Julius Bär

2021

BASEL III PILLAR 3 DISCLOSURES JUNE 2021

Julius Baer Group Ltd.

According to FINMA circular 2016/1 'Disclosure Banks'

BASEL III PILLAR 3 DISCLOSURES JUNE 2021 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 30 June 2021. 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 Pillar 3 disclosure requirements issued by the Basel Committee on Banking Supervision (BCBS) in March 2017.

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 disclosure requirements in accordance with the FINMA circular 2016/1 'Disclosure – banks'. Bank Julius Baer & Co. Ltd. is exempt 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).

The Group's Pillar 3 disclosures as at 30 June 2021, 31 December 2020 and 30 June 2020 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, in accordance with FINMA requirements for category 3 banks. FINMA has specified the reporting frequency for each disclosure as either annual or semi-annual. Comparative period information and commentaries on movements in the period must be provided in line with this frequency. More information regarding qualitative and quantitative Pillar 3 disclosures can be found in the document 'Basel III Pillar 3 Disclosures 2020', published in the Financial Reporting section of the Julius Baer website (www.juliusbaer.com/reporting).

KEY METRICS

KM1: Key metrics at consolidated Group level

No.[1]		**30.06.2021** *CHF m*	31.12.2020 *CHF m*	30.06.2020 *CHF m*
	Available capital			
1	Common Equity Tier 1 (CET1)	**3,583.1**	3,157.5	2,950.1
2	Tier 1 capital	**4,753.6**	4,296.3	4,118.6
3	Total capital	**4,889.8**	4,429.7	4,250.2
	Risk-weighted assets (RWA)			
4	RWA	**21,457.9**	21,120.7	21,284.9
4a	Minimum capital requirements	**1,716.6**	1,689.7	1,702.8
	Risk-based capital ratios as a percentage of RWA			
5	Common Equity Tier 1 ratio	**16.7%**	14.9%	13.9%
6	Tier 1 ratio	**22.2%**	20.3%	19.3%
7	Total capital ratio	**22.8%**	21.0%	20.0%
	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%	0.1%
11	Total of bank CET1 specific buffer requirements as per the Basel minimum standards	**2.6%**	2.6%	2.6%
12	CET1 available after meeting the bank's minimum capital requirements as per the Basel minimum standards	**12.2%**	10.4%	9.4%
	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%	0.1%
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%	7.9%
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%	9.7%
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%	12.1%
	Basel III leverage ratio			
13	Total Basel III leverage ratio exposure measure	**116,729.2**	107,193.8	106,077.6
14	Basel III leverage ratio (= no. 2/no. 13)	**4.1%**	4.0%	3.9%
	Liquidity coverage ratio (3-month average)			
15	Total HQLA	**23,536.6**	23,446.5	24,531.2
16	Total net cash outflow	**12,459.7**	13,637.3	12,333.8
17	LCR ratio	**188.9%**	171.9%	198.9%

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

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 following table are calculated based on 8% of RWA.

OV1: Overview of risk-weighted assets

No.		**30.06.2021** RWA[1] *CHF m*	31.12.2020 RWA[1] *CHF m*	**30.06.2021** Minimun capital requirements *CHF m*
1	Credit risk (excluding CCR – counterparty credit risk)	**12,266.8**	12,176.5	**981.3**
2	*of which standardised approach (SA)*[2]	***12,266.8***	*12,176.5*	***981.3***
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	**1,130.4**	1,139.9	**90.4**
7	*of which standardised approach for counterparty credit risk (SA-CCR)*	***868.6***	*898.3*	***69.5***
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*	***261.8***	*241.6*	***20.9***
10	Credit valuation adjustment (CVA)	**286.5**	302.9	**22.9**
11	Equity positions in banking book under market-based approach			
12	Investments in managed collective assets – look-through approach			
13	Investments in managed collective assets – mandate-based approach			
14	Investments in managed collective assets – fall-back approach			
14a	Investments in managed collective assets – simplified approach	**538.1**	486.9	**43.0**
15	Settlement risk	**9.2**	5.5	**0.7**
16	Securitisation exposures in banking book	**85.5**	85.5	**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***	*85.5*	***6.8***
19	*of which securitisation standardised approach (SEC-SA)*			
20	Market risk	**1,188.6**	1,116.7	**95.1**
21	*of which standardised approach (SA)*	***633.8***	*726.6*	***50.7***
22	*of which internal model approach (IMA)*	***554.8***	*390.1*	***44.4***
23	Capital charge for switch between trading book and banking book			
24	Operational risk	**5,791.7**	5,668.0	**463.3**
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	**161.0**	138.8	**12.9**
26	Floor adjustment			
27	**Total**	**21,457.9**	21,120.7	**1,716.6**

1 Explanations on movements between reporting periods 30.06.2021 and 31.12.2020: Increase in RWA primarily due to higher credit risk RWA (no. 1) mainly following growth in Lombard loans, higher capital requirements for market risk (no. 20) and higher operational risk RWA (no. 24) following an increase in income.

