

Julius Bär

HALF-YEAR REPORT 2018

JULIUS BAER GROUP LTD.



HALF-YEAR REPORT 2018 JULIUS BAER GROUP LTD.

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This Half-Year Report also appears in German. The English version is prevailing.

CONSOLIDATED INCOME STATEMENT

	Note	H1 2018 CHF m	H1 2017 CHF m	H2 2017 CHF m	Change to H1 2017 in %
Interest and dividend income		739.6	651.9	543.4	13.5
Interest expense		186.1	85.6	121.9	117.4
Net interest and dividend income	1	553.5	566.3	421.4	-2.3
Commission and fee income		1,140.0	1,034.8	1,137.3	10.2
Commission expense		124.5	113.0	128.5	10.2
Net commission and fee income	2	1,015.5	921.8	1,008.7	10.2
Net trading income	3	206.3	90.0	213.6	129.1
Net impairment losses/(recoveries) on financial assets ¹		-0.4	-	-	-
Other ordinary results		13.2	13.7	16.6	-3.7
Operating income		1,788.8	1,591.8	1,660.4	12.4
Personnel expenses	4	847.0	764.3	791.4	10.8
General expenses	5	320.3	311.4	338.2	2.8
Depreciation of property and equipment		18.6	19.7	22.6	-5.8
Amortisation of customer relationships		36.4	36.3	36.4	0.3
Amortisation and impairment of other intangible assets		23.9	21.2	24.2	12.8
Operating expenses		1,246.2	1,153.0	1,212.8	8.1
Profit before taxes		542.6	438.9	447.6	23.6
Income taxes		98.8	82.0	88.5	20.4
Net profit		443.8	356.8	359.1	24.4
Attributable to:					
Shareholders of Julius Baer Group Ltd.		443.8	353.2	351.6	25.7
Non-controlling interests		-	3.7	7.5	-100.0
		443.8	356.8	359.1	24.4
Share information					
Basic earnings per share (EPS)		2.04	1.63	1.62	25.0
Diluted earnings per share (EPS)		2.03	1.63	1.62	24.9

¹ New due to transition to IFRS 9 (see section Impact of IFRS 9, transition disclosures). Previously recognised in general expenses (see Note 5).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	H1 2018 CHF m	H1 2017 CHF m	H2 2017 CHF m
Net profit recognised in the income statement	443.8	356.8	359.1
Other comprehensive income (net of taxes):			
Items that may be reclassified to the income statement			
Net unrealised gains/(losses) on debt instruments measured at FVOCI	-67.8	37.6	-34.3
Net realised (gains)/losses on debt instruments measured at FVOCI reclassified to the income statement	2.6	2.9	3.5
Net impairment losses on debt instruments measured at FVOCI ¹	0.1	-	-
Translation differences	-29.9	-10.0	40.0
Items that will not be reclassified to the income statement			
Net gains/(losses) on equity instruments designated at FVOCI ¹	5.6	-	-
Remeasurement of defined benefit obligation	48.3	37.1	-34.3
Other comprehensive income	-41.1	67.6	-25.1
Total comprehensive income	402.7	424.5	333.9
Attributable to:			
Shareholders of Julius Baer Group Ltd.	402.7	420.7	325.8
Non-controlling interests	-	3.8	8.1
	402.7	424.5	333.9

¹ New due to transition to IFRS 9

CONSOLIDATED BALANCE SHEET

	Note	30.06.2018 CHF m	31.12.2017 CHF m	30.06.2017 CHF m
Assets				
Cash		13,175.4	10,862.9	12,085.3
Due from banks		11,863.8	8,308.9	6,855.1
Loans		46,661.6	46,623.7	40,733.4
Trading assets		9,411.0	12,751.8	10,287.4
Derivative financial instruments		2,143.6	1,962.7	2,035.0
Financial assets designated at fair value		290.8	277.3	255.0
Financial assets measured at fair value through other comprehensive income (FVOCI)	6	13,044.1	12,246.5	16,335.5
Investments in associates		28.7	28.2	29.4
Property and equipment		353.5	356.6	363.8
Goodwill and other intangible assets		2,935.5	2,872.4	2,846.1
Accrued income and prepaid expenses		387.3	354.3	337.2
Deferred tax assets		17.6	28.8	26.9
Other assets		3,227.1	1,243.5	960.8
Total assets		103,540.2	97,917.6	93,150.8

	Note	30.06.2018 CHF m	31.12.2017 CHF m	30.06.2017 CHF m
Liabilities and equity				
Due to banks		8,219.5	7,209.5	6,089.5
Due to customers		70,236.7	67,636.8	65,763.3
Trading liabilities		920.5	135.8	195.3
Derivative financial instruments		1,917.5	2,059.2	2,223.4
Financial liabilities designated at fair value		13,824.8	11,836.7	11,201.7
Debt issued	8	1,508.6	1,777.0	1,253.6
Accrued expenses and deferred income		574.3	728.2	487.1
Current tax liabilities		139.8	215.9	109.8
Deferred tax liabilities		72.3	59.9	87.2
Provisions	9	29.0	44.9	23.0
Other liabilities		308.5	359.6	289.4
Total liabilities		97,751.5	92,063.6	87,723.3
Share capital		4.5	4.5	4.5
Retained earnings		6,349.2	6,306.0	5,906.6
Other components of equity		-265.1	-209.9	-184.1
Treasury shares		-299.9	-276.1	-320.9
Equity attributable to shareholders of Julius Baer Group Ltd.		5,788.7	5,824.5	5,406.1
Non-controlling interests		-	29.5	21.4
Total equity		5,788.7	5,854.0	5,427.5
Total liabilities and equity		103,540.2	97,917.6	93,150.8

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital CHF m	Retained earnings ¹ CHF m	OCI related to equity instruments at FVOCI CHF m	OCI related to debt instruments at FVOCI CHF m
At 1 January 2017	4.5	5,840.4	50.6	-
Net profit	-	353.2	-	-
Items that may be reclassified to the income statement	-	-	40.5	-
Items that will not be reclassified to the income statement	-	-	-	-
Total other comprehensive income	-	-	40.5	-
Total comprehensive income	-	353.2	40.5	-
Dividends	-	-268.6 ²	-	-
Dividend income on own shares	-	7.0	-	-
Share-based payments expensed	-	44.5	-	-
Share-based payments vested	-	-69.8	-	-
Changes in derivatives on own shares	-	1.1	-	-
Acquisitions of own shares	-	-	-	-
Disposals of own shares	-	-1.2	-	-
At 30 June 2017	4.5	5,906.6	91.2	-
At 1 July 2017	4.5	5,906.6	91.2	-
Net profit	-	351.6	-	-
Items that may be reclassified to the income statement	-	-	-30.8	-
Items that will not be reclassified to the income statement	-	-	-	-
Total other comprehensive income	-	-	-30.8	-
Total comprehensive income	-	351.6	-30.8	-
Share-based payments expensed	-	38.0	-	-
Share-based payments vested	-	-11.4	-	-
Changes in derivatives on own shares	-	6.6	-	-
Acquisitions of own shares	-	-	-	-
Disposals of own shares	-	14.6	-	-
At 31 December 2017	4.5	6,306.0	60.3	-
At 1 January 2018, before the adoption of IFRS 9	4.5	6,306.0	60.3	-
Effect of adoption of IFRS 9	-	19.1 ³	1.5 ³	-17.9
At 1 January 2018, after the adoption of IFRS 9	4.5	6,325.1	61.9	-17.9
Net profit	-	443.8	-	-
Items that may be reclassified to the income statement	-	-	-	-65.3
Items that will not be reclassified to the income statement	-	-	5.6	-
Total other comprehensive income	-	-	5.6	-65.3
Total comprehensive income	-	443.8	5.6	-65.3
Changes in non-controlling interests	-	-85.6	-	-
Dividends	-	-313.3 ⁴	-	-
Dividend income on own shares	-	6.7	-	-
Share-based payments expensed	-	45.1	-	-
Share-based payments vested	-	-75.9	-	-
Changes in derivatives on own shares	-	-4.8	-	-
Acquisitions of own shares	-	-	-	-
Disposals of own shares	-	8.0	-	-
At 30 June 2018	4.5	6,349.2	67.5	-83.2

¹ Retained earnings include the capital reserves of Bank Julius Baer & Co. Ltd. and the statutory capital reserve/retained earnings reserves of Julius Baer Group Ltd.

