

Julius Bär

MEDIA RELEASE

Julius Baer Group Ltd.

Zurich, 4 February 2019

Presentation of the 2018 full-year results for the Julius Baer Group

Stable profit in challenging market environment

- **IFRS net profit attributable to shareholders of Julius Baer Group Ltd. grew by 4% to CHF 735 million and IFRS earnings per share (EPS) by 4% to CHF 3.37.**
- **Adjusted¹ net profit for the Group increased slightly to CHF 810 million (2017: CHF 806 million). Adjusted EPS attributable to shareholders of Julius Baer Group Ltd. up 2% to CHF 3.72.**
- **Net new money over CHF 17 billion, or 4.5%, inside 4–6% target range.**
- **Assets under management (AuM) CHF 382 billion, a decrease of 2%, reflecting market performance.**
- **Gross margin 86 basis points (bp), down 4 bp on lower contributions from client activity and Kairos.**
- **Adjusted cost/income ratio² at 70.6% and pre-tax margin at 25 bp – both impacted by weaker gross margin and additional legal and restructuring expense items.**
- **BIS CET1 capital ratio 12.8% and BIS total capital ratio 18.7%, well above minimum regulatory requirements and Group’s own floors.**
- **Proposed ordinary dividend of CHF 1.50 per share for financial year 2018, up 7% from CHF 1.40 and fifth consecutive increase.**
- **Structural cost reduction programme initiated: Expenses to be lowered by CHF 100 million. Strategic growth investments not impacted and to be continued.**
- **Updated medium-term targets: Cost/income ratio² <68%, pre-tax margin 25–28 bp, return on CET1 capital >32%. Net new money target unchanged: 4–6%.**

Bernhard Hodler, Chief Executive Officer of Julius Baer Group Ltd., said: “Julius Baer ended 2018 with stable profit and robust net new money growth – and we did so in an environment that was challenging for the entire industry. We continue to make strategic growth investments, and have initiated a structural cost reduction programme to absorb revenue fluctuations from potential market headwinds over the short to medium term.

Our updated financial targets underscore our long-term ambition to pursue sustainable and profitable growth, and to deliver attractive capital returns to our shareholders. We will follow a clear strategy centered on smarter market coverage, holistic and personalised advice, and technology transformation, aiming above all to enhance client experience, improve efficiency and increase revenues.”

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Robust net inflows partly compensated for negative market performance

Assets under management 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.

Gross margin affected by lower client activity and Kairos contribution

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 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 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).

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.

Gross margin decline and extraordinary expense items drive increase in cost/income ratio²

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 media release and 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.

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*² 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.

Stable profitability despite challenging market environment in second half

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 2bp 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 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%).

2019 cost reduction programme launched

While continuing its strategic growth investments, Julius Baer has put in place a structural cost reduction programme. The Group will lower expenses by CHF 100 million by further enhancing market focus and related prioritisation of resource allocation; leveraging automation and digitalisation; and applying stricter performance management. This will by the end of 2019 lead to a net reduction in the Group's headcount of 2% compared to the end of 2018. The results from these structural cost reductions are expected to fully materialise in the 2020 financial results, with the aim to reduce the cost/income ratio² below 68% in line with Julius Baer's new medium-term target in that year, assuming no meaningful deterioration relative to the 2018 average market conditions.

Updated medium-term targets

In response to the changing operating environment, the Group has updated its medium-term targets. While the net new money target remains unchanged at 4–6%, the cost/income ratio² target is modified to <68% and the pre-tax margin target adjusted to 25–28bp. In order to provide a clearer linkage between the Group's profitability, capital efficiency and capital return ambitions, the Group will target RoCET1 of >32%.

Decrease in loan-to-deposit ratio

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.

Solid capital position³

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.

Proposed ordinary dividend of CHF 1.50 per share for 2018, up 7% from 2017

The Board of Directors of Julius Baer Group Ltd. will propose an ordinary dividend of CHF 1.50 per share for the financial year 2018, representing the fifth consecutive increase and a rise of 7% from 2017. Subject to shareholder approval at the AGM on 10 April 2019, the dividend will be paid out of the statutory capital reserve. The total proposed distribution amount is CHF 336 million, equivalent to 41% of adjusted net profit attributable to shareholders of Julius Baer Group Ltd. and to 46% of IFRS net profit attributable to shareholders of Julius Baer Group Ltd.

Update Deferred Prosecution Agreement in U.S.

