Julius Bär

2020

BASEL III PILLAR 3 DISCLOSURES

Julius Baer Group Ltd.

According to FINMA circular 2016/1
'Disclosure Banks'

2020

BASEL III PILLAR 3 DISCLOSURES 2020 JULIUS BAER GROUP LTD.

INTRODUCTION

SCOPE OF PILLAR 3 DISCLOSURES

This report provides Pillar 3 disclosures for Julius Baer Group Ltd. (the Group) on a consolidated basis as at 31 December 2020. The disclosures in the report are based on the FINMA regulatory requirements as prescribed in the circular 2016/1 'Disclosure – banks' which includes the implementation of the revised Pillar 3 disclosure requirements issued by the Basel Committee on Banking Supervision (BCBS) in March 2017. The Basel III capital adequacy framework consists of three complementary pillars:

- Pillar 1 provides a framework for measuring minimum capital requirements for the credit, market, operational and non-counterparty-related risks faced by banks.
- Pillar 2 addresses the principles of the supervisory review process, emphasising the need for a qualitative approach to supervising banks.
- Pillar 3 requires banks to publish a range of disclosures, mainly covering risk, capital, leverage and liquidity.

The aim of the Pillar 3 standards is to improve comparability and consistency of disclosures through the introduction of harmonised templates. The Group is subject to the full disclosure requirements in accordance with the FINMA circular 2016/1 'Disclosure – banks'. Bank Julius Baer & Co. Ltd. is exempted from detailed Pillar 3 disclosures. It must nevertheless disclose its key figures on an annual basis in its Annual Report with reference to the Group Pillar 3 information published in the Financial Reporting section of the Julius Baer website (www.juliusbaer.com/reporting).

Information provided in the Annual Report 2020 of the Group, published in the Financial Reporting section of the Julius Baer website (www.juliusbaer.com/reporting), or other publications may also serve to address Pillar 3 disclosure requirements. Where this is the case, a reference is provided in this report to the Group's publication where the information is available. The regulatory capital information as at 31 December 2020 for the Group is provided in the section 'Comment on capital management' of the Annual Report 2020 of the Group, pages 133-136.

The Group's Pillar 3 disclosures as at 31 December 2020, 30 June 2020 and 31 December 2019 are based on fully applied amounts, which means that no Basel III phase-in rules are applied anymore.

FREQUENCY OF PILLAR 3 DISCLOSURES

This report is published semi-annually. FINMA has specified the reporting frequency for each disclosure as either annual or semi-annual. The following list gives an overview of the tables to be disclosed according to the FINMA circular 2016/1. Tables not applicable to the Group are indicated therein.

Pillar 3 table overview

Period[1]	Basel framework reference code	Table name
HY	KM1	Key metrics (at consolidated Group level)
	KM2	*Key metrics – TLAC requirements (at resolution group level)*[2]
Y	OVA	Bank risk management approach
HY	OV1	Overview of risk-weighted assets
Y	LI1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories
Y	LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements
Y	LIA	Explanations of differences between accounting and regulatory exposure amounts
Y	PV1	Prudent valuation adjustments (PVA)
Y	CC1	Composition of regulatory capital
Y	CC2	Reconciliation of regulatory capital to balance sheet
Y	CCA	Presentation of material features of regulatory capital instruments[3]
	TLAC1	*TLAC composition for G-SIBs (at resolution group level)*[2]
	TLAC2	*Material subgroup entity – creditor ranking at legal entity level*[2]
	TLAC3	*Resolution entity – creditor ranking at legal entity level*[2]
	GSIB1	*Disclosure of G-SIB indicators*[2]
Y	CCyB1	Geographical distribution of credit exposures used in the countercyclical buffer
Y	LR1	Summary comparison of accounting assets versus leverage ratio exposure measure
Y	LR2	Leverage ratio common disclosure
Y	LIQA	Management of liquidity risks
HY	LIQ1	Liquidity coverage ratio
HY	LIQ2	Net stable funding ratio[4]
Y	CRA	Credit risk: General information
Y	CR1	Credit risk: Credit quality of assets
Y	CR2	Credit risk: Changes in stock of defaulted loans and debt securities
Y	CRB	Credit risk: Additional disclosure related to the credit quality of assets
Y	CRC	Credit risk: Qualitative disclosure requirements related to mitigation techniques
Y	CR3	Credit risk: Overview of mitigation techniques
Y	CR4	Credit risk: Exposure and credit risk mitigation (CRM) effects under the standardised approach
Y	CRD	Credit risk: Qualitative disclosures of banks' use of external credit ratings under the standardised approach
Y	CR5	Credit risk: Exposures by exposure category and risk weights under the standardised approach
	CRE	*IRB: Qualitative disclosures related to IRB models*[2]
	CR6	*IRB: Credit risk exposures by portfolio and PD range*[2]
	CR7	*IRB: Effect on risk-weighted assets (RWA) of credit derivatives used as CRM techniques*[2]
	CR8	*IRB: RWA flow statements of credit risk exposures*[2]
	CR9	*IRB: Backtesting of probability of default (PD) per portfolio*[2]
	CR10	*IRB: Specialised lending and equities under the simple risk weight method*[2]
Y	CCRA	Counterparty credit risk: Qualitative disclosure

[1] Period of publication according to the FINMA circular 2016/1, annex 1.

[2] Not applicable to the Group.

[3] Details of material features of regulatory capital instruments are published in the Financial Reporting section of the Julius Baer website (www.juliusbaer.com/reporting).

[4] Legally not yet entered into force, therefore no disclosure required.

Pillar 3 table overview

Period[1]	Basel framework reference code	Table name
Y	CCR1	Counterparty credit risk: Analysis by approach
Y	CCR2	Counterparty credit risk: Credit valuation adjustment (CVA) capital charge
Y	CCR3	Counterparty credit risk: Standardised approach to CCR exposures by exposure category and risk weights
	CCR4	*IRB: CCR exposures by exposure category and PD scale[2]*
Y	CCR5	Counterparty credit risk: Composition of collateral for CCR exposure
Y	CCR6	Counterparty credit risk: Credit derivatives exposures
	CCR7	*Counterparty credit risk: RWA flow statements of CCR exposures under the IMM (EPE model method)[2]*
Y	CCR8	Counterparty credit risk: Exposures to central counterparties
Y	SECA	Securitisations: Qualitative disclosure requirements related to securitisation exposures
Y	SEC1	Securitisations: Exposures in the banking book
	SEC2	*Securitisations: Exposures in the trading book[2]*
	SEC3	*Securitisations: Exposures in the banking book and associated regulatory capital requirements – bank acts as originator or as sponsor[2]*
Y	SEC4	Securitisations: Exposures in the banking book and associated capital requirements – bank acts as investor
Y	MRA	Market risk: Qualitative disclosure requirements
Y	MR1	Market risk: Minimum capital requirements under standardised approach
Y	MRB	Market risk: Qualitative disclosures for banks using the internal model approach (IMA)
HY	MR2	Market risk: RWA flow statements of market risk exposures under an IMA
HY	MR3	Market risk: IMA values for trading portfolios
HY	MR4	Market risk: Comparison of VaR estimates with gains/losses
Y	IRRBBA	Interest rate risk: IRRBB risk management objective and policies
Y	IRRBBA1	Interest rate risk: Quantitative information to positions structure and interest repricing
Y	IRRBB1	Interest rate risk: Quantitative information on EVE and NII
	REMA	*Remuneration: Policy[5]*
	REM1	*Remuneration: Remuneration awarded during the financial year[5]*
	REM2	*Remuneration: Special payments[5]*
	REM3	*Remuneration: Deferred remuneration[5]*
Y	ORA	Qualitative disclosure requirements related to operational risks

[1] Period of publication according to the FINMA circular 2016/1, annex 1.

[2] Not applicable to the Group.

[3] Details of material features of regulatory capital instruments are published in the Financial Reporting section of the Julius Baer website (www.juliusbaer.com/reporting).

[4] Legally not yet entered into force, therefore no disclosure required.

[5] We refer to the remuneration report under section II of the Annual Report 2020 published in the Financial Reporting section of the Julius Baer website (www.juliusbaer.com/reporting).

FORMAT OF PILLAR 3 DISCLOSURES

As defined in the FINMA disclosure circular, certain Pillar 3 disclosures follow a fixed format, whereas other disclosures are flexible and may be modified to a certain degree to present the most relevant information. Pillar 3 disclosures also include column or row labeling as prescribed in the FINMA disclosure circular. In our Pillar 3 report, we follow the naming conventions as defined in the FINMA disclosure circular.

GOVERNANCE OVER PILLAR 3 DISCLOSURES

The Board of Directors and senior management are responsible for establishing and maintaining an internal control structure over the disclosure of financial information, including Pillar 3 disclosures. In line with the FINMA requirements, the Group has established a Pillar 3 disclosure governance policy and procedures which include information on the key internal controls designed to govern the preparation, review and sign-off of Pillar 3 disclosures. This Pillar 3 report has been verified and approved in line with this policy.

KEY METRICS

KM1: Key metrics at consolidated Group level

No.[1]		**31.12.2020** *CHF m*	30.06.2020 *CHF m*	31.12.2019 *CHF m*
	Available capital			
1	Common Equity Tier 1 (CET1)	**3,157.5**	2,950.1	2,876.7
2	Tier 1 capital	**4,296.3**	4,118.6	4,420.9
3	Total capital	**4,429.7**	4,250.2	4,521.7
	Risk-weighted assets (RWA)			
4	RWA	**21,120.7**	21,284.9	20,494.6
4a	Minimum capital requirements	**1,689.7**	1,702.8	1,639.6
	Risk-based capital ratios as a percentage of RWA			
5	Common Equity Tier 1 ratio	**14.9%**	13.9%	14.0%
6	Tier 1 ratio	**20.3%**	19.3%	21.6%
7	Total capital ratio	**21.0%**	20.0%	22.1%
	Additional CET1 buffer requirements as a percentage of RWA			
8	Capital conservation buffer requirement as per the Basel minimum standards (2.5% from 2019)	**2.5%**	2.5%	2.5%
9	Countercyclical buffer requirement (art. 44a ERV) as per the Basel minimum standards	**0.1%**	0.1%	0.3%
11	Total of bank CET1 specific buffer requirements as per the Basel minimum standards	**2.6%**	2.6%	2.8%
12	CET1 available after meeting the bank's minimum capital requirements as per the Basel minimum standards	**10.4%**	9.4%	9.5%
	Target capital ratios according to appendix 8 CAO (% of RWA)			
12a	Capital buffer according to appendix 8 CAO	**4.0%**	4.0%	4.0%
12b	Countercyclical capital buffer (art. 44 and 44a CAO)	**0.1%**	0.1%	0.4%
12c	CET1 target ratio according to appendix 8 CAO in addition to countercyclical capital buffer according to art. 44 and 44a CAO	**7.9%**	7.9%	8.2%
12d	T1 target ratio according to appendix 8 CAO in addition to countercyclical capital buffer according to art. 44 and 44a CAO	**9.7%**	9.7%	10.0%
12e	Total capital target ratio according to appendix 8 CAO in addition to countercyclical capital buffer according to art. 44 and 44a CAO	**12.1%**	12.1%	12.4%
	Basel III leverage ratio			
13	Total Basel III leverage ratio exposure measure	**107,193.8**	106,077.6	101,002.5
14	Basel III leverage ratio (= no. 2/no. 13)	**4.0%**	3.9%	4.4%
	Liquidity coverage ratio (3-month average)			
15	Total HQLA	**23,446.5**	24,531.2	14,724.3
16	Total net cash outflow	**13,637.3**	12,333.8	8,452.7
17	LCR ratio	**171.9%**	198.9%	174.2%

[1] Row numbers according to the sample table enclosed in the FINMA circular 2016/1, annex 2, table KM1.