² Dividend payment per share CHF 1.20

³ Includes effects from a) reduction in allowance for credit losses (net of tax), and b) reclass from equity instruments from available-for-sale to fair value through profit or loss (FVTPL)

⁴ Dividend payment per share CHF 1.40

Other components of equity (net of taxes)

OCI related to ECL changes on debt instruments at FVOCI CHF m	Remeasurement of defined benefit obligation CHF m	Translation differences CHF m	Treasury shares CHF m	Equity attributable to shareholders of Julius Baer Group Ltd. CHF m	Non-controlling interests CHF m	Total equity CHF m
-	-202.4	-99.8	-263.1	5,330.2	23.6	5,353.9
-	-	-	-	353.2	3.7	356.8
-	-	-10.1	-	30.5	0.1	30.6
-	37.0	-	-	37.0	0.0	37.1
-	37.0	-10.1	-	67.5	0.1	67.6
-	37.0	-10.1	-	420.7	3.8	424.5
-	-	-	-	-268.6	-6.0	-274.6
-	-	-	-	7.0	-	7.0
-	-	-	-	44.5	-	44.5
-	-	-	69.8	-	-	-
-	-	-	4.7	5.7	-	5.7
-	-	-	-219.0	-219.0	-	-219.0
-	-	-	86.7	85.4	-	85.4
-	-165.4	-109.9	-320.9	5,406.1	21.4	5,427.5
-	-165.4	-109.9	-320.9	5,406.1	21.4	5,427.5
-	-	-	-	351.6	7.5	359.1
-	-	39.4	-	8.6	0.6	9.2
-	-34.4	-	-	-34.4	0.0	-34.3
-	-34.4	39.4	-	-25.8	0.6	-25.1
-	-34.4	39.4	-	325.8	8.1	333.9
-	-	-	-	38.0	-	38.0
-	-	-	11.4	-	-	-
-	-	-	28.3	34.9	-	34.9
-	-	-	-83.6	-83.6	-	-83.6
-	-	-	88.7	103.3	-	103.3
-	-199.8	-70.4	-276.1	5,824.5	29.5	5,854.0
-	-199.8	-70.4	-276.1	5,824.5	29.5	5,854.0
1.7	-	-	-	4.4	-	4.4
1.7	-199.8	-70.4	-276.1	5,828.9	29.5	5,858.4
-	-	-	-	443.8	-	443.8
0.1	-	-29.4	-	-94.5	-0.5	-95.0
-	48.3	-	-	54.0	-0.0	53.9
0.1	48.3	-29.4	-	-40.6	-0.5	-41.1
0.1	48.3	-29.4	-	403.2	-0.5	402.7
-	-	-	-	-85.6	-29.0	-114.6
-	-	-	-	-313.3	-	-313.3
-	-	-	-	6.7	-	6.7
-	-	-	-	45.1	-	45.1
-	-	-	75.9	-	-	-
-	-	-	-22.9	-27.7	-	-27.7
-	-	-	-256.3	-256.3	-	-256.3
-	-	-	179.6	187.7	-	187.7
1.8	-151.4	-99.8	-299.9	5,788.7	0.0	5,788.7

CONSOLIDATED STATEMENT OF CASH FLOWS

	H1 2018 CHF m	H1 2017 CHF m
Net profit	443.8	356.8
Adjustments to reconcile net profit to cash flow from/(used in) operating activities:		
Non-cash items included in net profit and other adjustments:		
– Depreciation of property and equipment	18.6	19.7
– Amortisation and impairment of other intangible assets	60.4	57.5
– Allowance for credit losses	-0.1	4.3
– Income from investment in associates	-0.5	-
– Deferred tax expense/(benefit)	16.9	-7.8
– Net loss/(gain) from investing activities	34.5	33.0
– Other non-cash income and expenses	45.1	44.5
Net increase/decrease in operating assets and liabilities:		
– Net due from/to banks	942.5	-3,768.7
– Trading portfolios and derivative financial instruments	2,112.2	-1,996.4
– Net loans/due to customers	1,974.7	-4,048.5
– Issuance and repayment of financial liabilities designated at fair value	2,583.1	2,754.6
– Accrued income, prepaid expenses and other assets	-325.8	-635.4
– Accrued expenses, deferred income, other liabilities and provisions	-188.4	-119.7
Adjustment for income tax expenses	81.9	89.9
Income taxes paid	-158.2 ¹	-103.4
Cash flow from operating activities	7,640.7	-7,319.7
Dividend of associates	0.5	-
Purchase of property and equipment and intangible assets	-89.2	-78.5
Disposal of property and equipment and intangible assets	0.2	0.0
Net (investment in)/divestment of financial assets measured at fair value through other comprehensive income	-567.6	-1,484.4 ²
Acquisition of subsidiaries and businesses, net of cash and cash equivalents acquired	-31.7	-3.8
Deferred payment of acquisition of subsidiaries and associates	-14.8	-9.7
Cash flow from investing activities	-702.6	-1,576.4
Net money market instruments issued/(repaid)	-13.4	30.1
Net movements in treasury shares and own equity derivative activity	-89.6	-120.8
Dividend payments	-313.3	-268.6
Repayment of perpetual tier 1 subordinated bond	-250.0	-
Changes in non-controlling interests	-114.6	-
Dividend payment to non-controlling interests	-	-6.0
Cash flow from financing activities	-780.9	-365.2
Net (decrease)/increase in cash and cash equivalents	6,157.1	-9,261.4

¹ The Swiss bank subsidiary has received the final assessments for a number of tax periods. Therefore, it was able to close the ongoing assessment of the tax deductibility with regard to certain elements of its settlement in the US case (referred to in the annual report 2017). The closing of the assessment resulted in a net amount of additional taxes paid of CHF 29 million; however, this amount was fully absorbed by the favourable treatment of other tax issues in the assessed tax periods.

	30.06.2018 CHF m	30.06.2017 CHF m
Cash and cash equivalents at the beginning of the period	19,619.9 ²	28,270.9
Cash flow from operating activities	7,640.7	-7,319.7
Cash flow from investing activities	-702.6	-1,576.4
Cash flow from financing activities	-780.9	-365.2
Effects of exchange rate changes on cash and cash equivalents	-103.7	481.7
Cash and cash equivalents at the end of the period	25,673.4	19,491.2

	30.06.2018 CHF m	30.06.2017 CHF m
Cash and cash equivalents are structured as follows:		
Cash	13,175.4	12,085.3
Debt instruments measured at fair value through other comprehensive income (original maturity of less than three months)	877.8	835.4 ²
Due from banks (original maturity of less than three months)	11,620.1	6,570.5
Total	25,673.4	19,491.2

² Money market instruments included in this position have been reclassified due to a modified interpretation of the definition of cash and cash equivalents.

	H1 2018 CHF m	H1 2017 CHF m
Additional information		
Interest received	567.9	462.6
Interest paid	-176.1	-99.4
Dividends on equities received (including associates)	166.4	188.7

CONDENSED ACCOUNTING POLICIES AND VALUATION PRINCIPLES

This unaudited interim report was produced in accordance with International Accounting Standard 34, Interim Financial Reporting.

The condensed consolidated half-year financial statements of the Group as at, and for the six months ended, 30 June 2018 comprise of Julius Baer Group Ltd. and its subsidiaries. They were prepared on the basis of the accounting policies and valuation principles of the consolidated financial statements of Julius Baer Group Ltd. as at 31 December 2017, with the exception of the following new standards which have been applied as of 1 January 2018:

IFRS 9 – FINANCIAL INSTRUMENTS

Refer to section Impact of IFRS 9 for details.

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

The new standard, including the clarifications published in 2016, introduces the core principle to recognise revenue to depict the transfer of services to customers in amounts that reflect the consideration (that is, payment) to which the Group expects to be entitled in exchange for those services.

The standard contains a single model that applies to contracts with customers and two approaches to recognise revenue: at a point of time or over time.

The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised:

- identify the contract(s) with a customer (step 1);
- identify the performance obligations in the contract (step 2);
- determine the transaction price (step 3);
- allocate the transaction price to the performance obligations in the contract (step 4);
- recognise revenue when (or as) the Group satisfies a performance obligation (step 5).

The new standard also provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. In addition, enhanced disclosures about revenue are required.

The impact of the new standard on the Group's financial statements is not material.

EVENTS AFTER THE BALANCE SHEET DATE

The Audit Committee of the Board of Directors, together with representatives of the Group Executive Board, approved the half-year condensed consolidated financial statements at its meeting on 20 July 2018. There were no significant events to report until this date.

	Exchange rates as at			Average exchange rates		
	30.06.2018	30.06.2017	31.12.2017	H1 2018	H1 2017	2017
USD/CHF	0.9930	0.9577	0.9745	0.9660	0.9850	0.9795
EUR/CHF	1.1594	1.0923	1.1702	1.1650	1.0780	1.1160
GBP/CHF	1.3110	1.2439	1.3182	1.3250	1.2530	1.2750

IMPACT OF IFRS 9

IFRS 9 Financial Instruments has been adopted as of 1 January 2018 and resulted in changes to the

Group's accounting policies, which are outlined in the following sections.

RECOGNITION AND MEASUREMENT

All financial instruments are initially measured at fair value; for financial instruments not at fair value through profit or loss, eligible transaction costs are included.

The new standard uses two criteria to determine how financial assets should be classified and subsequently measured:

- the entity's business model for managing the financial assets; and
- the contractual cash flow characteristics of the financial asset.

A business model refers to how an entity manages its financial assets in order to achieve a particular business objective and to generate cash flows:

- by collecting contractual cash flows, i.e. cash flows stem primarily from interest payments and repayment of the principal;
- by selling the financial assets, i.e. cash flows stem primarily from buying and selling the financial asset; or
- by a combination of the two models above.

