Julius Bär

2022

BASEL III PILLAR 3 DISCLOSURES JUNE 2022

Julius Baer Group Ltd.

According to FINMA circular 2016/1
‘Disclosure Banks’

BASEL III PILLAR 3 DISCLOSURES JUNE 2022 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 2022. 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 2022, 31 December 2021 and 30 June 2021 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 2021', 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]		**30.06.2022** *CHF m*	31.12.2021 *CHF m*	30.06.2021 *CHF m*
	Available capital			
1	Common Equity Tier 1 (CET1)	**3,074.8**	3,315.7	3,583.1
2	Tier 1 capital	**4,701.6**	4,747.7	4,753.6
3	Total capital	**4,802.0**	4,859.2	4,889.8
	Risk-weighted assets (RWA)			
4	RWA	**20,548.3**	20,274.2	21,457.9
4a	Minimum capital requirements	**1,643.9**	1,621.9	1,716.6
	Risk-based capital ratios as a percentage of RWA			
5	Common Equity Tier 1 ratio	**15.0%**	16.4%	16.7%
6	Tier 1 ratio	**22.9%**	23.4%	22.2%
7	Total capital ratio	**23.4%**	24.0%	22.8%
	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	**10.5%**	11.9%	12.2%
	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	**116,511.0**	118,273.9	116,729.2
14	Basel III leverage ratio (= no. 2/no. 13)	**4.0%**	4.0%	4.1%
	Liquidity coverage ratio (3-month average)			
15	Total high-quality liquid assets (HQLA)	**28,715.9**	25,597.8	23,536.6
16	Total net cash outflows	**13,327.4**	13,842.9	12,459.7
17	Liquidity coverage ratio, LCR	**215.5%**	184.9%	188.9%
	Net stable funding ratio[2]			
18	Available stable funding	**69,883.5**	70,377.1	
19	Required stable funding	**48,203.4**	52,482.5	
20	Net stable funding ratio, NSFR	**145.0%**	134.1%	

[1] Row numbers according to the sample table enclosed in the FINMA circular 2016/1, annex 2, table KM1.
[2] NSFR became effective 1 July 2021 (no retrospective application).

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.		**30.06.2022** RWA[1] *CHF m*	31.12.2021 RWA[1] *CHF m*	**30.06.2022** Minimum capital requirements *CHF m*
1	Credit risk (excluding CCR – counterparty credit risk)	**11,452.1**	11,461.5	**916.2**
2	*of which standardised approach (SA)*[2]	***11,452.1***	*11,461.5*	***916.2***
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	**971.1**	937.9	**77.7**
7	*of which standardised approach for counterparty credit risk (SA-CCR)*	***791.6***	*755.4*	***63.3***
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*	***179.5***	*182.5*	***14.4***
10	Credit valuation adjustment (CVA)	**193.9**	263.1	**15.5**
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	**481.3**	527.2	**38.5**
15	Settlement risk	**34.6**	10.8	**2.8**
16	Securitisation exposures in banking book	**75.9**	76.6	**6.1**
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)*	***75.9***	*76.6*	***6.1***
19	*of which securitisation standardised approach (SEC-SA)*			
20	Market risk	**969.7**	850.5	**77.6**
21	*of which standardised approach (SA)*	***563.7***	*471.8*	***45.1***
22	*of which internal model approach (IMA)*	***406.0***	*378.7*	***32.5***
23	Capital charge for switch between trading book and banking book			
24	Operational risk	**6,069.4**	5,973.4	**485.6**
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	**300.3**	173.3	**24.0**
26	Floor adjustment			
27	**Total**	**20,548.3**	20,274.2	**1,643.9**

[1] Explanations on movements between reporting periods 30.06.2022 and 31.12.2021: Increase in RWA primarily due to higher capital requirements for market risk (no. 20), higher operational risk RWA (no. 24) following an increase in income as well as due to higher capital requirements for amounts below the thresholds for deduction subject to 250% risk weight (no. 25) mainly due to an increase in equity shares in financial sector entities above 10 percent.