RISK MANAGEMENT FRAMEWORK

Risk management constitutes an integral part of the Group's business framework. The table below presents an overview of risk management disclosures separately provided in the Annual Report 2020 of the Group.

OVA: Bank risk management approach

Pillar 3 disclosure requirement	Annual Report 2020 section	Disclosure	Annual Report 2020 page numbers
Business model and overall risk profile	Comment on risk management	– Risk management framework	115
		– Risk tolerance framework	115-116
Risk governance	Comment on risk management	– Risk governance	116-118
Channels to communicate, present and enforce the risk culture	Comment on risk management	– Risk culture	119-120
Scope and main features of risk measurement systems	Comment on risk management	– Risk tolerance framework	115-116
Process of risk information reporting; qualitative information on stress testing	Comment on risk management	– Group risk landscape	120
		– Capital planning and liquidity contingency plan	120-121
		– Stress testing	121-122
		– Risk reporting	122
Strategies and processes to manage, capture and mitigate risks	Comment on risk management	– Risk management framework	115
		– The three lines of defence	123
		– Risk management cycle	132

APPROACH TO MEASURING RISK-WEIGHTED ASSETS

The Group's risk-weighted assets for deriving the regulatory capital requirement are according to the BIS Basel III framework, as implemented by the Swiss Capital Adequacy Ordinance (CAO) issued by the Swiss Federal Council.

Overview of the approaches used for the main risk categories to derive the required capital:

- Credit risk (defined as the risk of default): To calculate the required capital for credit risk, the Group uses the standardised approach. In addition the following subsidiary approaches are used: Collateral is treated under the comprehensive approach, which means that the credit position is netted against eligible collateral subject to regulatory standard haircuts.
- Non-counterparty-related risk (defined as loss in value on bank premises or equipment): The Group applies prescribed regulatory risk weights of 100% to calculate the required capital.
- Counterparty credit risk (defined as the default of a counterparty before the final settlement of a derivative or securities financing transaction): To calculate the required capital for counterparty credit risk, the Group calculates the credit equivalents for derivatives using the standardised approach for counterparty credit risk (SA-CCR); the standardised approach is used to quantify the risk of a loss due to credit value adjustments (CVAs) of derivatives based on counterparty credit risks; for securities financing transactions, the Group applies the comprehensive approach.
- Securitisation risk (defined as the risk arising from securitisations held in the banking book): The Group calculates the capital requirements for securitisations according to the external ratings-based approach.
- Market risk (defined as losses that could arise from trading positions): The Group calculates the capital requirements for market risks according to the model-based approach as approved by FINMA. For hedge funds held in the trading book, the required capital is calculated according to the simplified approach for investments in managed collective assets. For the fixed income trading positions the required capital is calculated according to the market risk standardised approach.
- Operational risk (loss resulting from process, legal and compliance risks): The Group applies the standardised approach.

OVERVIEW OF RISK-WEIGHTED ASSETS

The following table provides an overview of risk-weighted assets (RWA) and the related minimum capital requirement by risk type. Capital requirements presented in the tables in this report are calculated based on 8% of RWA as at 31 December 2020.

OV1: Overview of risk-weighted assets

No.		**31.12.2020** RWA[1] *CHF m*	30.06.2020 RWA[1] *CHF m*	**31.12.2020** Minimum capital requirements *CHF m*
1	Credit risk (excluding CCR – counterparty credit risk)	**12,176.5**	13,137.1	**974.1**
2	*of which standardised approach (SA)*[2]	***12,176.5***	*13,137.1*	***974.1***
3	*of which foundation internal ratings-based (F-IRB) approach*			
4	*of which supervisory slotting approach*			
5	*of which advanced internal ratings-based (A-IRB) approach*			
6	Counterparty credit risk	**1,139.9**	946.4	**91.2**
7	*of which standardised approach for counterparty credit risk (SA-CCR)*[3]	***898.3***	*757.5*	***71.9***
7a	*of which simplified standard approach (VSA-CCR)*			
7b	*of which mark-to-market method*			
8	*of which internal model method (IMM or EPE model methods)*			
9	*of which other CCR*	***241.6***	*188.9*	***19.3***
10	Credit valuation adjustment (CVA)	**302.9**	307.1	**24.2**
11	Equity positions in banking book under market-based approach			
12	Investments in managed collective assets – look-through approach[3]			
13	Investments in managed collective assets – mandate-based approach[3]			
14	Investments in managed collective assets – fall-back approach[3]			
14a	Investments in managed collective assets – simplified approach[3]	**486.9**	180.8	**38.9**
15	Settlement risk	**5.5**	2.5	**0.4**
16	Securitisation exposures in banking book	**85.5**	80.6	**6.8**
17	*of which securitisation internal ratings-based approach (SEC-IRBA)*			
18	*of which securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)*	***85.5***	*80.6*	***6.8***
19	*of which securitisation standardised approach (SEC-SA)*			
20	Market risk	**1,116.7**	902.6	**89.3**
21	*of which standardised approach (SA)*	***726.6***	*403.8*	***58.1***
22	*of which internal model approach (IMA)*	***390.1***	*498.8*	***31.2***
23	Capital charge for switch between trading book and banking book			
24	Operational risk	**5,668.0**	5,612.1	**453.4**
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	**138.8**	115.8	**11.1**
26	Floor adjustment			
27	**Total**	**21,120.7**	21,284.9	**1,689.7**

[1] Explanations on movements between reporting periods 30.06.2020 and 31.12.2020: Lower RWA primarily following improvement in collateral positions (no. 2) partly countered by higher RWA due to the increase in investments in funds (no. 14a) as well as due to higher market risk RWA under the standardised approach (no. 21) driven by an increase in fixed income positions.

[2] Includes RWA of non-counterparty-related risk.

[3] New regulations for the calculation of RWA for SA-CCR and investments in funds have been implemented effective 01.01.2020.

LINKAGE BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

This section provides information on the linkage between the carrying values presented in the financial statements and the regulatory exposures of the Group.

The scope of consolidation for the purpose of calculating regulatory capital requirements is the same as the scope of consolidation under IFRS. The following table provides a breakdown of the IFRS balance sheet into the risk categories used to calculate regulatory capital requirements.

LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

31.12.2020

	a	b	c	d	e	f	g
	Carrying values under the scope of accounting consolidation	Carrying values under the scope of regulatory consolidation	Carrying value of items				
	CHF m	*CHF m*	Subject to credit risk framework *CHF m*	Subject to counterparty credit risk framework *CHF m*	Subject to securitisation framework *CHF m*	Subject to market risk framework *CHF m*	Not subject to capital requirements or subject to deduction from capital *CHF m*
Assets							
Cash	14,544.4	14,544.4	14,544.4				
Due from banks	7,349.9	6,085.7	4,870.9	1,214.8[2]			
Cash collateral on securities borrowed		1,264.2		1,264.2			
Loans[1]	47,207.6	47,207.6	47,199.6	8.0[2]			
Financial assets measured at FVTPL[3]	13,429.8	13,429.8	168.6[4]			13,261.2	
Derivative financial instruments	2,562.3	2,562.3		2,562.3			
Financial assets designated at fair value	269.6	269.6	269.6				
Financial assets measured at FVOCI[5]	13,796.4	13,796.4	12,944.2		852.2		
Investments in associates	21.2	21.2	21.2				
Property and equipment	580.5	580.5	580.5				
Goodwill and other intangible assets	2,637.4	2,637.4					2,637.4
Accrued income and prepaid expenses	363.7	363.7	322.2		0.9	40.6	
Deferred tax assets	20.1	20.1	5.4				14.7
Other assets	6,354.1	6,354.1	2,066.0			4,288.1	
Total assets	**109,137.0**	**109,137.0**	**82,992.5**	**5,049.4**	**853.0**	**17,589.9**	**2,652.1**

[1] Includes the balance sheet positions Lombard loans and mortgages.
[2] Margin accounts.
[3] Fair value through profit or loss.
[4] Includes trading portfolio in the banking book.
[5] Fair value through other comprehensive income.

LINKAGE BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

31.12.2020

	a	b	c	d	e	f	g
	Carrying values under the scope of accounting consolidation	Carrying values under the scope of regulatory consolidation	Carrying value of items				
	CHF m	*CHF m*	Subject to credit risk framework *CHF m*	Subject to counterparty credit risk framework *CHF m*	Subject to securitisation framework *CHF m*	Subject to market risk framework *CHF m*	Not subject to capital requirements or subject to deduction from capital *CHF m*
Liabilities							
Due to banks	5,087.9	4,753.3					4,753.3
Cash collateral on securities lent		334.6		334.6			
Due to customers	77,784.5	77,784.5					77,784.5
Financial liabilities measured at FVTPL	896.5	896.5				896.5	
Derivative financial instruments	2,554.6	2,554.6		2,554.6			
Financial liabilities designated at fair value	13,154.8	13,154.8					13,154.8
Debt issued	1,478.2	1,478.2					1,478.2
Accrued expenses and deferred income	688.0	688.0					688.0
Current tax liabilities	209.8	209.8					209.8
Deferred tax liabilities	74.5	74.5					74.5
Provisions	115.9	115.9					115.9
Other liabilities	658.1	658.1					658.1
Total liabilities	**102,702.8**	**102,702.8**		**2,889.2**		**896.5**	**98,917.1**

The following table illustrates the key differences between regulatory exposure amounts and accounting carrying values under the regulatory scope of consolidation. In addition to the accounting carrying values, the regulatory exposure amounts include:

- off-balance sheet exposures (no. 4)
- add-ons and differences in netting and collateral mitigation on derivatives; in addition, exposures to changes of credit valuation adjustments (CVA) (no. 5)
- Securities financing transactions (SFTs) and differences in netting and collateral mitigation on SFTs through the comprehensive measurement approach; in addition, exposures on settlement risk (no. 6)
- effect of collateral mitigation in the banking book; in addition, exposures that are only subject to market risk (no. 7)

LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

						31.12.2020
		a	b	c	d	e
		Total	Positions subject to			
No.		*CHF m*	credit risk framework *CHF m*	securitisation framework *CHF m*	counterparty credit risk framework *CHF m*	market risk framework *CHF m*
1	Asset carrying value amount under regulatory scope of consolidation (as per table LI1)	106,484.8	82,992.5[1]	853.0	5,049.4	17,589.9
2	Liabilities carrying value amount under regulatory scope of consolidation (as per table LI1)	-2,889.2			-2,889.2	
3	Total net amount under regulatory scope of consolidation	103,595.6	82,992.5	853.0	2,160.1	17,589.9
4	Off-balance-sheet fully adjusted exposure value (net EAD)	296.9	296.9			
5	Add-ons and differences in netting and collateral mitigation on derivatives and CVA	3,921.0			3,921.0	
6	SFTs and settlement risk	575.7			575.7	
7	Other differences including collateral mitigation in the banking book	-55,388.9	-37,799.0			-17,589.9
8	**Exposure amounts considered for regulatory purposes (net EAD)**	**53,000.3**	**45,490.4**[2]	**853.0**	**6,656.8**[3]	**-**

[1] Includes non-counterparty credit risk-related positions.
[2] Amount is in line with the total sum of EAD post CRM of credit risk CR5 plus EAD amount from the threshold calculation of CHF 55.5 million.
[3] Amount is in line with the total sum of EAD post CRM of the counterparty credit risk tables CCR1, CCR2, CCR8 and EAD from settlement risk of CHF 0.8 million.