The additional criterion for determining the classification of a financial asset is whether the contractual cash flows are solely payments of principal and interest (SPPI criterion). Interest under this model mainly comprises returns for the time value of money and credit risk. Interest is accounted for under the effective interest method.

Based on the analysis of the business model and the nature of the contractual cash flows, a financial asset is allocated at initial recognition to one of the three principal classification categories and subsequently measured at either:

- amortised cost;
- fair value through other comprehensive income (FVOCI); or
- fair value through profit or loss (FVTPL).

Amortised cost

A debt instrument is measured at amortised cost if the following conditions are fulfilled:

- it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- it meets the solely payments of principal and interest criterion.

The Group originates Lombard and mortgage loans related to its business with Private Banking clients. Such loans are held to maturity and to collect the contractual interests during the loan term. In addition, they fulfil the SPPI criterion. The Group's loans are therefore measured at amortised cost.

The Group holds balances with other banks, which are accounted for at amortised cost if the above conditions are fulfilled.

Fair value through other comprehensive income (FVOCI)

A debt instrument is measured at fair value through other comprehensive income if it meets the following conditions:

- it is held within a business model in which assets are managed both in order to collect contractual cash flows and for sale; and
- it meets the solely payments of principal and interest criterion.

The Group acquires debt instruments (bonds, money market instruments) to collect the contractual cash flows and/or for sale. The Group's debt instruments in this portfolio are therefore measured at fair value through other comprehensive income if in addition the SPPI criterion is fulfilled as well.

Fair value through profit or loss (FVTPL)

All financial instruments which do not meet the SPPI criterion and/or are not held in a business model 'held to collect' or 'held to collect or for sale' are measured at fair value through profit or loss.

The Group applies this measurement principle to its trading portfolio and its derivatives.

In addition, at initial recognition, an entity has the option to irrevocably designate financial instruments as at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities, or recognise the gains or losses on them, on different bases.

The Group applies this fair value option to certain financial assets related to its issued structured notes.

Equity instruments

Equity instruments are generally accounted for at fair value through profit or loss. However, at initial recognition, an entity may make an irrevocable election, on an instrument-by-instrument basis, to present in other comprehensive income (OCI) changes in the fair value of the equity instrument that is not held for trading.

The Group applies the OCI option to its investments in service providers which are necessary to run the Group's daily business. All other equity investments, including the equities held for trading purposes, are measured at FVTPL.

Financial liabilities

Financial liabilities are classified and subsequently measured at amortised cost, except for instruments that are held for trading (including derivatives) which are recognised at FVTPL.

The new standard retains the fair value option for financial liabilities, but requires that the amount of change in fair value attributable to changes in the own credit risk of the liability be presented in other comprehensive income (OCI) without reclassification to the income statement. The remaining amount of total gain or loss is included in the income statement. If this approach creates or enlarges an accounting mismatch, the whole change in fair value may be recognised in the income statement.

The Group applies the fair value option for its structured products, with recognition of changes in fair value attributable to the own credit risk in other comprehensive income.

EXPECTED CREDIT LOSSES (ECL)

General ECL model

IFRS 9 requires an entity to recognise expected credit losses at initial recognition of any financial instrument in scope of IFRS 9 impairment and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of the respective instruments. It is therefore no longer necessary for a trigger event to have occurred before credit losses are recognised in the income statement.

In general, the expected credit loss model uses a dual measurement approach:

- if the credit risk of a debt instrument has not increased significantly since its initial recognition, the debt instrument will attract a loss allowance equal to 12-month expected credit losses ('stage 1' ECL);
- if the credit risk of a debt instrument has increased significantly since its initial recognition, the debt instrument will attract an allowance equal to lifetime expected credit losses ('stage 2' ECL) or the debt instrument is credit-impaired ('stage 3' ECL).

At initial recognition, the Group classifies all financial assets in stage 1, as it does not acquire or originate credit-impaired debt instruments.

Significant increase

If a significant increase in credit risk has occurred to the financial instrument, the instrument moves from stage 1 to stage 2. The threshold applied varies depending on the original credit quality of the counterparty. For assets with lower default probabilities at origination due to good credit quality of the counterparty, the threshold for a significant increase in credit risk is set at a higher level than for assets with higher default probabilities at origination. This implies that for financial assets with initially lower default probabilities a relatively higher deterioration in credit quality is needed to trigger a significant increase than for those assets with originally higher probabilities of default. The Group generally originates loans and balances due from banks in its internal rating classes R1–R4, which reflect balances with low to medium credit risk. The

same applies to the investment grade debt instruments held for investment purposes, which are also classified as R1–R4. Therefore, the Group determined that moves within these rating classes do not qualify for an increased credit risk, whereas a move from R4 to R5 generally triggers such a credit risk increase. Hence, under this approach, moves from R4 to a higher risk class (R5–R6) generally trigger a move from stage 1 ECL to stage 2 ECL. For example an asset moving from R1 to R2 would not trigger a significant increase in credit risk, whereas an asset moving from R1 to R5 would.

In addition, and to supplement this quantitative criterion, qualitative criteria based on other available internal or external data are applied. These qualitative criteria are specific to the respective financial asset types (Lombard loans, mortgages, due from banks, debt instruments). In any case, if payments are 30 days past due, this is the latest point to move the financial asset to stage 2 and lifetime expected credit losses are applied.

The model is symmetric, meaning that if the transfer condition (significant increase) is no longer met, the financial asset is transferred back into the 12-month expected credit losses category (stage 1).

Financial instruments are credit-impaired and therefore recognised in stage 3 if they are classified in R7–R10 of the internal credit rating. 90 days past due of any outstanding payment results automatically in a stage 3 classification.

Measurement of ECL

An entity should measure expected credit losses of a financial instrument in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, i.e. based on probability of default;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecast of future economic conditions.

Generally, ECL calculations are based on four components:

- Probability of default (PD),
- Exposure at default (EAD),
- Loss given default (LGD) and
- Discount rate (IR).

These four components are used in the following basic formula: $ECL = PD \times EAD \times LGD \times IR$.

The Group has modelled its impairment loss estimation methodology to quantify the impact of the expected credit losses on its financial statements for stage 1 ECL and stage 2 ECL. The four models (for the Lombard loans business, mortgages business, due from banks business and treasury business, respectively) are generally based on the specific financial instrument's probability of default (PD), its loss given default (LGD) and the exposure at default (EAD), taking into account the respective effective interest rates. These models have been tailored to the Group's fully collateralised Lombard loans and mortgages, and the high-quality debt instruments in the treasury portfolio as outlined below.

For the credit-impaired financial assets in stage 3, the loss allowances are not measured based on a model, but determined individually according to the specific facts and circumstances. Balances in R7 are past due, but the exposure is still covered by collateral, and loss allowances are only established for past-due interest payments. For balances in rating class R8, loss allowances are established if it is more likely than not that an impairment loss will arise. The credit risk in rating classes R9 and R10 are very high, and loss allowances are established for balances in these rating classes.

Wherever the Group uses scenarios in the ECL calculation process, three different scenarios (a baseline, an upside and a downside scenario) are applied, including an expected probability of the respective scenario. These scenarios and their respective probabilities reflect the view of the Group's economic research on key economic forecasts. The Group determined the forecast world gross domestic product (GDP) as the most important economic input factor for the expected

credit losses on its financial asset portfolios, as the portfolios are either fully collateralised (Lombard loans, mortgages) or consists of investment grade debt instruments. Additional factors are used per portfolio as outlined below.

Lombard loans

For Lombard loans, the input factors are determined as follows:

Probability of Default: For Lombard loans, PD factors are derived from the Group-internal 'margin call process' in Lombard lending, resulting in a 'PD determination tree'. This process reflects internal procedures to avoid loan losses and is based on

- the probability that the credit position gets into a significant shortfall within one year;
- the probability that the credit position becomes unsecured within 10 days; and
- the liquidation process to cover the exposure,

taking into consideration their respective probabilities. This margin call process is simulated for each rating class (R1–R6) and for stage 1 and stage 2 separately. The resulting PDs are then applied uniformly across all counterparties and related Lombard loans in the respective rating class.

Exposure at Default: For Lombard loans, the EAD equals the higher of a) the current exposure; and b) the lower of the lending value or the limit. The Group therefore assumes the highest possible risk (i.e. the highest outstanding) in determining the EAD, including any unused irrevocable loan commitments. Consequently, even if no cash is drawn under the limit, an ECL is calculated (if there is a lending value available).

Loss Given Default: For Lombard loans the LGD's are formula-based, including the market value of the collateral. Scenario calculations on the market value of the collateral are performed, resulting in different LGD's per scenario. Three scenarios (base, up and down), including the probability of the respective scenario, are applied in the process. The scenarios and their probabilities reflect the view of the Group's economic research.