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

LIQUIDITY RISK

INTRODUCTION

This section includes items subject to the liquidity risk exposures, including the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). 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 NSFR requires banks to have sufficient available stable funding (ASF) to meet the required stable funding (RSF) over one year. The management of the liquidity risks is described in the Annual Report 2021 of the Group in the section 'Treasury risk' (page 131f.).

A main change affecting both LCR and NSFR was the introduction of an operational deposit model in March 2022.

LIQUIDITY COVERAGE RATIO

In the following table, the LCR is disclosed as a 3-month average value per quarter. The total of the high-quality liquid assets (HQLA) (no. 1 in the following table) decreased in the second quarter compared to the previous quarter of 2022. Simultaneously, the total of net cash outflows (no. 22) decreased in the second quarter, amongst others driven by lower weighted unsecured wholesale funding following the introduction of the operational deposit model. The changes resulted in a higher LCR in Q2 2022 than in Q1 2022, significantly above the regulatory required minimum ratio of 100% and risk tolerances defined internally.

LIQ1: Liquidity coverage ratio

No.		Q1 2022 3-month average Unweighted value CHF m	Q1 2022 3-month average Weighted value CHF m	Q2 2022 3-month average Unweighted value CHF m	Q2 2022 3-month average Weighted value CHF m
A.	**High-quality liquid assets**				
	Cash and balances with central banks		22,715.2		19,217.7
	Securities category 1 and category 2		7,703.0		9,498.2
1	**Total**		**30,418.3**		**28,715.9**
B.	**Cash outflows**				
2	Retail deposits and deposits	44,453.8	6,371.2	43,958.7	6,303.7
3	*of which stable deposits*	*3,261.9*	*163.1*	*3,267.8*	*163.4*
4	*of which less stable deposits*	*41,191.8*	*6,208.1*	*40,690.9*	*6,140.3*
5	Unsecured wholesale funding	44,466.7	25,437.7	42,835.8	23,471.2
6	*of which operational deposits (all counterparties)*	*2,194.7*	*539.0*	*5,817.8*	*1,426.9*
7	*of which non-operational deposits (all counterparties)*	*40,183.1*	*22,809.9*	*35,556.0*	*20,582.3*
8	*of which unsecured debt*	*2,088.8*	*2,088.8*	*1,462.0*	*1,462.0*
9	Secured wholesale funding		1,675.6		1,267.9
10	Additional cash outflows	9,371.6	5,053.1	9,948.3	5,651.6
11	*of which outflows related to derivatives and other transactions*	*6,313.7*	*4,916.6*	*7,008.0*	*5,518.2*
12	*of which outflows related to loss of funding on debt products*				
13	*of which committed credit and liquidity facilities*	*808.2*	*136.5*	*806.6*	*133.4*
14	Other contractual funding obligations	1,260.2	1,252.6	869.9	862.6
15	Other contingent funding obligations	13,988.0	122.5	12,999.3	113.6
16	**Total**		**39,912.7**		**37,670.7**
C.	**Cash inflows**				
17	Secured lending (e.g. reverse repurchase transactions)	373.5	267.5	296.9	251.4
18	Income from fully performing exposures	32,685.6	17,728.5	30,642.8	16,735.3
19	Other cash inflows	7,413.3	7,413.3	7,356.5	7,356.5
20	**Total**	**40,472.3**	**25,409.2**	**38,296.2**	**24,343.2**
	Liquidity coverage ratio				
21	Total of high-quality liquid assets		30,418.3		28,715.9
22	Total net cash outflows		14,503.5		13,327.4
23	**Liquidity coverage ratio (in %)**		**209.7%**		**215.5%**

NET STABLE FUNDING RATIO

In the following two tables, the NSFR is disclosed as quarter-end data as at 30 June 2022 and 31 March 2022. The total available stable funding items (no. 14 in the following two tables) decreased in the second quarter compared to the previous quarter of 2022, primarily driven by lower weighted retail deposits and deposits from small business customers (no. 4) as well as lower weighted wholesale funding (no. 7). Simultaneously, the total required stable funding items (no. 33) decreased over the same period, mainly due to a decrease in weighted high-quality liquid assets (no. 15) and a decrease in weighted non-HQLA securities (no. 24). The changes resulted in a lower NSFR as at 30 June 2022 of 145.0% compared to 147.1% as at 31 March 2022, both of which were significantly above the regulatory required minimum ratio of 100% and risk tolerances defined internally.