The table below (disclosure requirements according to table LIA, FINMA circular 2016/1, annex 2) presents an overview of disclosures regarding the measurement of fair value separately provided in the Annual Report 2020 of the Group.

Pillar 3 disclosure requirement	Annual Report 2020 section	Disclosure	Annual Report 2020 page numbers
Valuation methodologies applied	Comment on risk management	– Market risk	127-128
Fair value determination	Additional information	– Fair value determination	177-178

Independent price verification process
The Group's fair value measurement and model governance framework includes numerous controls and procedural safeguards that are intended to maximise the quality of fair value measurements reported in the financial statements. New products and valuation techniques must be reviewed and approved by key stakeholders. Fair value estimates are validated by the risk and finance functions, which are independent of the business divisions. Independent price verification is performed by the Market Risk and Product Control department through comparing fair value estimates with observable market prices and other independent sources. For instruments where valuation models are used to determine fair value, an independent valuation and model control group within Market Risk and Product Control evaluates models on a regular basis, including valuation and model input parameters as well as pricing.

Prudent valuation adjustments
There are no prudent valuation adjustments required as at 31 December 2020.

CAPITAL COMPONENTS

COMPOSITION OF CAPITAL

The table below provides the composition of capital as defined by the FINMA disclosure circular. Reference is made to items reconciling to the balance sheet as disclosed in the section 'Balance sheet reconciliation' on page 17.

CC1: Composition of regulatory capital

No.[2]		31.12.2020 *CHF m*	References[1]
	Common Equity Tier 1 capital (CET1)		
1	Issued and paid-in capital, fully eligible	4.5	1
2	Retained earnings	6,931.9	2
3	Other components of equity	-106.1	3
6	**CET1 before adjustments**[3]	**6,830.3**	
	Regulatory adjustments to CET1		
8	Goodwill	-1,793.4	4
9	Other intangibles (net of related deferred tax liabilities)[4]	-828.6	5
10	Deferred tax assets that rely on future profitability	-14.7	6
14	Gains or losses due to changes in own credit risk	3.9	
16	Net long position in own shares	-360.5	
	Planned dividend for the financial year	-391.7	
26	Unrealised gains related to financial assets measured at FVOCI	-287.7	
28	**Total regulatory adjustments to CET1**	**-3,672.8**	
29	**Net CET1**	**3,157.5**	

[1] For the reconciliation of individual regulatory capital amounts with balance sheet positions, the reference numbers in the table above refer to reference numbers in table CC2.

[2] Row numbers according to the sample table enclosed in the FINMA circular 2016/1, annex 2, table CC1.

[3] Before deduction of treasury shares of CHF 404.7 million; ineligible non-controlling interests of CHF 8.6 million are excluded from CET1 capital.

[4] Reference 5: CHF -828.6 million reflects CHF -843.9 million other intangible assets net of related CHF 15.4 million deferred tax liabilities.

No.[2]		31.12.2020 *CHF m*	References[1]
	Additional Tier 1 capital (AT1)		
30	Issued and paid in AT1 instruments, fully eligible	1,147.9	
32	*of which classified as liabilities under applicable accounting standards*	*1,147.9*	
36	**AT1 before adjustments**	**1,147.9**	
	Regulatory adjustments to AT1		
37	Net long positions in own AT1 instruments	-9.1	
43	**Total regulatory adjustments to AT1**	**-9.1**	
44	**Net AT1**	**1,138.8**	7
45	**Tier 1 capital (net T1 = net CET1 + net AT1)**	**4,296.3**	
	Tier 2 capital (T2)		
51	**T2 before adjustments**	**-**	
	Regulatory adjustments to T2		
52	Net long positions in own T2 instruments		
56	Additional adjustments (lumpsum amount and 45% of unrealised gains on financial assets measured at FVOCI)	133.5	
57	**Total regulatory adjustments to T2**	**133.5**	
58	**Net T2**	**133.5**	
59	**Regulatory capital (= net T1 + net T2)**	**4,429.7**	
	Risk-weighted assets (RWA)		
60	**Total RWA**	**21,120.7**	

[1] For the reconciliation of individual regulatory capital amounts with balance sheet positions, the reference numbers in the table above refer to reference numbers in table CC2.

[2] Row numbers according to the sample table enclosed in the FINMA circular 2016/1, annex 2, table CC1.

No.[2]		31.12.2020 *CHF m*	References[1]
	Capital ratios		
61	CET1 ratio (no. 29, as a percentage of risk-weighted assets)	14.9%	
62	T1 ratio (no. 45, as a percentage of risk-weighted assets)	20.3%	
63	Regulatory capital ratio (no. 59, as a percentage of risk-weighted assets)	21.0%	
64	CET1 requirements in accordance with Basel minimum standards (capital buffer + countercyclical buffer), as a percentage of risk-weighted assets	2.6%	
65	*of which capital conservation buffer*	*2.5%*	
66	*of which countercyclical buffer*	*0.1%*	
68	CET1 available to meet buffer requirements as per the Basel minimum standards, after deduction of CET1 to cover the minimum requirements, as a percentage of risk-weighted assets	10.4%	
68a	CET1 total requirement target in accordance with annex 8 of the CAO plus the countercyclical buffer (as a percentage of risk-weighted assets)	7.9%	
68b	of which countercyclical buffers as per art. 44 and art. 44a CAO (as a percentage of risk-weighted assets)	0.1%	
68c	CET1 available (as a percentage of risk-weighted assets)	14.9%	
68d	T1 total requirement in accordance with annex 8 of the CAO plus the countercyclical buffer (as a percentage of risk-weighted assets)	9.7%	
68e	T1 available (as a percentage of risk-weighted assets)	18.6%	
68f	Total requirement for regulatory capital in accordance with annex 8 of the CAO plus the countercyclical buffer (as a percentage of risk-weighted assets)	12.1%	
68g	Regulatory capital available (as a percentage of risk-weighted assets)	21.0%	
	Amounts below the thresholds for deduction (before risk-weighting)		
72	Non-qualified participations in the financial sector	198.4	
73	Other qualified participations in the financial sector	50.2	
75	Other deferred tax assets	5.4	8
	Applicable cap on the inclusion of provisions in T2		
76	Loss allowance eligible in T2 in the context of the SA-BIS approach	4.0	
77	Cap on inclusion of valuation adjustments in T2 in the context of SA-BIS approach	170.2	

[1] For the reconciliation of individual regulatory capital amounts with balance sheet positions, the reference numbers in the table above refer to reference numbers in table CC2.

[2] Row numbers according to the sample table enclosed in the FINMA circular 2016/1, annex 2, table CC1.

BALANCE SHEET RECONCILIATION

In 2020, the scope of consolidation used for the calculation of capital adequacy is identical to the one applied for accounting purposes. Note 30A in the Annual Report 2020 of the Group provides an overview of the Group's consolidated companies. In the table below, the line items of the balance sheet are expanded and referenced where relevant to display all components that are disclosed in the table as shown in the section 'Composition of capital'.

CC2: Reconciliation of regulatory capital to balance sheet

Consolidated balance sheet[1]	**31.12.2020** According to the financial statements *CHF m*	References[2]
Assets		
Cash	14,544.4	
Due from banks	6,085.7	
Cash collateral on securities borrowed	1,264.2	
Lombard loans	38,408.3	
Mortgages	8,799.3	
Financial assets measured at FVTPL	13,429.8	
Derivative financial instruments	2,562.3	
Financial assets designated at fair value	269.6	
Financial assets measured at FVOCI	13,796.4	
Investments in associates	21.2	
Property and equipment	580.5	
Goodwill and other intangible assets	2,637.4	
of which goodwill	*1,793.4*	*4*
of which other intangible assets	*843.9*	*5*
Accrued income and prepaid expenses	363.7	
Deferred tax assets	20.1	
of which deferred tax assets on loss carryforwards	*14.7*	*6*
of which deferred tax assets on temporary differences	*5.4*	*8*
Other assets	6,354.1	
Total assets	**109,137.0**	

[1] The balance sheet positions are presented in accordance with the sample table as shown in the FINMA circular 2016/1, annex 2, table CC2.

[2] For the reconciliation of individual balance sheet amounts, the reference numbers in the table above refer to the reference numbers in table CC1.

Consolidated balance sheet[1]	**31.12.2020** According to the financial statements *CHF m*	References[2]
Liabilities and equity		
Due to banks	4,753.3	
Cash collateral on securities lent	334.6	
Due to customers	77,784.5	
Financial liabilities measured at FVTPL	896.5	
Derivative financial instruments	2,554.6	
Financial liabilities designated at fair value	13,154.8	
Debt issued	1,478.2	
of which tier 1 bond issued 2016 (Basel III-compliant capital instrument)[3]	*221.7*	*7*
of which tier 1 bond issued 2017 (Basel III-compliant capital instrument)[3]	*265.5*	*7*
of which tier 1 bond issued 2019 (Basel III-compliant capital instrument)[3]	*348.5*	*7*
of which tier 1 bond issued 2020 (Basel III-compliant capital instrument)[3]	*303.2*	*7*
Accrued expenses and deferred income	688.0	
Current tax liabilities	209.8	
Deferred tax liabilities	74.5	
of which deferred tax liabilities on goodwill	*0.0*	
of which deferred tax liabilities on other intangible assets	*15.4*	*5*
Provisions	115.9	
Other liabilities	658.1	
Total liabilities	102,702.8	
Share capital	4.5	1
Retained earnings	6,931.9	2
Other components of equity	-106.1	3
Treasury shares	-404.7	
Equity attributable to shareholders of Julius Baer Group Ltd.	6,425.6	
Non-controlling interests	8.6	
Total equity	6,434.1	
Total liabilities and equity	**109,137.0**	

[1] The balance sheet positions are presented in accordance with the sample table as shown in the FINMA circular 2016/1, annex 2, table CC2.
[2] For the reconciliation of individual balance sheet amounts, the reference numbers in the table above refer to the reference numbers in table CC1.
[3] Details of material features of regulatory capital instruments are published in the Financial Reporting section of the Julius Baer website (www.juliusbaer.com/reporting).

GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES USED IN THE COUNTERCYCLICAL BUFFER

In the table below, the countercyclical buffer requirements are shown based on the jurisdictions in which the Group has private sector credit exposures subject to a countercyclical buffer requirement compliant with the Basel III standards.

CCyB1: Geographical distribution of credit exposures used in the countercyclical buffer

				31.12.2020
	a	c	d	e
Geographical breakdown	Countercyclical capital buffer rate	Risk-weighted assets used in the computation of the countercyclical buffer	Bank-specific countercyclical capital buffer rate	Countercyclical buffer amount
	%	*CHF m*	*%*	*CHF m*
Hong Kong	1.00	283.5		
Luxembourg	0.25	1,219.4		
Sum		1,502.9		
Total		5,603.5	0.11	21.9

LEVERAGE RATIO

INTRODUCTION

In addition to the requirement for banks to hold eligible capital proportionate to their risk-weighted assets, the leverage ratio is a non-risk-based metric, defined as the ratio between eligible Tier 1 capital and the total leverage exposure. The total exposure encompasses all balance sheet and off-balance sheet positions, and the FINMA circular 2015/03 'Leverage Ratio' defines how these are to be calculated. In accordance with FINMA Guidance 02/2020 and 06/2020, deposits held at central banks were temporarily excluded in 2020 from the leverage ratio exposure calculation, net of dividends distributed for the financial year 2019. The minimum ratio requirement is three percent.

COMPONENTS

The leverage ratio was 4.0% at the end of December 2020. The difference of the total exposures of CHF 107.2 billion (no. 8 in the following table) to the total on-balance sheet exposures of CHF 109.1 billion (no. 1) was CHF -1.9 billion. The difference is the sum of lines 2 to 7 in the following table. Other adjustments (no. 7) relate to deposits held at central banks temporarily excluded in 2020, net of dividends distributed for the financial year 2019.

LR1: Summary comparison of accounting assets versus leverage ratio exposure measure

No.		**31.12.2020** *CHF m*
1	Total assets as per published financial statements	109,137.0
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation (margin nos. 6-7 FINMA circular 15/3), as well as adjustment for assets deducted from Tier 1 capital (margin nos. 16-17 FINMA circular 15/3)	-2,924.5
3	Adjustment for fiduciary assets recognised on the balance sheet for accounting purposes, but excluded from the leverage ratio exposure measure (margin no. 15 FINMA circular 15/3)	
4	Adjustment for derivative financial instruments (margin nos. 21-51 FINMA circular 15/3)	3,052.2
5	Adjustment for securities financing transactions (SFTs) (margin nos. 52-73 FINMA circular 15/3)	263.0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures) (margin nos. 74-76 FINMA circular 15/3)	1,098.4
7	Other adjustments	-3,432.3
8	**Leverage ratio exposure**	**107,193.8**

LR2: Leverage ratio common disclosure

No.		31.12.2020 *CHF m*
	On-balance sheet exposures	
1	On-balance sheet items excluding derivatives and SFTs, but including collateral (margin nos. 14-15 FINMA circular 15/3)	101,878.2
2	Assets that must be deducted in determining the eligible tier 1 capital (margin nos. 7 and 16-17 FINMA circular 15/3)	-2,924.5
3	**Total on-balance sheet exposures, excluding derivatives and SFTs**	**98,953.7**
	Derivative exposures	
4	Replacement values associated with all derivatives transactions, including those with CCPs, taking into account the margin payments received and netting agreements in accordance with margin nos. 22-23 and 34-35 FINMA circular 15/3	3,343.7
5	Add-on amounts for PFE associated with all derivatives transactions (margin nos. 22 and 25 FINMA circular 15/3)	5,565.6
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework (margin no. 27 FINMA circular 15/3)	
7	Deduction of receivables assets for cash variation margin provided in derivatives transactions, in accordance with margin no. 36 FINMA circular 15/3.	-1,098.0
8	Deduction relating to exposures to QCCPs if there is no obligation to reimburse the client in the event of the QCCP defaulting (margin no. 39 FINMA circular 15/3)	-2,306.8
9	Adjusted effective notional amount of written credit derivatives, after deduction of negative replacement values (margin no. 43 FINMA circular 15/3)	110.1
10	Adjusted effective notional offsets of bought/written credit derivatives (margin nos. 44-50 FINMA circular 15/3) and add-on deductions for written credit derivatives (margin no. 51 FINMA circular 15/3)	
11	**Total**	**5,614.5**
	Securities financing transaction exposures	
12	Gross SFT assets with no recognition of netting (except in the case of novation with a QCCP as per margin no. 57 FINMA circular 15/3) including sale accounting transactions (margin no. 69 FINMA circular 15/3), less the items specified in margin no. 58 FINMA circular 15/3	1,264.2
13	Netted amounts of cash payables and cash receivables relating to SFT counterparties (margin nos. 59-62 FINMA circular 15/3)	-5.3
14	CCR exposure for SFT assets (margin nos. 63-68 FINMA circular 15/3)	268.3
15	Agent transaction exposures (margin nos. 70-73 FINMA circular 15/3)	
16	**Total**	**1,527.2**
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amounts before application of credit conversion factors	1,585.2
18	Adjustments for conversion to credit equivalent amounts (margin nos. 75-76 FINMA circular 15/3)	-486.8
19	**Total**	**1,098.4**
	Tier 1 capital and total exposure	
20	Tier 1 capital (margin no. 5 FINMA circular 15/3)	4,296.3
21	Total exposure	107,193.8
22	**Leverage ratio (margin nos. 3-4 FINMA circular 15/3)**	**4.0%**

LIQUIDITY COVERAGE RATIO

INTRODUCTION

The LCR provides banks with a metric to assist them in ensuring that they hold a sufficient quantity of highly liquid assets to enable them to withstand a short-term (30-day) company-specific stress situation which coincides with a period of general market stress. The management of the liquidity risks is described in the Annual Report 2020 of the Group in the section 'Treasury risk' (page 129f.).

LIQA: Management of liquidity risks

Pillar 3 disclosure requirement	Annual Report 2020 section	Disclosure	Annual Report 2020 page numbers
Governance of liquidity risk management, including: risk tolerance; structure and responsibilities for liquidity risk management; internal liquidity reporting; and communication of liquidity risk strategy	Comment on risk management	– Risk tolerance framework – Risk governance – Treasury risk	115-116 116-118 129-130
Funding strategy, including policies on diversification in the sources and tenor of funding, and whether the funding strategy is centralised or decentralised; liquidity risk mitigation techniques; an explanation of how stress testing is used; an outline of the contingency funding plans	Comment on risk management	– Treasury risk	129-130

COMPONENTS

In the following table, the LCR is disclosed as a 3-month average value per quarter. The total of the high-quality liquid assets (no. 1 in the following table) decreased in the fourth quarter compared to the previous quarter of 2020. Simultaneously, the total of net cash outflows (no. 22) slightly increased in the fourth quarter. The changes resulted in a lower LCR in Q4 2020 at 171.9% than in Q3 2020 at 177.9%, both of which were significantly above the regulatory required minimum ratio of 100% and risk tolerances defined internally.

LIQ1: Liquidity coverage ratio

		Q3 2020		Q4 2020	
		3-month average		3-month average	
		Unweighted value	Weighted value	Unweighted value	Weighted value
		CHF m	*CHF m*	*CHF m*	*CHF m*
No.					
A.	**High-quality liquid assets**				
	Cash and balances with central banks		17,634.7		16,014.2
	Securities category 1 and category 2		6,617.1		7,432.4
1	**Total**		**24,251.8**		**23,446.5**
B.	**Cash outflows**				
2	Retail deposits and deposits	40,494.9	5,604.6	40,989.8	5,709.9
3	*of which stable deposits*	*3,301.7*	*165.1*	*3,300.3*	*165.0*
4	*of which less stable deposits*	*37,193.1*	*5,439.5*	*37,689.5*	*5,544.9*
5	Unsecured wholesale funding	39,135.7	24,546.2	39,736.7	24,891.1
6	*of which operational deposits (all counterparties)*				
7	*of which non-operational deposits (all counterparties)*	*36,726.9*	*22,137.4*	*37,110.0*	*22,264.4*
8	*of which unsecured debt*	*2,408.8*	*2,408.8*	*2,626.8*	*2,626.8*
9	Secured wholesale funding		516.1		663.5
10	Additional cash outflows	4,095.4	3,757.7	4,000.1	3,669.8
11	*of which outflows related to derivatives and other transactions*	*3,628.6*	*3,628.6*	*3,545.1*	*3,545.1*
12	*of which outflows related to loss of funding on debt products*				
13	*of which committed credit and liquidity facilities*	*466.8*	*129.1*	*455.0*	*124.7*
14	Other contractual funding obligations	1,493.3	1,470.8	1,604.9	1,597.2
15	Other contingent funding obligations	12,067.2	126.5	11,918.6	121.1
16	**Total**		**36,021.9**		**36,652.7**
C.	**Cash inflows**				
17	Secured lending (e.g. reverse repurchase transactions)	1,477.2	345.6	1,988.2	566.0
18	Income from fully performing exposures	30,920.8	17,319.5	30,896.8	17,306.5
19	Other cash inflows	4,723.8	4,723.8	5,142.9	5,142.9
20	**Total**[1]	**37,121.7**	**22,388.9**	**38,027.8**	**23,015.4**
	Liquidity coverage ratio				
21	Total of high-quality liquid assets		24,251.8		23,446.5
22	Total net cash outflows		13,632.9		13,637.3
23	**Liquidity coverage ratio (in %)**		**177.9%**		**171.9%**

[1] After applying the cap on cash inflows at maximum 75% of total cash outflows, calculated on a monthly basis.

CREDIT RISK

This section includes items subject to the Basel credit risk framework. Information on counterparty credit risk arising from derivatives (OTC and ETD), securities financing transactions and long settlement transactions are shown in the section 'Counterparty credit risk', pages 33ff. Disclosures related to traditional securitisations held in the Group's banking book and regulatory capital on these exposures can be found in the section 'Securitisations', page 37f.

The tables in this section provide details on the exposures used to determine the credit risk-related regulatory capital requirement of the Group. The exposure information presented in this section may differ from our internal management view disclosed in the 'Comment on risk management' section of the Annual Report 2020 of the Group.