Mortgages

For mortgages, the input factors are determined as follows:

Probability of Default: For mortgages, the PD factor is specifically determined for each counterparty and the related property based on the following input criteria:

- economic area of the counterparty domicile;
- counterparty domicile and property location (country) is the same;
- sufficient assets / collateral within the Group to pay interest / amortisation;
- counterparty self-used versus rented out real estate; and
- stage 1 or stage 2.

For each of these criteria, fixed parameters are determined (based on experience) which then add up to the mortgage counterparty-specific PD factors. These criteria have been selected as it is assumed that they influence directly the default behavior of the individual behind the mortgages.

Exposure at Default: For mortgages, the carrying value (exposure) equals the EAD.

Loss Given Default: For mortgages, the LGD is based on scenario calculations on the market value of the real estate collateral and other pledged assets, which is then set in relation to the loan amount (Loan-to-Value ratio; LtV). Three scenarios (base, up and down), including the probability of the respective scenario, are applied in the process. The scenarios and their probabilities reflect the view of the Group's economic research. However, instead of applying a fixed percentage for the negative scenario to all real estate uniformly, the negative scenario is based on the combination of a base factor and additional penalties depending on the following real estate specific criteria:

- property location (country/region);
- property size as a function of the property market value;
- property type (e.g. residential, office, commercial); and

- holiday home regions.

For each of these criteria, fixed parameters (based on experience) are determined which then add up to the mortgage-specific negative scenario. These criteria are selected as the resulting different characteristics of the real estate market generally respond differently to market fluctuations and hence the achievable collateral liquidation value. The total simulated market value is then compared with the exposure to determine the LGD.

Due from banks

For due from bank positions, the input factors are determined as follows:

Probability of Default: For amounts due from banks, publicly available PDs per rating class are applied, using the same PDs for stage 1 and stage 2, as the outstanding balances have a term of maximum 12 months. PDs for an expected life shorter than one year are derived from the available 1-year PDs by linear reduction. The ratings and the related PDs are shifted by one notch of the internal rating up and down, using publicly available data sources for the respective PDs. The three scenarios are weighted based on the generally applied probabilities as used in the Group's economic research view.

The Group uses Point-in-time PDs for the ECL calculation for due from banks positions.

Exposure at Default: For amounts due from banks, the EAD equals either the nominal value (money market issues, time accounts), or the carrying value (current and transactional accounts).

Loss Given Default: For amounts due from banks, an average LGD per rating class is applied. This factor is derived from publicly available data sources.

Treasury portfolio

For the treasury portfolio (debt instruments measured at FVOCI), the input factors are determined as follows:

Probability of Default: For financial instruments in the treasury portfolio (debt securities, including money market instruments), publicly available PDs

per rating class are applied, separately for stage 1 (1 year PD or shorter) and stage 2 (respective PD according to expected life). These ratings and the related PDs are shifted by two notches up and down, using publicly available data sources for the respective PDs. The three scenarios are then weighted based on the generally applied probabilities as used in the Group's economic research view.

PDs for an expected life shorter than 1 year are derived from the available 1-year PDs by linear reduction.

The Group uses Point-in-time PDs for the ECL calculation for debt instruments.

Exposure at Default: For debt instruments, the EAD equals the amortised cost value plus discounted outstanding interest payments.

Loss given Default: For the debt instruments, an average LGD per rating class is applied. These factors are derived from publicly available data sources.

Recognition of the loss allowance and write-offs

The impairment loss recognised in the income statement is the amount required to adjust the loss allowances from the previous reporting date to the current reporting date due to the periodic detailed ECL calculation.

In the balance sheet, the loss allowance related to debt instruments measured at amortised cost is deducted directly from the asset. For debt instruments measured at FVOCI, the loss allowance is recognised in other comprehensive income (equity) and therefore does not reduce the carrying amount of the asset in the balance sheet. This ensures that the carrying amount of these assets is always measured at the fair value.

The gross carrying amount of a financial asset is reduced when there is no reasonable expectation of recovery of the amount, i.e. the amount outstanding is deemed uncollectible or forgiven. The time of each write-off is individually determined on a case-by-case basis once the Credit Department decides that there is no reasonable expectation of recovery. For collateralised loans, only after foreclosure sale of the pledged assets a write-off takes place for any remaining uncovered balance.

HEDGE ACCOUNTING

The new standard puts in place a model that introduces significant improvements principally by aligning the accounting for hedges more closely with the underlying risk management purposes. To that effect, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Hedge qualification will be based on

qualitative, forward-looking hedge effectiveness assessments, rather than on bright lines. There are also enhanced disclosure requirements about hedge accounting and risk management activities.

However, the new standard does not include accounting for macro hedges yet.

TRANSITION

As permitted by the transition provisions of the new standard, the Group has elected not to restate prior periods in its 2018 financial statements. Therefore, the accounting policies as outlined in the Annual Report 2017 apply to the comparative periods. Previous period amounts have therefore not been adjusted.

The following summarises the transition impact on the Group's financial statements as of 1 January 2018:

Recognition and measurement

Based on the analyses of the two classification criteria 'contractual cash flow characteristics' and 'business model', the Group determined that the debt instruments reported at amortised cost under IAS 39 generally fulfil the criteria and therefore are measured at amortised cost on an ongoing basis. The same applies to the debt instruments reported as available-for-sale and therefore measured at fair value through OCI under IAS 39, which are measured at fair value through OCI under the new standard as well.

The equity instruments measured at fair value through OCI under IAS 39 are classified as at fair value through profit or loss under the new standard, apart from the equity instruments relating to service companies which remain in this category. The fair value gains and losses related to the transferred equities which were previously recognised in OCI are reclassified to retained earnings as of 1 January 2018.

In summary, there are no significant changes to the measurement basis arising from adopting the new classification and measurement model.

Expected credit losses

The total loss allowance on Lombard loans, mortgages and amounts due from banks to be recognised under IFRS 9 (stage 1 and stage 2 ECL)

is comparable to the previously recognised collective allowance for credit losses on these positions. The difference between the previously recognised collective allowance for credit losses on Lombard loans, mortgages and amounts due from banks and the corresponding new expected credit losses under IFRS 9 has been recognised in equity (retained earnings) at transition date.

The Group did not change its approach for the calculation of specific loss allowances. Therefore, the previously recognised specific allowance for credit losses for Lombard loans and mortgages equalled the new allowance for credit-impaired financial assets under IFRS 9 (stage 3 ECL) at transition date.

Under the previous accounting standard, the Group did not recognise any allowance for its treasury portfolio (debt investments available-for-sale) in 2017. Therefore, the new loss allowance to be recorded under IFRS 9 (stage 1 and stage 2) has been recognised in equity (retained earnings) at transition date.

Financial liabilities

The Group continues to apply its previous measurement approach, including the use of the fair value option. No material changes arose.

Hedge accounting

The Group has analysed its limited number of existing microhedges that are designated in effective hedging relationships and has determined that the microhedge relationships also qualify for hedge accounting under IFRS 9. However, the Group continues to apply IAS 39 (except for the new disclosures under IFRS 9) until the IASB issues a final hedge accounting standard including micro and macrohedging.

Opening balances

The following table presents the reclassification and opening balance reconciliation for the Group's financial instruments from IAS 39 to IFRS 9 as of 1 January 2018:

	IAS 39 measurement category	IFRS 9 measurement category
Assets		
Cash	Amortised cost	Amortised cost
Due from banks	Amortised cost	Amortised cost
Loans	Amortised cost	Amortised cost
Trading assets ¹	FVTPL	FVTPL
Derivative financial instruments	FVTPL	FVTPL
Financial assets designated at fair value	FVTPL	FVTPL
Financial assets measured at FVOCI (IAS 39: Financial investments available-for-sale)	FVOCI (AFS debt instruments)	FVOCI
Financial assets measured at FVOCI (IAS 39: Financial investments available-for-sale) ²	FVOCI (AFS equity instruments)	FVOCI
Financial assets measured at FVOCI (IAS 39: Financial investments available-for-sale)	FVOCI (AFS equity instruments)	FVTPL
Accrued income	Amortised cost	Amortised cost
Other assets	FVTPL	FVTPL
Total financial assets		
Liabilities		
Due to banks	Amortised cost	Amortised cost
Due to customers	Amortised cost	Amortised cost
Trading liabilities	FVTPL	FVTPL
Derivative financial instruments	FVTPL	FVTPL
Financial liabilities designated at fair value	FVTPL	FVTPL
Debt issued	Amortised cost	Amortised cost
Accrued expenses	Amortised cost	Amortised cost
Other liabilities	FVTPL	FVTPL
Total financial liabilities		

¹ Physical precious metals in the amount of CHF 1,495.9 million have been reclassified to other assets (non financial assets).

² Financial assets measured at fair value through other comprehensive income – equity instruments in the amount of CHF 51.1 million have been reclassified from FVOCI to FVTPL.