2 Includes RWA of non-counterparty-related risk.

LIQUIDITY COVERAGE RATIO

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) increased in the second quarter compared to the previous quarter of 2021. In contrast, the total of net cash outflows (no. 22) decreased in the second quarter. The changes resulted in a higher LCR in Q2 2021 than in Q1 2021, significantly above the regulatory required minimum ratio of 100% and risk tolerances defined internally.

LIQ1: Liquidity coverage ratio

		Q1 2021		**Q2 2021**	
		3-month average		3-month average	
		Unweighted value	Weighted value	Unweighted value	Weighted value
No.		*CHF m*	*CHF m*	*CHF m*	*CHF m*
A.	**High-quality liquid assets**				
	Cash and balances with central banks		14,076.9		15,068.7
	Securities category 1 and category 2		8,275.6		8,468.0
1	**Total**		**22,352.5**		**23,536.6**
B.	**Cash outflows**				
2	Retail deposits and deposits	41,066.0	5,744.1	41,652.8	5,879.4
3	*of which stable deposits*	*3,301.7*	*165.1*	*3,298.2*	*164.9*
4	*of which less stable deposits*	*37,764.3*	*5,579.0*	*38,354.7*	*5,714.4*
5	Unsecured wholesale funding	41,243.3	25,735.1	40,458.6	24,197.3
6	*of which operational deposits (all counterparties)*				
7	*of which non-operational deposits (all counterparties)*	*38,707.4*	*23,199.3*	*38,523.1*	*22,261.8*
8	*of which unsecured debt*	*2,535.9*	*2,535.9*	*1,935.6*	*1,935.6*
9	Secured wholesale funding		1,184.2		1,417.1
10	Additional cash outflows	4,162.1	3,839.7	3,762.7	3,303.7
11	*of which outflows related to derivatives and other transactions*	*3,711.9*	*3,711.9*	*3,151.7*	*3,151.7*
12	*of which outflows related to loss of funding on debt products*				
13	*of which committed credit and liquidity facilities*	*450.3*	*127.8*	*611.0*	*152.1*
14	Other contractual funding obligations	1,753.2	1,743.7	1,489.5	1,478.8
15	Other contingent funding obligations	12,905.5	123.8	14,671.3	128.7
16	**Total**		**38,370.7**		**36,405.0**
C.	**Cash inflows**				
17	Secured lending (e.g. reverse repurchase transactions)	663.9	451.4	541.8	445.7
18	Income from fully performing exposures	33,471.6	18,651.6	33,975.7	18,610.6
19	Other cash inflows	5,445.3	5,445.3	4,888.9	4,888.9
20	**Total**[1]	**39,580.8**	**24,548.4**	**39,406.4**	**23,945.3**
	Liquidity coverage ratio				
21	Total of high-quality liquid assets		22,352.5		23,536.6
22	Total net cash outflows		13,822.3		12,459.7
23	**Liquidity coverage ratio (in %)**		**161.7%**		**188.9%**

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

MARKET RISK

OVERVIEW OF APPLIED METHODS

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.

The following table sets out details on the VaR and SVaR movements. The main change in RWA is due to the change of the period used to calculate stressed VaR figures.

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

							30.06.2021
		a	b	c	d	e	f
		VaR *CHF m*	SVaR *CHF m*	IRC *CHF m*	CRM *CHF m*	Other *CHF m*	Total RWA *CHF m*
No.							
1	RWA at 31.12.2020	154.2	235.9				390.1
2	Movement in risk levels	104.9	9.4				114.3
3	Model updates/changes						
4	Methodology and policy						
5	Acquisitions and disposals						
6	Foreign exchange movements						
7	Other	50.5					50.5
8	RWA at end of reporting period	309.6	245.2				554.8

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 %. The incremental risk charge (IRC) and the comprehensive risk measure (CRM) capital charge are not applicable.