The section 'Credit risk' is structured into the four subsections

- Credit risk management: This subsection includes a reference to disclosures on the Group's risk management objectives and risk management process, organisational structure and risk governance.
- Credit quality of assets: This subsection includes information on the Group's credit risk exposures and credit quality of assets.
- Credit risk mitigation (CRM): This subsection provides a reference to disclosures on collateral evaluation and management. The subsection also discloses information on CRM techniques used to reduce credit risk for loans and debt securities.
- Credit risk under the standardised approach: This subsection includes information on the use of external credit assessment institutions (ECAI) to determine risk weightings applied to rated counterparties. In addition, the subsection provides quantitative information on credit risk exposures and the effect of CRM under the standardised approach.

CREDIT RISK MANAGEMENT

The table below presents an overview of credit risk disclosures separately provided in the Annual Report 2020 of the Group.

CRA: Credit risk: General information

Pillar 3 disclosure requirement	Annual Report 2020 section	Disclosure	Annual Report 2020 page numbers
Impact of the business model on the components of the bank's credit risk profile	Comment on risk management	– Credit risk	124-126
Criteria and approach used for defining credit risk management policy and for setting credit risk limits; structure and organisation of the credit risk management and control function; relationships between the credit risk management, risk control, compliance and internal audit functions	Comment on risk management	– Risk governance – Credit risk	116-118 124-126
Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors	Comment on risk management	– Group risk landscape – Stress testing – Risk reporting – Credit risk	120 121-122 122 124-126

The table below provides a breakdown of defaulted and non-defaulted loans, debt securities and off-balance sheet exposures.

CR1: Credit risk: Credit quality of assets

					31.12.2020
		a	b	c	d
			Gross carrying values	Value adjustments/ impairments	Net values (a+b-c)
		Defaulted exposures *CHF m*	Non-defaulted exposures *CHF m*	*CHF m*	*CHF m*
No.					
1	Loans (excluding debt securities)	156.2	66,770.2	81.9	66,844.4[1]
2	Debt securities		12,687.6		12,687.6[2]
3	Off-balance sheet exposures		1,788.4		1,788.4
4	**Total**	**156.2**	**81,246.2**	**81.9**	**81,320.4**

[1] Net values of loans include cash (after deduction of coins and notes of CHF 22.6 million), due from banks, Lombard loans, mortgages as well as financial assets designated at fair value (after deduction of non-loan positions of total CHF 17.4 million) disclosed in table LI1 in the column subject to credit risk framework.

[2] Net values of debt securities include financial assets measured at FVOCI plus debt securities in trading assets allocated to credit risk framework of CHF 17.1 million minus securitisation positions, equity and investment funds of total CHF 1,125.9 million.

With regard to table CR2: The changes in stock of impaired loans is provided in the Annual Report 2020 of the Group, pages 189ff.

CREDIT QUALITY OF ASSETS

The table below presents an overview of disclosures regarding the credit quality of assets separately provided in the Annual Report 2020 of the Group.

CRB: Credit risk: Additional disclosure related to the credit quality of assets

Pillar 3 disclosure requirement	Annual Report 2020 section	Disclosure	Annual Report 2020 page numbers
The scope and definitions of 'past due' and 'impaired' exposures used for accounting purposes and any differences with respect to 'past due' and 'defaulted' for regulatory purposes	Additional information	– Expected credit losses (Note 27A)	183-186[1]
	Comment on risk management	– Credit risk	124-126
The extent of past due exposures (more[2] than 90 days) that are not considered to be impaired and the reasons for this			
Description of methods used for determining impairments	Summary of significant accounting policies	– Accounting policies	108-109
	Additional information	– Expected credit losses	183-186
Ageing analysis of accounting[2] past due exposures			

[1] There is no different treatment under accounting and regulatory approach.
[2] Past due exposures are considered as impaired exposures.

Additional quantitative disclosures related to the credit quality of assets

According to the description of table 'CRB' in the FINMA circular 2016/1 'Disclosure – banks', annex 2, additional quantitative tables with breakdowns of exposures by sectors, geographical area and residual maturity are disclosed on the following pages. The carrying values of individual balance sheet items are shown including credit risk, counterparty credit risk and securitisations positions as separately disclosed in the table LI1, page 10.

In the following table the counterparty industry code serves as the basis for the sector breakdown. For the secured portion of the exposures, however, the sector is either given by the industry code of the issuer of the financial collateral or the guarantor. The column labeled 'Other' is used to disclose securities issued by companies outside the financial sector. These consist partly of investment positions of the Group which are reported on the balance sheet as financial assets measured at FVOCI and partly of the portion of the exposure collateralised by securities issued by companies outside the financial sector.

CRB: Breakdown of exposures by sectors

					31.12.2020
	Government and agencies *CHF m*	Financial institutions *CHF m*	Private clients *CHF m*	Other *CHF m*	**Total** *CHF m*
Due from banks	8.4	4,972.1		44.8	**5,025.4**
Lombard loans	525.6	12,097.1	14,838.6	10,940.7	**38,402.1**
Mortgages	18.0	250.0	7,564.3	969.1	**8,801.4**
Financial assets designated at fair value		252.2		17.4	**269.6**
Financial assets measured at FVOCI	5,838.2	6,229.5		1,728.6	**13,796.4**
Investments in associates		21.2			**21.2**
Derivative financial instruments	24.2	3,490.2	1,638.6	324.4	**5,477.4**
Contingent liabilities	10.4	249.9	496.9	120.3	**877.5**
Irrevocable commitments	4.2	128.9	79.4	9.0	**221.5**
Securities lending and repo transactions	27.7	3,722.0	2.0	45.4	**3,797.1**
Total	6,456.9	31,413.3	24,619.7	14,199.8	**76,689.7**

In the following table the counterparty domicile serves as the basis for the geographical breakdown. For the secured portion of the credit, however, geographical allocation is either given by the domicile of the issuer of the financial collateral or the guarantor.

CRB: Breakdown of exposures by geographical area

						31.12.2020
	Switzerland *CHF m*	Europe *CHF m*	Americas *CHF m*	Asia/Pacific *CHF m*	Other countries *CHF m*	**Total** *CHF m*
Due from banks	2,493.8	1,678.9	274.9	542.4	35.5	**5,025.4**
Lombard loans	1,918.6	13,643.2	12,936.3	8,746.7	1,157.4	**38,402.1**
Mortgages	5,167.1	3,381.7	93.2	154.8	4.5	**8,801.4**
Financial assets designated at fair value	252.2			17.4		**269.6**
Financial assets measured at FVOCI	807.7	3,997.8	3,170.2	5,112.2	708.5	**13,796.4**
Investments in associates				21.2		**21.2**
Derivative financial instruments	1,639.3	2,248.5	1,124.8	314.9	149.9	**5,477.4**
Contingent liabilities	103.4	333.9	320.1	93.0	27.1	**877.5**
Irrevocable commitments	120.0	46.5	42.9	11.5	0.6	**221.5**
Securities lending and repo transactions	773.3	2,936.4	76.7	10.6	0.1	**3,797.1**
Total	13,275.3	28,267.0	18,039.0	15,024.8	2,083.6	**76,689.7**

The table below provides a breakdown of exposures by residual maturity. Residual maturity is presented based on contract end dates and does not include potential early redemption features.

CRB: Breakdown of exposures by maturity

	Due within 1 year *CHF m*	Due within 1 to 5 years *CHF m*	Due after 5 years *CHF m*	**31.12.2020** **Total** *CHF m*
Due from banks	5,005.3	20.1		**5,025.4**
Lombard loans	36,027.4	1,208.8	1,166.0	**38,402.1**
Mortgages	4,986.7	2,510.1	1,304.5	**8,801.4**
Financial assets designated at fair value			269.6	**269.6**
Financial assets measured at FVOCI	5,690.1	6,708.4	1,397.8	**13,796.4**
Investments in associates			21.2	**21.2**
Derivative financial instruments	4,733.3	685.5	58.6	**5,477.4**
Contingent liabilities	214.5	188.8	474.2	**877.5**
Irrevocable commitments	38.7	27.8	155.0	**221.5**
Securities lending and repo transactions	3,797.1			**3,797.1**
Total	60,493.1	11,349.5	4,847.0	**76,689.7**

Impaired loans

Impaired loans are disclosed in the Annual Report 2020 of the Group (pages 187-191).

Restructured exposures

Any credit facility requiring restructuring is assessed on an individual basis and individual provisions are booked if required. The main goal of such restructuring actions is to avoid the client's default and to minimise the loss potential for the Group. Typical terms and conditions offered in case of restructuring may be postponed payments of interest or principal, adjusted interest rates or the modification of the repayment schedule.

Any facility which is in a restructuring process is classified as impaired and provisions are made to cover foregone interest and potential losses. Special conditions granted to clients without the need to preserve them from default are not considered as restructuring measures. As at 31 December 2020, the Group had restructured exposure of CHF 26 million (net of provisions) outstanding, of which all impaired.

CREDIT RISK MITIGATION

The table below presents an overview of Pillar 3 disclosures separately provided in the Annual Report 2020 of the Group.

CRC: Credit risk: Qualitative disclosure requirements related to mitigation techniques

Pillar 3 disclosure requirement	Annual Report 2020 section	Disclosure	Annual Report 2020 page numbers
Core features of policies and processes for on- and off-balance sheet netting, and an indication of the extent to which the bank makes use of such netting	Comment on risk management	– Credit risk	124-126
	Note 27D Financial instruments	– Financial instruments Offsetting	194
Core features of policies and processes for collateral evaluation and management; information about market or credit risk concentrations under the credit risk mitigation instruments used (i.e. by guarantor type, collateral and credit derivative protection providers)	Comment on risk management	– Credit risk	124-126

MITIGATION CREDIT RISK UNDER THE STANDARDISED APPROACH

Approaches used for calculating required capital for credit risk

For calculating the required capital for credit risk, the Group uses the BIS standardised approach (SA-BIS) according to the Swiss Capital Adequacy Ordinance (CAO). In the CAO and the circulars referred to therein, the calculation procedures are described in detail. In addition, the following subsidiary approaches are used to calculate the required capital for credit risk:

- Collateral is handled under the comprehensive approach, which means that the credit position is netted against the collateral provided. This takes into account add-ons or haircuts on the receivable and the collateral to reflect possible changes in value based on market developments. The resulting net unsecured position remains in the original position category and is risk-weighted according to the criteria applicable to this category.
- Lombard loans are also treated under the comprehensive approach described above.
- The regulatory standard haircuts are used for eligible collateral under the comprehensive approach.

The table below provides a breakdown of unsecured and partially or fully secured exposures, including security type, for the categories loans and debt securities.