IAS 39 carrying amount at 31.12.2017 CHF m	IFRS 9 reclassification to/from			Carrying amount post reclassification CHF m	IFRS 9 remeasurement including ECL CHF m	IFRS 9 carrying amount at 01.01.2018 CHF m
	Fair value through profit and loss (FVTPL) CHF m	Fair value through OCI (FVOCI) CHF m	Amortised cost CHF m			
10,862.9	-	-	-	10,862.9	-	10,862.9
8,308.9	-	-	-	8,308.9	1.5	8,310.3
46,623.7	-	-	-	46,623.7	2.3	46,626.0
12,751.8	-1,495.9	-	-	11,255.9	-	11,255.9
1,962.7	-	-	-	1,962.7	-	1,962.7
277.3	-	-	-	277.3	-	277.3
12,059.7	-	-	-	12,059.7	-1.7	12,057.9
186.8	-	-51.1	-	135.7	-	135.7
-	51.1	-	-	51.1	-	51.1
311.7	-	-	-	311.7	-	311.7
1,243.5	-	-	-	1,243.5	-	1,243.5
94,589.0	-1,444.8	-51.1	-	93,093.1	2.0	93,095.1
7,209.5	-	-	-	7,209.5	-	7,209.5
67,636.8	-	-	-	67,636.8	-	67,636.8
135.8	-	-	-	135.8	-	135.8
2,059.2	-	-	-	2,059.2	-	2,059.2
11,836.7	-	-	-	11,836.7	-	11,836.7
1,777.0	-	-	-	1,777.0	-	1,777.0
192.7	-	-	-	192.7	-	192.7
32.8	-	-	-	32.8	-	32.8
90,880.6	-	-	-	90,880.6	-	90,880.6

Loss allowance impact

The following table presents the loss allowance reconciliation for the Group's financial instruments from IAS 39 to IFRS 9 as of 1 January 2018¹:

	IAS 39, at 31 December 2017		
		Allowance for credit losses	
	Carrying amount CHF m	Collective CHF m	Specific CHF m
Financial assets at amortised cost			
Due from banks	8,308.9	1.6	-
Lombard loans	36,749.4	7.6	6.0
Mortgages	9,874.3	7.1	11.4
Total	54,932.6	16.3	17.4
Financial assets at FVOCI			
Debt instruments at FVOCI	12,059.7	-	-
Financial assets at amortised cost and FVOCI	66,992.2	16.3	17.4

¹ For the measurement of the loss allowance, loan commitments are included in the EAD of the loan balances.

IFRS 9, at 1 January 2018				IFRS 9, at 30 June 2018			
Carrying amount CHF m	Loss allowance			Carrying amount CHF m	Loss allowance		
	Stage 1 CHF m	Stage 2 CHF m	Stage 3 CHF m		Stage 1 CHF m	Stage 2 CHF m	Stage 3 CHF m
8,310.3	0.2	-	-	11,863.8	0.4	-	-
36,749.6	7.3	0.1	6.0	36,840.9	7.3	0.2	9.4
9,876.4	4.0	1.0	11.4	9,820.8	2.9	0.9	8.5
54,936.3	11.4	1.1	17.4	58,525.4	10.6	1.2	17.9
12,059.7	1.4	0.3	-	12,900.6	1.6	0.2	-
66,996.0	12.9	1.4	17.4	71,426.0	12.2	1.4	17.9

Credit quality analysis

The following table presents a credit quality analysis regarding the Group's financial instruments¹:

					30.06.2018
	Moody's	12-month ECL (Stage 1) CHF m	Lifetime ECL not credit-impaired (Stage 2) CHF m	Lifetime ECL credit-impaired (Stage 3) CHF m	Total CHF m
Due from banks, at amortised cost					
R1 – R4: Low to medium risk		11,400.5	-	-	11,400.5
R5 – R6: Increased risk		463.7	-	-	463.7
R7 – R10: Impaired		-	-	-	-
Total		11,864.2	-	-	11,864.2
Loss allowance		-0.4	-	-	-0.4
Carrying amount		11,863.8	-	-	11,863.8
Lombard loans, at amortised cost					
R1 – R4: Low to medium risk		35,561.8	167.8	3.0	35,732.6
R5 – R6: Increased risk		1,092.8	18.1	-	1,111.0
R7 – R10: Impaired		-	-	14.2	14.2
Total		36,654.6	185.9	17.2	36,857.8
Loss allowance		-7.3	-0.2	-9.4	-16.9
Carrying amount		36,647.3	185.7	7.8	36,840.9
Mortgages, at amortised cost					
R1 – R4: Low to medium risk		9,111.0	499.7	-	9,610.7
R5 – R6: Increased risk		160.0	32.4	-	192.5
R7 – R10: Impaired		-	-	30.0	30.0
Total		9,271.0	532.1	30.0	9,833.1
Loss allowance		-2.9	-0.9	-8.5	-12.3
Carrying amount		9,268.1	531.2	21.4	9,820.8
Debt instruments, at FVOCI					
R1 – R4: Low to medium risk	Aaa – Baa3	12,883.7	-	-	12,883.7
R5 – R6: Increased risk	Ba1 – B3	-	16.9	-	16.9
R7 – R10: Impaired	Caa1 – C	-	-	-	-
Total		12,883.7	16.9	-	12,900.6
Loss allowance		-1.6	-0.2	-	-1.8

¹ For the measurement of the loss allowance, loan commitments are included in the EAD of the loan balances.

01.01.2018

	Moody's	12-month ECL (Stage 1) CHF m	Lifetime ECL not credit-impaired (Stage 2) CHF m	Lifetime ECL credit-impaired (Stage 3) CHF m	Total CHF m
Due from banks, at amortised cost					
R1 – R4: Low to medium risk		8,154.0	-	-	8,154.0
R5 – R6: Increased risk		156.5	-	-	156.5
R7 – R10: Impaired		-	-	-	-
Total		8,310.5	-	-	8,310.5
Loss allowance		-0.2	-	-	-0.2
Carrying amount		8,310.3	-	-	8,310.3
Lombard loans, at amortised cost					
R1 – R4: Low to medium risk		35,714.8	41.3	-	35,756.1
R5 – R6: Increased risk		931.9	54.2	-	986.1
R7 – R10: Impaired		-	-	20.8	20.8
Total		36,646.7	95.5	20.8	36,763.0
Loss allowance		-7.3	-0.1	-6.0	-13.4
Carrying amount		36,639.4	95.4	14.8	36,749.6
Mortgages, at amortised cost					
R1 – R4: Low to medium risk		9,272.3	418.5	-	9,690.8
R5 – R6: Increased risk		140.1	18.5	1.7	160.3
R7 – R10: Impaired		-	-	41.6	41.6
Total		9,412.5	437.0	43.3	9,892.8
Loss allowance		-4.0	-1.0	-11.4	-16.4
Carrying amount		9,408.5	436.0	31.9	9,876.4
Debt instruments, at FVOCI					
R1 – R4: Low to medium risk	Aaa – Baa3	12,042.8	-	-	12,042.8
R5 – R6: Increased risk	Ba1 – B3	-	16.8	-	16.8
R7 – R10: Impaired	Caa1 – C	-	-	-	-
Total		12,042.8	16.8	-	12,059.7
Loss allowance		-1.4	-0.3	-	-1.7

¹ For the measurement of the loss allowance, loan commitments are included in the EAD of the loan balances.

INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

1 NET INTEREST AND DIVIDEND INCOME

	H1 2018 CHF m	H1 2017 CHF m	H2 2017 CHF m	Change to H1 2017 in %
Interest income on amounts due from banks	25.5	22.6	21.5	12.6
Interest income on loans	433.9	301.6	367.7	43.8
Interest income on debt instruments at FVOCI	107.0	129.0	118.2	-17.0
Total interest income using the effective interest method	566.4	453.2	507.4	25.0
Dividend income on equity instruments at FVOCI	- ¹	7.6	0.0	-100.0
Interest income on trading portfolios	14.3	9.9	21.8	43.5
Dividend income on trading portfolios	158.9	181.2	14.2	-12.3
Total interest and dividend income	739.6	651.9	543.4	13.5
Interest expense on amounts due to banks	12.9	8.8	9.9	47.1
Interest expense on amounts due to customers	123.3	32.8	67.8	275.8
Interest expense on debt issued	34.6	31.3	36.4	10.7
Interest expense on financial assets ²	15.3	12.7	7.8	19.8
Total interest expense using the effective interest method	186.1	85.6	121.9	117.4
Total	553.5	566.3	421.4	-2.3

¹ Due to transition to IFRS 9, dividend income on equity instruments at FVOCI is included in other ordinary results.

² Interest expense on financial assets is related to negative effective interests on the respective financial instruments.