LIQ2: Net stable funding ratio

No.		As at 30 June 2022				
		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	
		CHF m	*CHF m*	*CHF m*	*CHF m*	*CHF m*
	Available stable funding (ASF) item					
1	Capital	7,816.0				7,816.0
2	*Regulatory capital*	*7,816.0*				*7,816.0*
3	*Other capital instruments*					
4	Retail deposits and deposits from small business customers	39,371.1	5,449.5	827.2	311.1	41,440.5
5	*Stable deposits*	*927.0*				*880.6*
6	*Less stable deposits*	*38,444.1*	*5,449.5*	*827.2*	*311.1*	*40,559.8*
7	Wholesale funding	42,658.7	7,002.1	408.8	1,464.6	20,418.4
8	*Operational deposits*	*5,093.9*				*2,547.0*
9	*Other wholesale funding*	*37,564.8*	*7,002.1*	*408.8*	*1,464.6*	*17,871.4*
10	Liabilities with matching interdependent assets					
11	Other liabilities	784.5	397.8		1,134.3	208.6
12	*NSFR derivative liabilities*[1]				*1,122.6*	
13	*All other liabilities and equity not included in the above categories*	*784.5*	*397.8*		*11.7*	*208.6*
14	**Total ASF**					**69,883.5**
	Required stable funding (RSF) item					
15	Total NSFR high-quality liquid assets (HQLA)					2,470.2
16	Deposits held at other financial institutions for operational purposes	101.4				50.7
17	Performing loans and securities	8,622.6	37,230.6	8,300.9	12,438.9	37,665.3
18	*Performing loans to financial institutions secured by category 1 and 2a HQLA*					
19	*Performing loans to financial institutions secured by non-category 1 or 2a HQLA and unsecured performing loans to financial institutions*	*2,480.9*	*723.3*	*68.3*	*103.7*	*618.4*
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which*	*1,680.0*	*32,696.7*	*7,047.5*	*3,224.0*	*23,448.6*
21	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	*3.2*	*875.1*	*4,364.0*	*46.5*	*2,648.2*
22	*Performing residential mortgages, of which*	*28.2*	*3,472.9*	*405.4*	*2,408.0*	*3,530.4*
23	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	*0.2*	*2,614.9*	*316.5*	*1,243.1*	*2,273.8*
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*	*4,433.5*	*337.6*	*779.7*	*6,703.2*	*10,067.8*
25	Assets with matching interdependent liabilities					
26	Other assets	4,831.8	103.8	283.9	5,538.7	7,917.0
27	*Physical traded commodities, including gold*	*303.2*				*257.7*
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties*[1]				*1,318.1*	*1,970.4*
29	*NSFR derivative assets*[1]				*1,308.6*	*186.0*
30	*NSFR derivative liabilities before deduction of variation margin posted*[1]				*1,656.7*	*331.3*
31	*All other assets not included in the above categories*	*4,528.6*	*103.8*	*283.9*	*255.2*	*5,171.5*
32	Off-balance sheet items				2,917.5	100.3
33	**Total RSF**					**48,203.4**
34	**Net stable funding ratio (in %)**					**145.0%**

[1] These amounts are not required to be allocated to a maturity bucket.