On 4 February 2016, Julius Baer concluded a three-year Deferred Prosecution Agreement (DPA) with the U.S. Department of Justice to settle its liability in connection with its legacy U.S. cross-border private banking business. Since Julius Baer fulfilled its obligations under the DPA, the U.S. Attorney's Office for the Southern District of New York will file a motion to dismiss the charges against the Bank with the U.S. Federal Court for approval shortly.

¹ The adjusted results as presented and commented in this media release and in the Business Review are 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 Calculated using adjusted operating expenses, excluding provisions and losses.

³ The multi-year Basel III phase-in period ended at the beginning of 2018. As a consequence, the differentiation between the formerly used 'phase-in' and 'fully-applied' capital ratios is no longer relevant.

The results conference will be webcast at 9:30 a.m. (CET). All documents (presentation, Business Review 2018, Consolidated Financial Statements 2018, spreadsheets and this media release) are available at www.juliusbaer.com.

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Important dates

18 March 2019:	Publication of Annual Report 2018 including Remuneration Report 2018
18 March 2019:	Publication of Corporate Sustainability Report 2018
10 April 2019:	Annual General Meeting 2019, Zurich
12 April 2019:	Ex-dividend date
15 April 2019:	Record date
16 April 2019:	Dividend payment date
24 May 2019:	Publication of four-month Interim Management Statement
22 July 2019:	Publication and presentation of 2019 half-year results, Zurich

About Julius Baer

Julius Baer is the leading Swiss wealth management group, with a focus on servicing and advising sophisticated private clients and a premium brand in this global sector. At the end of 2018, assets under management amounted to CHF 382 billion. Bank Julius Baer & Co. Ltd., the renowned Swiss private bank with origins dating back to 1890, is the principal operating company of Julius Baer Group Ltd., whose shares are listed on the SIX Swiss Exchange (ticker symbol: BAER) and are included in the Swiss Market Index (SMI), comprising the 20 largest and most liquid Swiss stocks.

Julius Baer is present in over 25 countries and more than 50 locations. Headquartered in Zurich, we have offices in key locations including Dubai, Frankfurt, Geneva, Hong Kong, London, Luxembourg, Milan, Monaco, Montevideo, Moscow, Mumbai, Singapore and Tokyo. Our client-centric approach, our objective advice based on the Julius Baer open product platform, our solid financial base and our entrepreneurial management culture make us the international reference in private banking.

For more information visit our website at www.juliusbaer.com

Cautionary statement regarding forward-looking statements

This media release by Julius Baer Group Ltd. ('the Company') includes forward-looking statements that reflect the Company's intentions, beliefs or current expectations and projections about the Company's future results of operations, financial condition, liquidity, performance, prospects, strategies, opportunities and the industries in which it operates. Forward-looking statements involve all matters that are not historical facts. The Company has tried to identify those forward-looking statements by using the words 'may', 'will', 'would', 'should', 'expect', 'intend', 'estimate', 'anticipate', 'project', 'believe', 'seek', 'plan', 'predict', 'continue' and similar expressions. Such statements are made on the basis of assumptions and expectations which, although the Company believes them to be reasonable at this time, may prove to be erroneous.

These forward-looking statements are subject to risks, uncertainties and assumptions and other factors that could cause the Company's actual results of operations, financial condition, liquidity, performance, prospects or opportunities, as well as those of the markets it serves or intends to serve, to differ materially from those expressed in, or suggested by, these forward-looking statements. Important factors that could cause those differences include, but are not limited to: changing business or other market conditions, legislative, fiscal and regulatory developments, general economic conditions in Switzerland, the European Union and elsewhere, and the Company's ability to respond to trends in the financial services industry. Additional factors could cause actual results, performance or achievements to differ materially. In view of these uncertainties, readers are cautioned not to place undue reliance on these forward-looking statements. The Company and its subsidiaries, and their directors, officers, employees and advisors expressly disclaim any obligation or undertaking to release any update of or revisions to any forward-looking statements in this media release and any change in the Company's expectations or any change in events, conditions or circumstances on which these forward-looking statements are based, except as required by applicable law or regulation.

KEY FIGURES JULIUS BAER GROUP¹

	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 the next page.

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.

RECONCILIATION CONSOLIDATED FINANCIAL STATEMENT¹
IFRS TO ADJUSTED NET PROFIT

	2018 <i>CHF m</i>	2017 <i>CHF m</i>	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