2 NET COMMISSION AND FEE INCOME

	H1 2018 CHF m	H1 2017 CHF m	H2 2017 CHF m	Change to H1 2017 in %
Advisory and asset management fees	736.2	663.9	758.8	10.9
Brokerage commissions and income from securities underwriting	358.1	332.8	330.1	7.6
Commission income from credit-related activities	3.5	3.1	3.0	12.8
Commission and fee income on other services	42.1	35.1	45.4	20.1
Total commission and fee income	1,140.0	1,034.8	1,137.3	10.2
Commission expense	124.5	113.0	128.5	10.2
Total	1,015.5	921.8	1,008.7	10.2

3 NET TRADING INCOME

	H1 2018 CHF m	H1 2017 CHF m	H2 2017 CHF m	Change to H1 2017 in %
Debt instruments	22.4	38.1	36.9	-41.1
Equity instruments	-53.3	-155.4	-3.6	-
Foreign exchange	237.1	207.3	180.3	14.4
Total	206.3	90.0	213.6	129.1

4 PERSONNEL EXPENSES

	H1 2018 CHF m	H1 2017 CHF m	H2 2017 CHF m	Change to H1 2017 in %
Salaries and bonuses	655.2	592.3	631.6	10.6
Contributions to staff pension plans (defined benefits)	39.7	35.4	38.6	12.2
Contributions to staff pension plans (defined contributions)	22.1	19.8	12.7	11.5
Other social security contributions	60.6	51.7	52.5	17.1
Share-based payments	45.1	44.5	38.0	1.4
Other personnel expenses	24.3	20.6	18.0	18.3
Total	847.0	764.3	791.4	10.8

5 GENERAL EXPENSES

	H1 2018 CHF m	H1 2017 CHF m	H2 2017 CHF m	Change to H1 2017 in %
Occupancy expense	47.6	47.5	48.8	0.3
IT and other equipment expense	37.4	36.9	38.9	1.6
Information, communication and advertising expense	101.6	90.2	92.6	12.7
Service expense, fees and taxes	127.4	121.0	132.0	5.3
Provisions and losses	2.2 ¹	7.9	22.0	-72.0
Other general expenses	4.0	8.0	4.0	-50.6
Total	320.3	311.4	338.2	2.8

¹ Previously called valuation allowances, provisions and losses. Due to IFRS 9 valuation allowances are included in net impairment losses/(recoveries) on financial assets as of 1 January 2018.

INFORMATION ON THE CONSOLIDATED BALANCE SHEET

6 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

	30.06.2018 <i>CHF m</i>	30.06.2017 <i>CHF m</i>	31.12.2017 <i>CHF m</i>	Change <i>to 31.12.2017 in %</i>
Government and agency bonds	3,111.3	4,056.5 ¹	2,848.3 ¹	9.2
Financial institution bonds	6,286.6	7,514.2 ¹	5,768.6 ¹	9.0
Corporate bonds	3,496.9	4,566.9 ¹	3,436.7	1.8
Other bonds	5.9	13.4	6.2	-5.1
Debt instruments	12,900.6	16,151.0	12,059.7	7.0
<i>of which quoted</i>	9,535.4	13,389.4 ¹	10,350.4 ¹	-7.9
<i>of which unquoted</i>	3,365.2	2,761.6 ¹	1,709.3 ¹	96.9
Equity instruments	143.5	184.5	186.8	-23.2
<i>of which quoted</i>	5.6	35.0	33.4	-83.1
<i>of which unquoted</i>	137.9	149.5	153.4	-10.1
Total	13,044.1	16,335.5	12,246.5	6.5

¹ With the application of IFRS 9 as of 1 January 2018, the previously separately disclosed money market instruments have been included in debt instruments.

7 FAIR VALUE

Level 1

For trading assets as well as for certain financial assets measured at fair value through other comprehensive income and exchange-traded derivatives whose prices are quoted in an active market, the fair value is determined directly from the quoted market prices.

Level 2

For financial instruments for which quoted market prices are not directly available or are not derived from active markets, fair values are estimated using valuation techniques or models based wherever possible on assumptions supported by observable market prices or rates existing on the balance sheet date. This is the case for the majority of OTC derivatives, most unquoted financial instruments, and other items that are not traded in active markets. The main pricing models and valuation techniques applied to these financial instruments include forward pricing and swap models using present-value calculations, and option models such as the Black-Scholes model. The values derived from applying these models and techniques are significantly impacted by the choice of the valuation model used and the underlying assumptions made, such as the amounts and timing of future cash flows, discount rates, volatility, or credit risk.

Level 3

For certain financial instruments, neither quoted market prices nor valuation techniques or models based on observable market prices are available for determining the fair value. In these cases, fair value is estimated indirectly using valuation techniques or models based on reasonable assumptions reflecting market conditions.

Trading assets at FVTPL and financial assets at FVOCI: The Group holds certain equity instruments, which are required for the operation of the Group and are reported as financial assets measured at fair value through other comprehensive income, with changes in the fair value recognised in other comprehensive income. The determination of the fair value is based on the published net asset value of the investees. The net asset values are adjusted by management for any

necessary impacts from events which may have an influence on the valuation (adjusted net asset method). In 2018, dividends related to these investments in the amount of CHF 7.0 million (2017: CHF 6.7 million) have been recognised in the income statement.

Financial instruments designated at fair value: The Group issues to its private clients certain specific structured notes, which are intended to be fully invested in private equity investments. Since the notes may not be fully invested in private equity as from the beginning, the portion currently not yet invested is placed in money market instruments, short-term debt funds, or held in cash. Although the clients contractually bear all the related risks and rewards from the underlying investments, these financial instruments are not derecognised from the Group's balance sheet due to the strict derecognition criteria required by IFRS. Therefore, the private equity investments as well as the money market instruments are recorded as financial assets designated at fair value. Any changes in the fair value or any other income from the private equity investments, as well as any income related to the money market instruments, are recorded in the income statement. However, as the clients are entitled to all rewards related to the investments, these amounts net out in the respective line item in the income statement. Hence, any change in the valuation inputs has no impact on the Group's income statement or shareholders' equity.

To measure the fair values of the private equity investments, the Group generally relies on the valuations as provided by the respective private equity funds managing the investments. These funds in turn use their own valuation techniques, such as market approaches or income approaches, including their own input factors into the applied models. Therefore, the private equity investments are reported in level 3 of the fair value hierarchy, as the fair values are determined based on models with unobservable market inputs. The related issued notes are reported as financial liabilities designated at fair value and classified as level 3 instruments, due to the related private equity investments being part of the valuation of the notes.

The fair value of financial instruments carried at fair value is determined as follows:

	30.06.2018			
	Quoted market price Level 1 CHF m	Valuation technique market- observable inputs Level 2 CHF m	Valuation technique non-market- observable inputs Level 3 CHF m	Total CHF m
Financial assets and liabilities measured at fair value				
Trading – debt instruments FVTPL	2,196.4	126.4	-	2,322.8
Trading – equity instruments FVTPL	5,140.6	1,933.0	14.7	7,088.2
Total trading assets	7,337.0	2,059.4	14.7	9,411.0
Foreign exchange derivatives	9.6	1,131.0	-	1,140.5
Interest rate derivatives	2.9	122.9	-	125.8
Precious metal derivatives	3.1	178.0	-	181.1
Equity/indices derivatives	15.2	678.0	-	693.2
Credit derivatives	-	2.6	-	2.6
Other derivatives	0.3	-	-	0.3
Total derivative financial instruments	31.1	2,112.5	-	2,143.6
Financial assets designated at fair value	12.4	103.5	174.9	290.8
Debt instruments at FVOCI	9,864.3	3,036.4	-	12,900.6
Equity instruments at FVOCI	5.6	0.3	137.6	143.5
Financial assets measured at FVOCI	9,869.9	3,036.7	137.6	13,044.1
Total assets	17,250.4	7,312.1	327.1	24,889.6
Short positions – debt instruments	12.2	3.8	-	16.0
Short positions – equity instruments	857.4	47.2	-	904.6
Total trading liabilities	869.5	51.0	-	920.5
Foreign exchange derivatives	9.2	875.1	-	884.3
Interest rate derivatives	0.8	145.4	-	146.2
Precious metal derivatives	0.1	47.6	-	47.7
Equity/indices derivatives	11.5	817.8	-	829.3
Credit derivatives	-	6.9	-	6.9
Other derivatives	3.0	-	-	3.0
Total derivative financial instruments	24.6	1,892.9	-	1,917.5
Financial liabilities designated at fair value	-	13,538.9	286.0	13,824.8
Total liabilities	894.1	15,482.7	286.0	16,662.8