CR3: Credit risk: Overview of mitigation techniques[1]

		a	b1	b	d	**31.12.2020** f
		Exposures unsecured/ carrying amount *CHF m*	Exposures partially or fully secured/ carrying amount *CHF m*	Exposures secured by collateral *CHF m*	Exposures secured by financial guarantees *CHF m*	Exposures secured by credit derivatives *CHF m*
No.						
1	Loans excluding debt securities[1]	17,731.8	49,112.6	44,679.8	870.4	
2	Debt securities[1]	12,030.9	656.7	133.3	523.5	
3	**Total assets**	**29,762.7**	**49,769.3**	**44,813.0**	**1,393.9**	**-**
4	*of which: defaulted*	*4.2*	*74.1*	*58.4*		

[1] The total amounts of loan and debt exposures of columns a and b1 are in line with the amounts of exposure on table CR1 in column d, no. 1 and no. 2.

The table below illustrates the effect of credit risk mitigation on the calculation of capital requirements under the standardised approach.

CR4: Credit risk: Exposure and credit risk mitigation (CRM) effects under the standardised approach

		a	b	c	d	e	**31.12.2020** f
	Exposure classes	Exposures before CCF[1] and CRM		Exposures post CCF[1] and CRM			
		On-balance sheet amount *CHF m*	Off-balance sheet amount *CHF m*	On-balance sheet amount *CHF m*	Off-balance sheet amount *CHF m*	RWA *CHF m*	RWA density *in %*
No.							
1	Central governments and central banks	21,300.6	6.0	21,974.6	3.0	42.0	0.2
2	Banks and securities firms	9,049.6	68.7	5,909.1	56.4	1,702.6	28.5
3	Other public sector entities and multilateral development banks	926.9	51.9	437.8	26.0	70.0	15.1
4	Corporates	7,282.8	412.5	4,860.3	116.4	2,856.0	57.4
5	Retail	43,361.7	1,249.3	11,229.8	95.2	6,742.0	59.5
6	Equity	311.2		120.3		180.5	150.0
7	Other exposures[2]	606.0		606.0		583.4	96.3
8	**Total**	**82,838.8**	**1,788.4**	**45,138.0**	**296.9**	**12,176.5**	**26.8**

[1] Credit conversion factors (CCF).
[2] Of which non-counterparty credit risk position of CHF 580.5 million.

Use of external ratings

The standardised approach requires banks to use, where possible, risk assessments prepared by external credit assessment institutions (ECAI) or export credit agencies to determine the risk weightings applied to rated counterparties. The Group uses FINMA-recognised ECAI risk assessments to determine the risk weight for certain counterparties according to the BIS defined exposure segments.

The Group uses three FINMA-recognised ECAI for this purpose: Moody's Investors Service, Standard & Poor's and Fitch Ratings. The mapping of external ratings to the standardised approach risk weights is determined by FINMA and published on its website.

The Group risk-weights debt instruments in accordance with the specific issue ratings available. In case there is no specific issue rating published by the ECAI, the issuer rating is applied to the senior unsecured claims of that issuer subject to the conditions prescribed by FINMA.

CRD: Credit risk: Qualitative disclosures of banks' use of external credit ratings under the standardised approach

		31.12.2020		
		External credit rating equivalent		
No.		Moody's Investors Service	Standard & Poor's	Fitch
1	Central governments and central banks	X	X	X
2	Banks and securities firms	X	X	X
3	Other public sector entities and multilateral development banks	X	X	X
4	Corporates	X	X	X
5	Retail			
6	Equity			
7	Other exposures			

CR5: Credit risk: Exposures by exposure category and risk weights under the standardised approach

											31.12.2020
		a	b	c	d	e	f	g	h	i	j
	Risk weights	0% *CHF m*	10% *CHF m*	20% *CHF m*	35% *CHF m*	50% *CHF m*	75% *CHF m*	100% *CHF m*	150% *CHF m*	Other *CHF m*	Total credit exposures amount (post CCF and CRM) *CHF m*
No.											
	Asset classes										
1	Central governments and central banks	21,774.8		198.0		4.8		0.0			21,977.6
2	Banks and securities firms			4,385.3		1,509.7		70.1	0.4		5,965.5
3	Other public sector entities and multilateral development banks	181.5		237.5		44.4		0.3			463.8
4	Corporates			1,183.1	190.2	2,105.9	2.9	1,488.9	5.7	0.0	4,976.7
5	Retail				6,838.4		559.1	3,924.0	3.5		11,325.0
6	Equity							0.1	120.2		120.3
7	Other exposures	22.6						583.4			606.0
8	**Total**	**21,978.9**	**-**	**6,003.9**	**7,028.6**	**3,664.8**	**562.0**	**6,066.8**	**129.8**	**0.0**	**45,434.9**[1]
9	*of which mortgages*				*6,993.0*		*138.5*	*497.4*	*2.6*		*7,631.6*

[1] The total credit exposures amount (post CCF and CRM) is in line with the sum of the credit exposure amounts in table CR4, no. 8, columns c and d.

COUNTERPARTY CREDIT RISK

Counterparty credit risk (CCR) exposures include over-the-counter (OTC) and exchange-traded derivatives (ETDs), securities financing transactions (SFTs) and long-settlement transactions.

COUNTERPARTY CREDIT RISK MANAGEMENT

The table below presents an overview of counterparty credit risk disclosures separately provided in the Annual Report 2020 of the Group.

CCRA: Counterparty credit risk: Qualitative disclosure

Pillar 3 disclosure requirement	Annual Report 2020 section	Disclosure	Annual Report 2020 page numbers
The method used to assign the operating limits defined in terms of internal capital for counterparty credit exposures and for CCP exposures; policies relating to guarantees and other risk mitigants and assessments concerning counterparty risk, including exposures towards CCPs	Comment on risk management	– Credit risk	124-126
Policies with respect to wrong-way risk exposures; the impact in terms of the amount of collateral that the bank would be required to provide given a credit rating downgrade	Comment on risk management	– Credit risk	124-126

Approaches used for calculating required capital for counterparty credit risk

For calculating the required capital for counterparty credit risk, the Group uses the standardised approach SA-BIS according to the Swiss Capital Adequacy Ordinance (CAO). In the CAO and the circulars referred to therein, the calculation procedures are described in detail. Particularly to mention are the following sub approaches used to calculate the required capital for counterparty credit risk:

- To calculate the credit equivalent for derivative positions, the Group applies the standardised approach for counterparty credit risk (SA-CCR). Under SA-CCR the credit equivalent is the sum of the current replacement costs and the potential future exposure multiplied by a factor of 1.4. Netting agreements in this context have to fulfil the conditions as defined in the FINMA circular 2017/7.
- Securities lending, repo and repo-style transactions are handled in accordance with the comprehensive approach, under which capital is required to cover the difference between the two legs of individual transactions subject to regulatory haircuts.

CCR1: Counterparty credit risk: Analysis by approach

							31.12.2020
		a	b	c	d	e	f
No.		Replacement cost *CHF m*	Potential future exposure *CHF m*	EEPE *CHF m*	Alpha used for computing regulatory EAD *CHF m*	EAD post CRM *CHF m*	RWA *CHF m*
1	SA-CCR (for derivatives)[1]	1,842.0	1,852.4		1.4	2,983.8	878.3
4	Comprehensive approach for risk mitigation (for SFTs)					574.9	134.3
6	**Total**						**1,012.6**

[1] SA-CCR has been implemented effective 1 January 2020.

– In addition to the default risk, the Group is required to capitalise the credit valuation adjustment (CVA) risk of derivatives which is defined as the risk of mark-to-market losses associated with the deterioration of counterparty credit quality.

The standardised CVA approach has been used to calculate CVA capital requirements. The portfolio subject to the CVA capital charge as at 31 December 2020 is shown in the table below.

CCR2: Counterparty credit risk: Credit valuation adjustment (CVA) capital charge

			31.12.2020
		a	b
No.		EAD post CRM *CHF m*	RWA *CHF m*
	Total portfolios subject to the advanced CVA capital charge		
1	VaR component (including the three-times multiplier)		
2	SVaR component (including the three-times multiplier)		
3	All portfolios subject to the standardised CVA capital charge	1,696.0	302.9
4	**Total**	**1,696.0**	**302.9**

CCR3: Counterparty credit risk: Standardised approach to CCR exposures by exposure category and risk weights

31.12.2020

		a	b	c	d	e	f	g	h	i
	Risk weight	0% *CHF m*	10% *CHF m*	20% *CHF m*	50% *CHF m*	75% *CHF m*	100% *CHF m*	150% *CHF m*	Other *CHF m*	Total credit exposure *CHF m*
No.										
1	Central governments and central banks	15.4								15.4
2	Banks and securities firms	671.0		1,784.2	842.0		26.3	0.0		3,323.5
3	Other public sector entities and multilateral development banks									-
4	Corporates			4.1	1.1		95.5			100.7
5	Retail					30.5	88.7			119.1
6	Equity									-
7	Other exposures									-
8	**Total**	**686.4**	**-**	**1,788.3**	**843.2**	**30.5**	**210.5**	**0.0**	**-**	**3,558.8**

CCR5: Counterparty credit risk: Composition of collateral for CCR exposure

31.12.2020

	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated *CHF m*	Unsegregated *CHF m*	Segregated *CHF m*	Unsegregated *CHF m*	*CHF m*	*CHF m*
Cash – CHF		27.3		252.0	9.1	-
Cash – other currencies		100.0		798.4	326.4	1,264.2
Swiss Confederation sovereign debt			31.7	54.7	58.4	
Other sovereign debt			899.9	401.7	1,749.3	556.2
Government and agency debt			20.7	16.5	15.3	47.8
Corporate bonds			32.8	2.2	192.5	586.8
Equity securities			83.9		795.8	787.9
Other collateral					146.5	352.8
Total	**-**	**127.3**	**1,069.0**	**1,525.4**	**3,293.4**	**3,595.7**

CCR6: Counterparty credit risk: Credit derivatives exposures

		31.12.2020
	a	b
	Protection bought *CHF m*	Protection sold *CHF m*
Notionals		
Single-name CDSs	68.6	41.5
Index CDSs		
Total return swaps	839.0	44.9
Credit options		
Total notionals	**907.6**	**86.4**
Fair values		
Positive replacement value (asset)	10.6	0.6
Negative replacement value (liability)	36.2	0.4

CCR8: Counterparty credit risk: Exposures to central counterparties

			31.12.2020
		a	b
		EAD post CRM *CHF m*	RWA *CHF m*
No.			
1	Exposures to QCCPs (total)		127.3
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions)	1,001.3	20.0
3	*of which OTC derivatives*	*28.3*	*0.6*
4	*of which exchange-traded derivatives*	*973.0*	*19.5*
5	*of which SFTs*		
6	*of which netting sets where cross-product netting has been approved*		
7	Segregated initial margin	345.4	
8	Non-segregated initial margin		
9	Pre funded default fund contributions	54.6	107.3
10	Unfunded default fund contributions		

SECURITISATIONS

The following disclosures refer to traditional securitisations held in the Group's banking book and regulatory capital on these exposures calculated according to the Basel framework for securitisations. The Group invests in securitisation-related products created by third parties referencing different types of underlying assets.

