are for reporting years 2016 and 2017. The 2018 results will be included in the Corporate Sustainability Report 2018, which will be published in March 2019 alongside the Annual Report 2018.

[2] Numbers are based on information from Julius Baer's main business locations. These are Zurich, Geneva and Lugano in Switzerland, as well as our locations in Germany, the UK, Hong Kong, Singapore and Uruguay. The locations represented cover about 76% of our total employees.

[3] Greenhouse gas emissions were calculated according to the guidelines of the WRI/WBCSD Greenhouse Gas Protocol. This figure includes scope 1, 2 and 3 emissions.

[4] Business travel figures (as a greenhouse gas scope 3 emission) are a sum of emissions from air, rental car and train travel data representing 100% of FTE at Julius Baer, as well as emissions from company cars used at sites specified under footnote 2. Miles/FTE were calculated using 100% of FTE at Julius Baer.

IMPORTANT DATES

Publication of Annual Report 2018: 18 March 2019
Annual General Meeting: 10 April 2019
Publication of Interim Management Statement: 24 May 2019
Publication of 2019 half-year results: 22 July 2019

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

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The Forest Stewardship Council (FSC) is an independent, not-for-profit organisation that promotes responsible forest management throughout the world.
Julius Baer cares about the environment. Therefore this publication was printed on FSC-certified paper.
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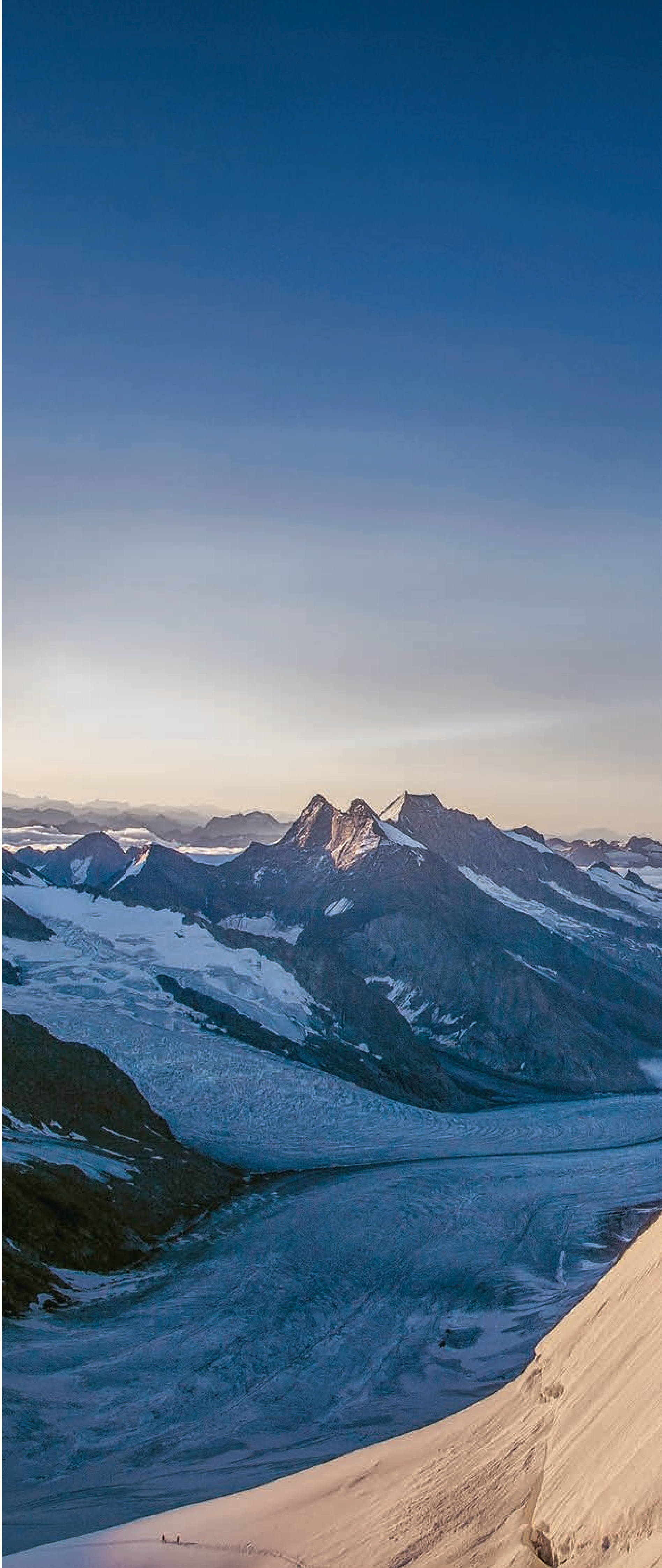

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than 50 locations worldwide,
including Zurich (Head Office),
Dubai, Frankfurt, Geneva,
Hong Kong, London,
Luxembourg, Milan, Monaco,
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