31.12.2017

	Quoted market price Level 1 CHF m	Valuation technique market- observable inputs Level 2 CHF m	Valuation technique non-market- observable inputs Level 3 CHF m	Total CHF m
Financial assets and liabilities measured at fair value				
Trading – debt instruments FVTPL	1,918.2	352.5	-	2,270.7
Trading – equity instruments FVTPL	6,991.4	1,993.8	-	8,985.2
Total trading assets	8,909.6	2,346.3	-	11,255.9
Foreign exchange derivatives	5.0	896.3	-	901.3
Interest rate derivatives	1.1	122.8	-	123.9
Precious metal derivatives	1.2	174.1	-	175.4
Equity/indices derivatives	11.1	747.6	-	758.7
Credit derivatives	-	2.6	-	2.6
Other derivatives	0.8	-	-	0.8
Total derivative financial instruments	19.2	1,943.5	-	1,962.7
Financial assets designated at fair value	14.0	108.9	154.4	277.3
Financial investments available-for-sale – money market instruments	249.8	1,941.3	-	2,191.1
Debt instruments at FVOCI	8,908.9	959.7	-	9,868.6
Equity instruments at FVOCI	33.4	7.8	145.6	186.8
Financial assets measured at FVOCI	9,192.1	2,908.8	145.6	12,246.5
Total assets	18,134.8	7,307.6	300.0	25,742.4
Short positions – debt instruments	9.4	-	-	9.4
Short positions – equity instruments	82.4	44.0	-	126.5
Total trading liabilities	91.8	44.0	-	135.8
Foreign exchange derivatives	5.0	788.3	-	793.3
Interest rate derivatives	1.5	145.3	-	146.8
Precious metal derivatives	0.2	55.6	-	55.9
Equity/indices derivatives	11.6	1,039.7	-	1,051.4
Credit derivatives	-	6.6	-	6.6
Other derivatives	5.3	-	-	5.3
Total derivative financial instruments	23.7	2,035.5	-	2,059.2
Financial liabilities designated at fair value	-	11,557.6	279.1	11,836.7
Total liabilities	115.5	13,637.1	279.1	14,031.7

FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

	Carrying value CHF m	30.06.2018 Fair value CHF m	Carrying value CHF m	31.12.2017 Fair value CHF m
Financial assets measured at amortised cost				
Cash	13,175.4	13,175.4	10,862.9	10,862.9
Due from banks	11,863.8	11,867.8	8,308.9	8,313.9
Loans	46,661.6	47,106.7	46,623.7	47,035.5
Accrued income	320.3	320.3	311.7	311.7
Total	72,021.2	72,470.3	66,107.2	66,524.0
Financial assets measured at FVTPL				
Trading assets	9,411.0	9,411.0	11,255.9	11,255.9
Derivative financial instruments	2,143.6	2,143.6	1,962.7	1,962.7
Financial assets designated at fair value	290.8	290.8	277.3	277.3
Total	11,845.4	11,845.4	13,495.9	13,495.9
Financial assets measured at FVOCI				
Financial assets measured at fair value through other comprehensive income	13,044.1	13,044.1	12,246.5	12,246.5
Total	13,044.1	13,044.1	12,246.5	12,246.5
Total financial assets	96,910.7	97,359.9	91,849.6	92,266.4

Financial liabilities

	Carrying value CHF m	30.06.2018 Fair value CHF m	Carrying value CHF m	31.12.2017 Fair value CHF m
Financial liabilities at amortised costs				
Due to banks	8,219.5	8,219.6	7,209.5	7,209.6
Due to customers	70,236.7	70,253.2	67,636.8	67,640.3
Debt issued	1,508.6	1,525.9	1,777.0	1,839.2
Accrued expenses	202.4	202.4	192.7	192.7
Total	80,167.1	80,201.1	76,816.0	76,881.8
Financial liabilities measured at FVTPL				
Trading liabilities	920.5	920.5	135.8	135.8
Derivative financial instruments	1,917.5	1,917.5	2,059.2	2,059.2
Financial liabilities designated at fair value	13,824.8	13,824.8	11,836.7	11,836.7
Other financial liabilities	54.4 ¹	54.4	32.8 ²	32.8
Total	16,717.2	16,717.2	14,064.5	14,064.5
Total financial liabilities	96,884.3	96,918.4	90,880.6	90,946.3

¹ Relates to the deferred purchase price of GPS Investimentos Financeiros e Participações S.A., Reliance Capital Participações and Wergen & Partner Vermögensverwaltungs AG.

² Relates to the deferred purchase price of Fransad Gestion SA, GPS Investimentos Financeiros e Participações S.A. and Wergen & Partner Vermögensverwaltungs AG.

8 DEBT ISSUED

	30.06.2018 CHF m	31.12.2017 CHF m
Money market instruments	108.7	122.1
Bonds	1,399.9	1,654.9
Total	1,508.6	1,777.0

Bonds

Issuer/Year of issue	Stated interest rate %		Currency	Notional amount m	30.06.2018 Total CHF m	31.12.2017 Total CHF m
Julius Baer Group Ltd.						
2012 ¹	5.375	Perpetual tier 1 subordinated bond	CHF	250.0	-	246.2
Julius Baer Group Ltd.						
2014 ²	4.25	Perpetual tier 1 subordinated bond	CHF	350.0	346.3	347.8
Julius Baer Group Ltd.						
2015 ³	5.90	Perpetual tier 1 subordinated bond	SGD	450.0	329.8	334.8
Julius Baer Group Ltd.						
2016 ⁴	5.75	Perpetual tier 1 subordinated bond	SGD	325.0	232.3	236.4
Julius Baer Group Ltd.						
2017 ⁵	4.75	Perpetual tier 1 subordinated bond	USD	300.0	293.2	290.1
Julius Baer Group Ltd.						
2017 ⁶	0.375	Domestic senior unsecured bond	CHF	200.0	198.3	199.6
Total					1,399.9	1,654.9

¹ Own bonds of CHF 3.7 million were offset with bonds outstanding in 2017.
The effective interest rate amounts to 5.59%.

The bond was paid back on the first possible redemption date (19 March 2018).

² Own bonds of CHF 1.9 million are offset with bonds outstanding (2017: none).

The effective interest rate amounts to 4.41%.

³ No own bonds are offset with bonds outstanding (2017: none).

The effective interest rate amounts to 6.128%.

⁴ No own bonds are offset with bonds outstanding (2017: none).

The effective interest rate amounts to 5.951%.

⁵ No own bonds are offset with bonds outstanding (2017: none).

The effective interest rate amounts to 4.91%.

⁶ No own bonds are offset with bonds outstanding (2017: none).

The effective interest rate amounts to 0.32361%.

9 PROVISIONS

Introduction

The Group operates in a legal and regulatory environment that exposes it to significant litigation, compliance, reputational and other risks arising from disputes and regulatory proceedings.

Non-compliance with regulatory requirements may result in regulatory authorities taking enforcement action or initiating criminal proceedings against the Group and its employees. Possible sanctions could include the revocation of licences to operate certain businesses, the suspension or expulsion from a particular jurisdiction or market of any of the Group's business organisations or their key personnel and the imposition of fines, the disgorgement of profit and censures on companies and employees. In certain markets, authorities, such as regulatory authorities, may determine that industry practices, e.g. regarding the provision of services, are or have become inconsistent with their interpretations of existing local laws and regulations. Also, from time to time, the Group is and may be confronted with information and clarification requests from authorities as well as with enforcement procedures with respect to certain topics. As a matter of principle, the Group cooperates with the competent authorities within the confines of applicable laws to clarify the situation while protecting its own interests.

The risks described below may not be the only risks to which the Group is exposed. The additional risks not presently known or risks and proceedings currently deemed immaterial may also impair the Group's future business, results of operations, financial condition and prospects. The realisation of one or more of these risks may individually or together with other circumstances materially adversely affect the Group's business, results of operations, financial condition and prospects.

Legal proceedings/contingent liabilities

The Group is involved in various legal, regulatory and administrative proceedings concerning matters arising within the course of normal business operations. The current business environment involves substantial legal and regulatory risks, the

impact of which on the financial position or profitability of the Group – depending on the status of related proceedings – is difficult to assess.

The Group establishes provisions for pending and threatened legal proceedings if the management is of the opinion that such proceedings are more likely than not to result in a financial obligation or loss, or if the dispute for economic reasons should be settled without acknowledgment of any liability on the part of the Group and if the amount of such obligation or loss can already be reasonably estimated.

In rare cases in which the amount cannot be estimated reliably due to the early stage of the proceedings, the complexity of the proceedings and/or other factors, no provision is recognised but the case is disclosed as a contingent liability as of 30 June 2018. The contingent liabilities might have a material effect on the Group or for other reasons might be of interest for investors and other stakeholders.

In 2010 and 2011, litigation was commenced against Bank Julius Baer & Co. Ltd. (the 'Bank') and numerous other financial institutions by the liquidators of the Fairfield funds (the 'Fairfield Liquidators'), having acted as feeder funds for the Madoff fraudulent investment schemes. In the direct claims against the Bank, the Fairfield Liquidators are seeking to recover a total amount of approximately USD 64 million in the courts of New York (including USD 17 million that relates to redemption payments made to clients of ING Bank (Suisse) SA, which merged with the Bank in 2010, and approximately USD 25 million that relates to redemption payments made to clients of Merrill Lynch Bank (Suisse) SA, which merged with the Bank in 2013, such claims being subject to acquisition-related representation and warranties provisions). The proceedings in the courts of the British Virgin Islands, where an amount of approximately USD 8.5 million have been claimed from the Bank, were finally dismissed in favour of the Bank with a ruling of the Privy Council, the highest court of appeals for the British Virgin Islands. In addition to the direct claims against the Bank, the Fairfield Liquidators have made combined claims in

the amount of approximately USD 1.8 billion against more than 80 defendants, with only a fraction of this amount being sought against the Bank and its beneficial owners. The combined claims aggregate the damages asserted against all defendants, such that a reliable allocation of the claimed amounts between the Bank and the other defendants cannot be made at this time. Finally, in further proceedings, the trustee of Madoff's broker-dealer company (the 'Trustee') seeks to recover over USD 83 million in the courts of New York (including USD 46 million that relates to redemption payments made to clients of Merrill Lynch Bank (Suisse) SA, which merged with the Bank in 2013, such claims being subject to acquisition-related representation and warranties provisions), largely in relation to the same redemption payments which are the subject matter of the claims asserted by the Fairfield Liquidators. Most of the aforementioned proceedings are in preliminary procedural stages. The Bank is challenging these actions on procedural and substantive grounds and has taken further measures to defend and protect its interests. In the proceedings initiated by the Trustee, the Bankruptcy Court in New York dismissed the case against the Bank and other defendants based on extraterritoriality principles in November 2016. The Trustee has appealed this ruling.