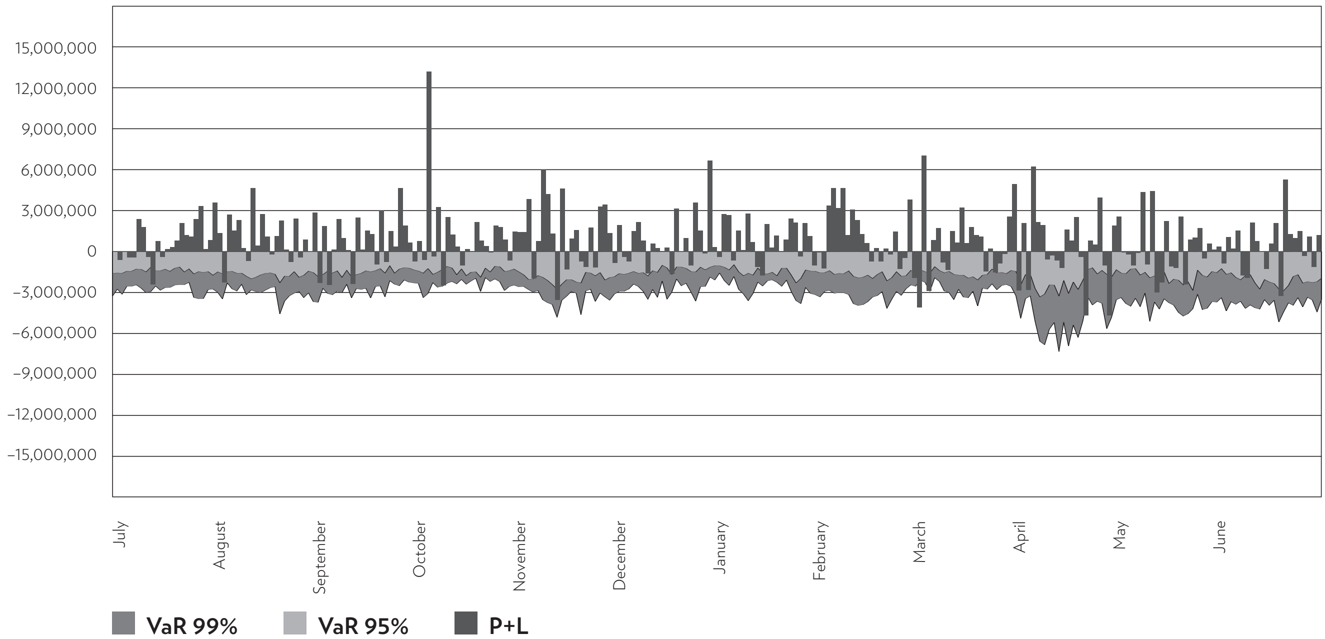
MR3: Market risk: IMA values for trading portfolios

No.		**30.06.2021** *CHF m*
	VaR (10-day, 99%)	
1	Maximum value	17.9
2	Average value	4.9
3	Minimum value	0.0
4	Period end	1.0
	Stressed VaR (10-day, 99%)	
5	Maximum value	15.1
6	Average value	5.9
7	Minimum value	1.1
8	Period end	5.6

COMPARISON OF VAR ESTIMATES WITH GAINS/LOSSES

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 2020/2021 (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.

MR4: Market risk: Comparison of VaR estimates with gains/losses (CHF)



As of 1 July 2020, the preceding 12-month period contained seven back-testing exceptions, all of which have fallen out of the observation period during the course of 2020 and 2021. 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 would not lead to an increase of VaR capital multipliers. As a result, the VaR capital multiplier applied by the Group remained constant.

For the 12-month period starting on 1 July 2020 and ending on 30 June 2021, the FINMA Guidance 06/2020 regarding COVID-19 exceptions is no longer applicable and hence the Group again reports exceptions within the standard framework:

– On 10 November 2020, an exception was recorded due to a technical issue in data delivery from a front office trading system.
– On 25 February 2021, an exception was caused by a short-lived market squeeze across US equity volatility skews, FX volatility skew on selected G10 currencies as well as a counter-cyclical USD interest rates curve flattening. All these market events simultaneously and adversely affected the Group’s P&L.
– On 19 April 2021, an exception was caused by an increase of the volatility skews for selected equities and indices and by the use of conservative proxies for which the time series were not available.

As of 30 June 2021, the overall number of back-testing exceptions stands therefore at three.

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