No.		As at 31 March 2022 Unweighted value by residual maturity No maturity CHF m	< 6 months CHF m	6 months to < 1 year CHF m	≥ 1 year CHF m	Weighted value CHF m
	Available stable funding (ASF) item					
1	Capital	8,238.1				8,238.1
2	*Regulatory capital*	*8,238.1*				*8,238.1*
3	*Other capital instruments*					
4	Retail deposits and deposits from small business customers	42,211.6	4,137.1	800.7	365.0	42,845.6
5	*Stable deposits*	*923.1*	*0.1*			*877.0*
6	*Less stable deposits*	*41,288.5*	*4,137.1*	*800.7*	*365.0*	*41,968.6*
7	Wholesale funding	46,616.7	5,777.1	468.5	1,494.0	21,960.2
8	*Operational deposits*	*6,584.2*				*3,292.1*
9	*Other wholesale funding*	*40,032.5*	*5,777.1*	*468.5*	*1,494.0*	*18,668.1*
10	Liabilities with matching interdependent assets					
11	Other liabilities	1,067.4	905.0	2.6	1,607.1	199.4
12	*NSFR derivative liabilities*[1]				*1,563.6*	
13	*All other liabilities and equity not included in the above categories*	*1,067.4*	*905.0*	*2.6*	*43.5*	*199.4*
14	**Total ASF**					**73,243.3**
	Required stable funding (RSF) item					
15	Total NSFR high-quality liquid assets (HQLA)					3,320.3
16	Deposits held at other financial institutions for operational purposes	107.7				53.8
17	Performing loans and securities	9,716.3	38,320.1	6,340.8	12,437.6	38,183.1
18	*Performing loans to financial institutions secured by category 1 and 2a HQLA*					
19	*Performing loans to financial institutions secured by non-category 1 or 2a HQLA and unsecured performing loans to financial institutions*	*2,377.5*	*519.6*	*35.4*	*89.6*	*541.9*
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which*	*1,627.8*	*33,662.8*	*5,447.1*	*3,843.1*	*23,477.6*
21	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	*4.0*	*796.5*	*2,916.6*	*789.2*	*2,367.6*
22	*Performing residential mortgages, of which*	*4.3*	*3,406.8*	*446.6*	*2,491.5*	*3,557.3*
23	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	*0.2*	*2,620.2*	*242.4*	*1,317.3*	*2,287.6*
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*	*5,706.7*	*730.9*	*411.7*	*6,013.4*	*10,606.3*
25	Assets with matching interdependent liabilities					
26	Other assets	4,729.4	715.5	9.0	6,129.0	8,128.5
27	*Physical traded commodities, including gold*	*299.1*				*254.3*
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties*[1]				*2,303.6*	*1,958.1*
29	*NSFR derivative assets*[1]				*1,475.2*	
30	*NSFR derivative liabilities before deduction of variation margin posted*[1]				*1,985.9*	*397.2*
31	*All other assets not included in the above categories*	*4,430.3*	*715.5*	*9.0*	*364.2*	*5,518.9*
32	Off-balance sheet items				3,156.5	99.7
33	**Total RSF**					**49,785.3**
34	**Net stable funding ratio (in %)**					**147.1%**

[1] These amounts are not required to be allocated to a maturity bucket.

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 increase in RWA reflects the outcome of discussions with FINMA regarding our regulatory VaR model. FINMA requested adjustments to the VaR model calibration to account for the time decay effect, certain model deficiencies and the gap between current RWA and anticipated RWA after FRTB go-live (which is also driven by the transition from the current internal model to the standard approach under FRTB), currently expected for 1 July 2024. The incremental RWA and resulting capital implications will be phased-in over five quarters (until the second quarter 2023).

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

							30.06.2022
		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 31.12.2021	184.8	194.0				378.7
2	Movement in risk levels	-117.7	-50.9				-168.6
3	Model updates/changes						
4	Methodology and policy						
5	Acquisitions and disposals						
6	Foreign exchange movements						
7	Other	117.9	78.0				195.9
8	RWA at end of reporting period	185.0	221.0				406.0

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 additional capital charge is incorporated in those figures). The incremental risk charge (IRC) and the comprehensive risk measure (CRM) capital charge are not applicable.