The Group has in place a comprehensive risk management process whereby the front office and risk management monitor positions, portfolio structure and trading activities, and calculate interest rate risk and credit risk sensitivities on a daily basis.

The Group has risk limits for the purpose of managing the Group's risk appetite framework in relation to securitisation exposures.

The Group holds only traditional securitisation exposures in the banking book at the end of December 2020. We apply the external ratings-based approach using ratings from Moody's Investors Service, Standard & Poor's and Fitch Ratings for all securitisation exposures.

The securitisation positions in the banking book are measured at fair value reflecting their market price.

SEC1: Securitisations: Exposures in the banking book

							31.12.2020	
		a/e	b/f	c/g	i	j	k	
		Bank acts as originator and/or sponsor			Bank acts as investor			
		Traditional *CHF m*	Synthetic *CHF m*	Subtotal *CHF m*	Traditional *CHF m*	Synthetic *CHF m*	Subtotal *CHF m*	
No.								
1	Retail (total)				452.4		452.4	
2	*of which residential mortgages*				*202.8*		*202.8*	
3	*of which credit card*				*76.8*		*76.8*	
4	*of which other retail exposures*				*172.8*		*172.8*	
5	*of which re-securitisation*							
6	Wholesale (total)				400.6		400.6	
7	*of which loans to corporates*				*400.6*		*400.6*	
8	*of which commercial mortgages*							
9	*of which lease and receivables*							
10	*of which other wholesale*							
11	Re-securitisation							
12	**Total exposure**	**-**	**-**	**-**	**853.0**	**-**	**853.0**	

SEC4: Securitisations: Exposures in the banking book and associated capital requirements – bank acts as investor

31.12.2020

		a	b	c	d	e	g[1]	h	i	k[1]	l	m	o[1]	p	q
					Exposure values (by RWA bands)			Exposure values (by regulatory approach)			RWA (by regulatory approach)			Capital charge after cap	
		<= 20%	>20% to 50%	>50% to 100%	>100% to <1250%	1250%	SEC-ERBA	SEC-SA	1250%	SEC-ERBA	SEC-SA	1250%	SEC-ERBA	SEC-SA	1250%
No.	*CHF m*														
1	**Total**	**853.0**	**-**	**-**	**-**	**-**	**853.0**	**-**	**-**	**85.5**	**-**	**-**	**6.8**	**-**	**-**
2	Traditional securitisation	853.0					853.0			85.5			6.8		
3	*of which securitisation*	853.0					853.0			85.5			6.8		
4	*of which retail underlying*	452.4					452.4			45.5			3.6		
5	*of which wholesale*	400.6					400.6			40.1			3.2		
6	*of which re-securitisation*														

[1] Not shown above are the columns f, j and n, which have to be used for the SEC-IRBA approach.

MARKET RISK

OVERVIEW OF APPLIED METHODS AND MANAGEMENT OF MARKET RISK

The amount of capital required for market risk in the regulatory trading book is calculated using a variety of methods approved by FINMA. The components of market risk RWA are value at risk (VaR) and stressed VaR (SVaR). For hedge funds held in the trading book, the required capital is calculated according to the simplified approach for investments in collective assets. The required capital of the Group's fixed income trading positions is calculated according to the market risk standardised approach. Therefore, the incremental risk charge (IRC) is not applicable. The comprehensive risk measure (CRM) capital charge requirements are also not applicable, as the Group does not engage in trading of multi-risk tranche securitisation positions or nth-to-default credit derivatives. More information on each of these applicable components is detailed in the following pages.

The table below presents an overview of Pillar 3 disclosures including the management of market risk separately provided in the Annual Report 2020 of the Group.

MRA: Market risk: Qualitative disclosure requirements

Pillar 3 disclosure requirement	Annual Report 2020 section	Disclosure	Annual Report 2020 page numbers
Strategies and processes of the bank for market risk	Comment on risk management	– Risk governance – Market risk	116-118 127-128
Structure and organisation of the market risk management function; scope and nature of reporting and measurement systems	Comment on risk management	– Market risk	127-128

The table below illustrates the required capital for the fixed income trading positions.

MR1: Market risk: Minimum capital requirements under standardised approach

No.		31.12.2020 RWA *CHF m*
	Outright products	
1	Interest rate risk (specific)	726.6
2	Equity risk (general and specific)	
3	Foreign exchange risk	
4	Commodity risk	
	Options	
5	Simplified approach	
6	Delta-plus method	
7	Scenario approach	
8	Securitisation	
9	**Total**	726.6

The table below presents an overview of Pillar 3 disclosures regarding the use of the internal model approach separately provided in the Annual Report 2020 of the Group.

MRB: Market risk: Qualitative disclosures for banks using the internal model approach (IMA)

Pillar 3 disclosure requirement	Annual Report 2020 section	Disclosure	Annual Report 2020 page numbers
Description of activities and risks covered by the VaR models and stressed VaR models; general description of VaR and stressed VaR models; description of back testing approach	Comment on risk management	– Note 28 Market risk	195-197
Description of stress testing applied to modelling parameters	Comment on risk management	– Market risk	127-128

[1] See also descriptions to VaR and stressed VaR on the following pages.

The following table shows the VaR and SVaR flow statement of the market risk Basel III RWA. The RWA have decreased, mainly driven by lower risk levels.

MR2: Market risk: RWA flow statements of market risk exposures under an IMA

							31.12.2020
		a	b	c	d	e	f
		VaR	SVaR	IRC	CRM	Other	Total RWA
		CHF m	*CHF m*	*CHF m*	*CHF m*	*CHF m*	*CHF m*
No.							
1	RWA at 30.06.2020	172.0	326.7				498.8
2	Movement in risk levels	7.4	-90.9				-83.5
3	Model updates/changes						
4	Methodology and policy						
5	Acquisitions and disposals						
6	Foreign exchange movements						
7	Other	-25.2					-25.2
8	RWA at end of reporting period	154.2	235.8				390.1

The following table shows minimum, maximum, average and period-end regulatory VaR and SVaR, using a 10-day holding period and a confidence interval of 99%.

MR3: Market risk: IMA values for trading portfolios

No.		31.12.2020 *CHF m*
	VaR (10-day, 99%)	
1	Maximum value	16.5
2	Average value	3.6
3	Minimum value	0.0
4	Period end	5.7
	Stressed VaR (10-day, 99%)	
5	Maximum value	20.8
6	Average value	6.1
7	Minimum value	0.7
8	Period end	4.0

VALUE AT RISK

VaR definition

VaR measures the magnitude of the loss on a portfolio that, under normal circumstances and for a specific probability (confidence interval), will not be exceeded during the observed holding period. VaR is calculated on a daily basis, using a historical simulation approach, taking into account a 300-days historic period of time with equally weighted observations. For all days within the historic period of time, the changes of all relevant valuation parameters (risk factors) are observed. These risk factor changes are applied to the parameters currently used for valuation. A re-pricing of the current positions using the newly obtained parameters leads to a set of profit-and-loss scenario results. Whenever possible, the profit-and-loss scenario results are obtained by a full re-pricing of the financial instruments. If no suitable model for the financial instrument is available, the re-pricing is based on the current instrument's price plus a price shift calculated by using the instrument's sensitivities to changes of the risk factors. After ordering the profit-and-loss scenario results by value and given the chosen confidence level, the VaR figure is the scenario result that corresponds to the confidence level.

The market risks are being calculated using statistics of the risk factors that mainly influence the price of the positions. Wherever possible, the Group refrains from making simplifying mappings on general market risk factors, such as, but not limited to, equity indices. Instead, the Group makes every effort to measure all risks based on risk factors that best model the individual positions. For derivative positions, historical changes of implied volatilities derived from their respective volatility surfaces are used. If not available, historical relative changes of the underlying instrument prices are used to derive time series of changes in their historical volatility. These changes are applied to the current implied volatilities. The risk from the issuer-specific valuation component of credit risk bearing fixed-income positions is modelled by a so-called 'structural' model. The price of a position is being partitioned into a general yield curve component and a fixed-income-specific component. The risk from the general yield curve component is modelled in the usual way (the risk factors being the observable vertices of the yield curve). The specific risk component is modelled by assuming that the bond-specific price component represents the present value of expected loss due to defaults of the bond. The expected loss is a function of the quantity loss given default

and the cumulative probability of default. The model further assumes that a default event occurs when the asset value of the firm falls below a certain threshold. As a result from applying the historical simulation approach, correlation is taken into account implicitly, without having to draw on calculations and assumptions based on a correlation matrix.

A single VaR model for both internal management purposes and determining market risk regulatory capital requirements is used, although different confidence intervals and time horizons are considered. For internal management purposes, risk limits and exposure measures are established using VaR at the 95% confidence interval with a one-day holding period, aligned to the way risks associated with the trading activities are considered. The regulatory measure of market risk used to underpin the market risk capital requirement according to Basel III requires a measure equivalent to a 99% confidence level using a 10-day holding period.

Additionally, the population of the portfolio within management and regulatory VaR is slightly different. The population within regulatory VaR meets minimum regulatory requirements. Management VaR includes a broader population of positions, for example portfolios with hedge fund exposures, which are treated according to banking book rules for regulatory reporting.

SVaR is also used for the calculation of regulatory capital. SVaR adopts broadly the same methodology as regulatory VaR and is calculated using the same population, holding period (10-day) and confidence level (99%). However, unlike regulatory VaR, the historical data set for SVaR is not limited to the recent 300 days, but a time period of 300 days is chosen out of the recent fourteen years of history which has a significant stress impact for the current portfolio.

All entities of the Group apply the same methodologies to measure market risks in trading books.