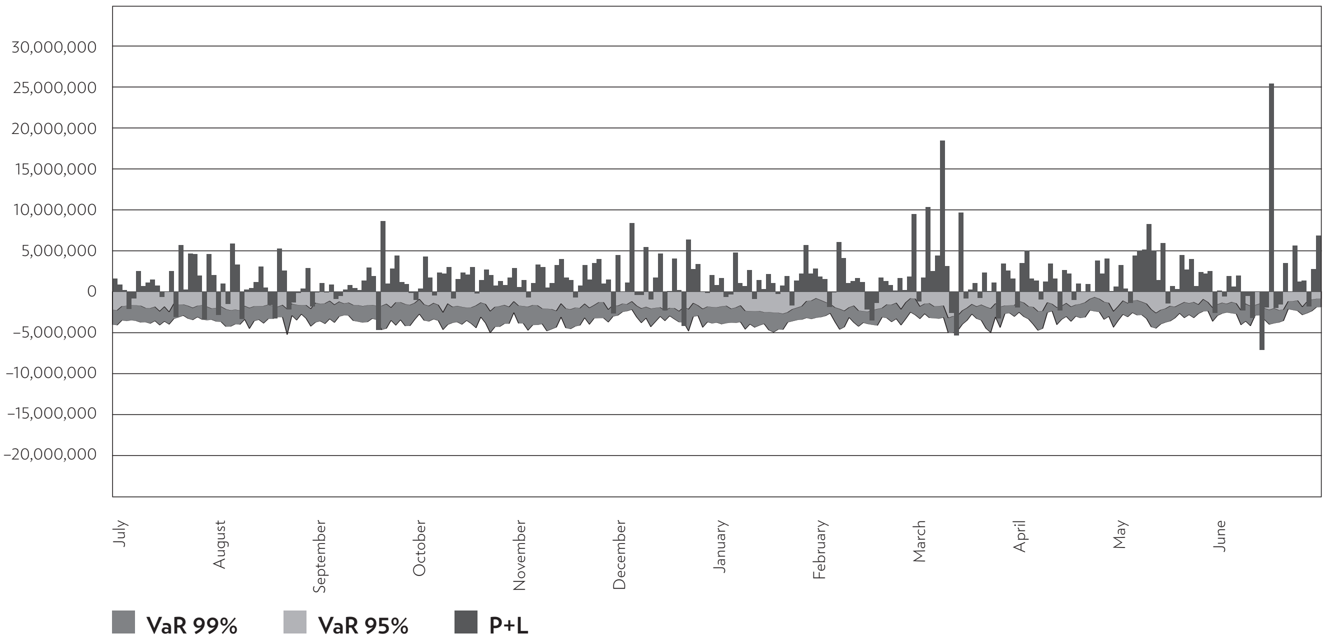
MR3: Market risk: IMA values for trading portfolios

No.		**30.06.2022** *CHF m*
	VaR (10-day, 99%)	
1	Maximum value	14.2
2	Average value	4.7
3	Minimum value	0.0
4	Period end	8.8
	Stressed VaR (10-day, 99%)	
5	Maximum value	11.5
6	Average value	5.1
7	Minimum value	1.9
8	Period end	8.8

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 2021/2022 (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 2021, the preceding 12-month period contained three back-testing exceptions, all of which have fallen out of the observation period during the course of 2021 and 2022.

For the 12-month period starting on 1 July 2021 and ending on 30 June 2022, we have registered additional back-testing exceptions:

- On 16 September 2021, an exception was recorded due to a general drop in the market prices and increase of the volatilities.
- On 16 December 2021, an increase of volatility skews over several equities and indices caused another exception.
- On 9 March 2022, a back-testing loss was recorded at the correlation desk. The desk has multi-asset or basket put options with knock-in feature combined with short vanilla put options on the components of the basket. A large simultaneous increase of underlying prices impacts the multi-asset options to a larger extent than the single underlying options.
- We noted two consecutive exceptions on 9 June 2022 and 13 June 2022, due to the strong rise of USD interest rates negatively affecting positions held in the Treasury unit.

As of 30 June 2022, the overall number of back-testing exceptions stands therefore at five. Therefore, the capital multiplier has increased from 3.2 to 3.6.

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