Derivation of VaR- and SVaR-based RWA

The following table shows the VaR and SVaR components of the market risk Basel III RWA:

Calculation of VaR- and SVaR-based RWA

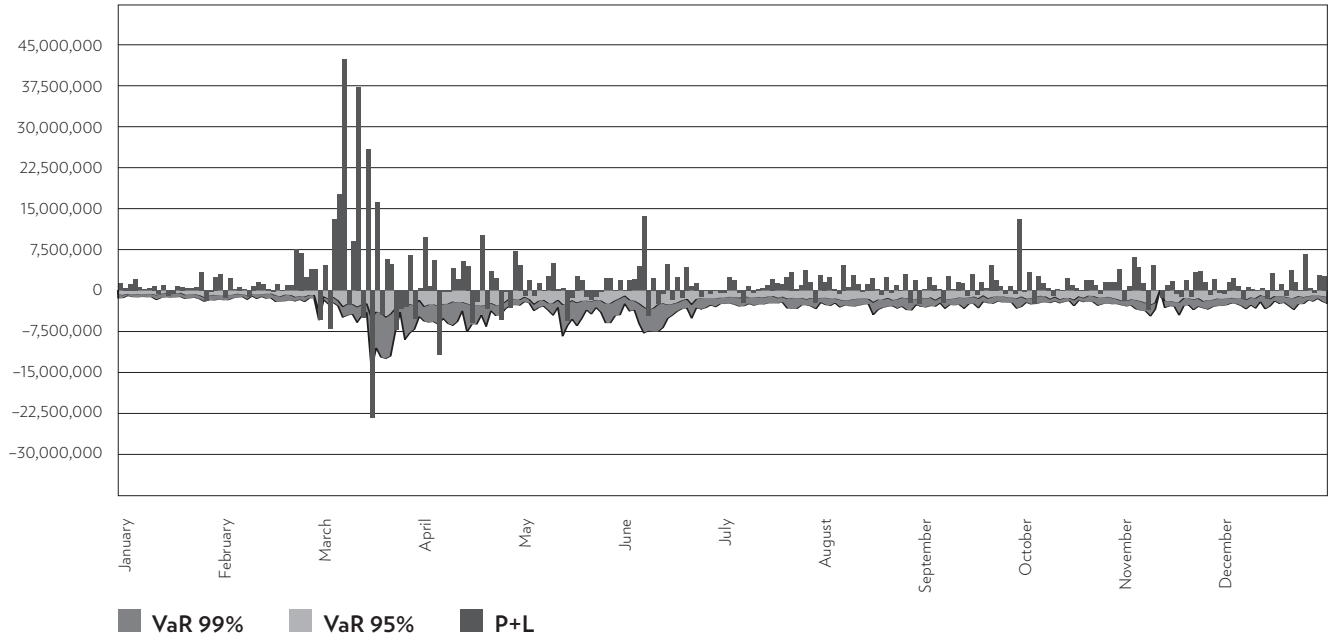
						31.12.2020
	Period-end VaR (A)	60-day average VaR (B)	VaR multiplier (C)	Max (A, B x C) (D)	Risk weight factor (E)	Basel III RWA (D x E) (F)
CHF m						
VaR (10-day, 99%)	5.7	3.9	3.2	12.3	1250%	154.2
SVaR (10-day, 99%)	4.0	5.9	3.2	18.9	1250%	235.8

This calculation takes the higher of the respective period-end VaR measure and the average VaR measure for the 60 trading days immediately preceding the period end, multiplied by a VaR multiplier set by FINMA. The VaR multiplier, which was 3.2 as at 31 December 2020, is dependent upon the number of VaR back-testing exceptions within a 250-business day window. When the number of exceptions is greater than four, the multiplier increases gradually. The maximum VaR multiplier is four, if ten or more back-testing exceptions occur. This is then multiplied by a risk weight factor of 1,250% to determine RWA.

COMPARISON OF VAR ESTIMATES WITH GAINS/LOSSES (PILLAR 3 TEMPLATE MR4)

The adequacy of the VaR calculation, which is based on historical market movements, is monitored through regular back-testing. This involves the comparison of the VaR values calculated each day with the hypothetical gains or losses which would have occurred if the end-of-day positions had been left unchanged on the next trading day. The following chart shows the daily calculations of VaR in 2020 (at confidence intervals of 95% and 99% and for a one-day holding period) compared with these hypothetical gains or losses. A back-testing exception occurs when the change in overall position value resulting from the back-testing simulation is negative and its absolute value is greater than the VaR (at a confidence interval of 99%) for the relevant day's closing positions.

Back testing of Julius Baer Group trading book positions in 2020 (CHF)



At the beginning of 2020, the preceding 12-month period contained one back-testing exception that fell out of the observation period during the course of 2020. During the COVID-19 pandemic additional six back-testing exceptions were registered. The drivers for all six exceptions were exceptional market movements in terms of equity prices and volatilities, which were extreme compared to what the Group has experienced over the last 12 months. In November an additional exception was recorded due to a technical issue in data delivery from a front office trading system. As of 31 December 2020, the overall number of back-testing exceptions stands therefore at seven.

According to circular 2008/20, FINMA may disregard individual exceptions if the institution is able to prove that these exceptions are not attributable to a lack of precision of the risk aggregation model. FINMA has used this discretion according to FINMA Guidance 06/2020 so that the back-testing exceptions caused by the COVID-19 pandemic will not lead to an increase of VaR capital multipliers. As such, the VaR capital multiplier applied by the Group remained constant based on one exception for the 12-month period since 31 December 2019.

INTEREST RATE RISK IN THE BANKING BOOK

INTRODUCTION

Interest rate risk in the banking book (IRRBB) arises from balance sheet positions such as due to customers, debt issued, Lombard loans, mortgages, financial assets measured at FVOCI, and certain financial assets and liabilities designated at fair value which are sensitive to changes in interest rates.

IRRBBA: QUALITATIVE DISCLOSURE REQUIREMENTS

The general principles of risk management are explained in the Annual Report 2020 of the Group, pages 115ff. The main characteristics of Julius Baer Group's interest rate risk management are fully described in the Annual Report 2020, section Treasury risk, page 129f.

IRRBB measures (Economic Value of Equity [EVE] and Net Interest Income [NII]) are calculated daily and monthly as part of the monthly closing process. Subsequently, these measures are referred to as standard scenarios.

The change in the economic value (ΔEVE) is calculated according to the standard scenarios in the FINMA circular 2019/2. Further, the Group measures the change in economic value with an institute-specific scenario, which is based on an instantaneous, parallel interest rate shock of +100 bp for all currencies. In addition to the fixed rate exposure, the modelled client deposits and the modelled equity position (in contrast to the standard scenarios) are also taken into account for the institute-specific sensitivity analysis. Risk tolerances are set by the Board of Directors for both the standard scenarios as well as for the institute-specific scenario. Exposure is measured daily versus these risk tolerances.

For the calculation of the change in net interest income (ΔNII), the Group makes the following assumptions:

- static balance sheet;
- constant client margins on rollover; and
- immediate, parallel interest rate shocks (up and down).

The scenario specific for the JBG therefore deviates from the standard as follows:

- interest rate shift of +100 bp for all currencies; and
- inclusion of the modelled equity position in terms of an investable equity modelled with a one year constant maturity.

The reasons for these divergences are:

- the explanatory power of the changes across currencies is increased;
- the historical comparability persists; and
- a duration is assigned to the equity.

Net interest rate risk resulting out of the client business is managed mostly through financial investments and interest rate swaps. Further information can be found in the section Fair value hedges of interest rate risk of the Annual Report 2020, page 199.

The main modelling assumptions and calculation parameters for table IRRBBA1 and IRRBB1 are:

- the calculation of interest cash flows, which are used for the calculation of ΔEVE, includes a client margin;
- the cash flow calculation for ΔEVE is using the original maturity, i.e. the positions are not grouped in average monthly ranges;
- for the discounting of all cash flows, LIBOR rates are used for maturities up to 12 months and swap rates for maturities above one year;
- the basic assumption is an interest rate move of ± 100 bp on the first day of the observation period (12 months), where
  - a static balance is assumed; and
  - a maturing trade is renewed according to an average maturity distribution;
- positions without a fixed maturity are replicated with different maturity profiles. The refixing of interest rate is performed according to the respective maturity profile;
- apart from the Group's AT1 issuances, where the maturity is assigned to the first call date, positions with early repayment options are not material;
- behavioural withdrawal options in the banking book are not material;
- there are no interest rate options in the banking book;
- interest rate swaps are used to manage the interest rate risk in the banking book. The treatment with the ΔNII / ΔEVE calculations is congruent with the treatment of other fixed rate instruments; and
- the total in each scenario is a simple sum of the results for each currency, i.e. there are no correlation assumptions.

IRRBB: QUANTITATIVE INFORMATION

IRRBBA1: Quantitative information to positions structure and interest repricing

31.12.2020

	Carrying values			Avg. repricing maturity		Max. repricing maturity	
	Total CHF m	of which CHF currency CHF m	of which other currencies representing more than 10% of the balance sheet total CHF m	Total year	of which CHF currency year	Total year	of which CHF currency year
Defined resetting date of interest rate							
Due from banks	1,686.9	100.0	1,520.0	0.6	0.9		
Due from customers	36,877.3	5,094.0	24,866.0	0.2	0.2		
Money market mortgages	6,028.0	3,218.6	2,188.1	0.2	0.2		
Fixed-term mortgages	2,748.5	2,113.7	552.6	3.5	3.3		
Financial investments	13,452.0	953.1	7,672.2	1.7	3.1		
Other assets							
Asset legs of interest rate derivatives[1]	35,524.8	5,263.6	26,730.5	0.2	0.2		
Due to banks	91.8	0.0	82.0	2.7	3.9		
Due to customers	2,802.5	216.6	1,394.5	0.3	0.6		
Cash bonds							
Debt issued	1,341.9	550.0	574.6	3.9	4.3		
Other liabilities							
Liability legs from interest rate derivatives[1]	35,752.0	21,214.8	11,804.3	0.2	0.1		
Non-defined resetting date of interest rate							
Due from banks	5,240.8	465.6	3,322.3				
Due from customers	1,439.5	132.7	1,037.4	0.2	0.2		
Variable-rate mortgages	0.4	0.4		1.3	1.3		
Other assets at sight							
Liabilities at sight (private and current account)	69,563.4	8,834.7	50,814.3	0.6	0.9		
Other liabilities at sight							
Due to customers, with notice period but not transferable (savings account)	3,082.5	3.6	2,398.7				
Total				**0.4**	**2.2**	**5.0**	**5.0**

[1] Interest rate derivatives are shown twice (asset and liability legs) for technical reasons according to FINMA instructions.

IRRBB1: Quantitative information on EVE and NII

	ΔEVE		ΔNII	
	31.12.2020 *CHF m*	31.12.2019 *CHF m*	**31.12.2020** *CHF m*	31.12.2019 *CHF m*
Parallel up	**103.2**	194.7	**726.5**	525.6
Parallel down	**-98.9**	-212.3	**-737.8**	-532.8
Steepener	**-88.8**	2.5		
Flattener	**110.1**	36.3		
Short rate up	**137.0**	98.2		
Short rate down	**-143.5**	-106.1		
Maximum	**143.5**	212.3	**737.8**	532.8
Tier 1 capital	**4,296.3**	4,420.9		

The change of EVE in each of the standard scenarios are below the 15% supervisory outlier threshold of the Tier 1 capital. The maximum change amount of CHF -143.5 million under a short rate down scenario is 3% of the Group's Tier 1 capital (31.12.2019: 5% under a parallel down shift).

OPERATIONAL RISK

The table below presents an overview of Pillar 3 disclosures separately provided in the Annual Report 2020 of the Group. The Group calculates its minimum regulatory capital requirement for operational risks based on the standardised approach according to article 90 of the Capital Adequacy Ordinance.

ORA: Qualitative disclosure requirements related to operational risks

Pillar 3 disclosure requirement	Annual Report 2020 section	Disclosure	Annual Report 2020 page numbers
Strategy, processes and organisational structure for managing operational risks	Comment on risk management	– Non-financial risk	131-132

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