In a landmark decision on so-called retrocessions, the Swiss Federal Supreme Court ruled in 2012 that the receipt of fund trailer fees by a bank in connection with a Discretionary Portfolio Management mandate may create a potential conflict of interest in the execution of the mandate. The Court considered that by receiving trailer fees in the context of such mandate, a bank may be inclined not to act in the best interest of the client. Therefore, based on applicable Swiss mandate law a bank shall not only account for fund trailer fees obtained from third parties in connection with a client's mandate, but also be obliged to forward respective amounts to a client, provided the client has not validly waived to reclaim such fees. Bank Julius Baer & Co. Ltd. has assessed this decision by the Swiss Federal Supreme Court, other relevant court decisions in this context and the mandate structures to which the Court decisions might be applicable and the documentation as well as the impact of respective waivers and the communicated

bandwidths having been introduced some years ago, and implemented appropriate measures to address the matter.

Bank Julius Baer & Co. Ltd. is confronted with a claim by the liquidator of a foreign corporation arguing that the Bank did not prevent two of its clients from embezzling assets of the foreign corporation. In this context, the liquidator as of 2013 presented draft complaints with different claim amounts for a potential Swiss proceeding and filed a payment order ('Betreibungsbegehren') against the Bank in the amount of CHF 422 million (plus accrued interest from 2009). On 8 February 2017, the Bank has been served with a claim from said corporation in liquidation in the amount of EUR 306 million. The court proceeding against the Bank has been initiated in the plaintiff's country of domicile in the European Union. The verdict dated 25 September 2017 of the court of first instance rejecting its jurisdiction has been reversed by a verdict dated 1 March 2018 of the court of second instance confirming jurisdiction of the first instance court. The Bank has appealed such decision of the second instance to the court of last instance.

On 31 March 2014, the Swiss Competition Commission ('COMCO') opened an investigation regarding possible collusion in foreign exchange trading against several banks amongst which also Bank Julius Baer & Co. Ltd. According to its media release of 28 September 2015, the COMCO in addition opened an investigation regarding potential collusive behaviour in precious metal trading. Subject to these investigations are Swiss and foreign financial institutes which are active in foreign exchange and precious metal trading, including Julius Baer. The aim of the investigations, which are part of respective international inquiries, is to clarify possible unlawful collusion amongst market participants and possible violation of market behaviour regulations. Julius Baer, with its primary focus on foreign exchange and precious metals trading for private clients, continues to support the investigation of the COMCO and related inquiries of other authorities in Switzerland and abroad.

In September 2014, the Bundesanstalt für vereinigungsbedingte Sonderaufgaben ('BvS') initiated legal proceedings in Zurich against

Bank Julius Baer & Co. Ltd., claiming approximately CHF 97 million plus accrued interests since 1994. BvS claims to be the German authority responsible for managing the assets of the former German Democratic Republic ('GDR'). BvS claims that the former Bank Cantrade Ltd., which the Bank acquired through its acquisition of Bank Ehinger & Armand von Ernst AG from UBS AG in 2005, allowed unauthorised withdrawals between 1990 and 1992 from the account of a foreign GDR trade company. The Zurich District Court has dismissed the claim on 9 December 2016. The Zurich Court of Appeal has confirmed such verdict on 23 April 2018. BvS has appealed such verdict to the Swiss Federal Supreme Court. In addition, the claim has been notified by the Bank vis-à-vis the seller under the 2005 transaction agreement with regard to representations and warranties granted in respect of the acquired entities.

In the context of an investigation against a former client regarding alleged participation in an environmental certificate trading-related tax fraud in France, a formal procedure into suspected lack of due diligence in financial transactions has been initiated against Bank Julius Baer & Co. Ltd. in June 2014 and been dismissed for formal reasons by a Court Order in March 2017. The deposit in the amount of EUR 3.75 million made in October 2014 by the Bank with the competent French court as a precautionary measure representing the maximal fine possible accordingly was reimbursed to the Bank but deposited again as in July 2017 a new investigatory procedure with respect to the same matter has been initiated against the Bank potentially being brought to the court by the prosecutor. The Bank is cooperating with the French authorities within the confines of applicable laws to clarify the situation and to protect its interests.

In April 2015, Bank Julius Baer & Co. Ltd. was served with 62 claims in Geneva totalling approximately CHF 20 million plus accrued interest. The claimants, being part of a larger group of former clients of an external asset manager claiming damages in a total amount of approximately CHF 40 million, argue lack of due diligence on the part of the Bank in the context of the late external asset manager allegedly having used his personal account and company account with the Bank for flow-through client transactions and pooling of client funds.

On 16 October 2015, such claims have been formalised by 51 out of the 62 claimants, claiming a total amount of CHF 11.7 million plus accrued interest. Since October 2016, the Bank was served with two other claims by additional 16 claimants, claiming a total amount of CHF 4.5 million plus accrued interest. The Bank is contesting the claim and has taken appropriate measures to defend its interests.

Bank Julius Baer & Co. Ltd. is confronted with a claim by a former client arguing that the Bank initiated transactions without appropriate authorisations and that the Bank has not adhered to its duties of care, trust, information and warnings. In April 2015, the former client presented a complaint for an amount of USD 70 million (plus accrued interest) and BRL 24 million, which, in January 2017, he supported with a payment order ('Betreibungsbegehren') in various currencies filed against the Bank in the total amount of approximately CHF 91.3 million (plus accrued interest). In December 2017, the Bank has received again a payment order in various currencies in the total amount of approximately CHF 153 million (plus accrued interest). The Bank is contesting the claim whilst taking appropriate measures to defend its interests.

In November 2014, Bank Julius Baer & Co. Ltd. was served in Geneva with a claim by an investment fund, acting on its behalf and on behalf of three other funds, that were former clients of Bank of China (Suisse) SA having been acquired by Bank Julius Baer & Co. Ltd., in the total amount of USD 29 million (plus accrued interests). Additionally, in October 2015, the claimant filed an amendment of claim in court, by which additionally USD 39 million was claimed. In March 2017, the claimant reduced the totally claimed amount to USD 44.6 million. The claimant argues that Bank of China (Suisse) SA acted not only as a custodian bank, but also as secured creditor and manager of the funds, and tolerated excess in leverage. It claims that the funds suffered a severe loss consequently to the liquidation of almost the entire portfolio of their assets in May 2010, arguing that this liquidation was performed by Bank of China (Suisse) SA without the consent of the funds' directors and was ill-timed, disorderly and occurred in exceptionally unusual market conditions.

The Bank is contesting the claim whilst taking appropriate measures to defend its interests. In addition, such claims are subject to acquisition-related representations and warranties.

Bank Julius Baer & Co. Ltd. has received inquiries from authorities investigating corruption and bribery allegations surrounding Fédération Internationale de Football Association (FIFA) in Switzerland and the USA. These requests focus on persons named in the so-called 'FIFA Indictment' of 20 May 2015 (Indictment filed in United States v. Webb [E.D.N.Y.

15 CR 0252 (RJD)(RML)]) and in the respective superseding indictment of 25 November 2015. The authorities in Switzerland and abroad have, in addition to the corruption and bribery allegations, opened investigations and are inquiring whether financial institutions failed to observe due diligence standards as applied in financial services and in particular in the context of anti-money laundering laws in relation to suspicious and potentially illegal transactions. The Bank is supporting the inquiries and cooperating with the authorities in the investigations on this matter.

CAPITAL RATIOS

	30.06.2018 <i>Basel III fully-applied¹</i> CHF m	30.06.2017 <i>Basel III phase-in¹</i> CHF m	31.12.2017 <i>Basel III phase-in¹</i> CHF m
Risk-weighted positions			
Credit risk	13,540.9	14,072.5	13,627.9
Non-counterparty-related risk	353.5	442.2	445.9
Market risk	451.1	1,253.1	561.1
Operational risk	5,125.4	4,796.4	4,941.1
Total	19,471.0	20,564.2	19,576.0
Eligible capital			
CET1 capital ²	2,676.6	3,060.3	3,260.8
Tier 1 capital ²	3,878.2	3,720.0	4,235.1
<i>of which hybrid tier 1 capital instruments³</i>	1,201.6	1,144.7	1,455.3
Tier 2 capital	56.7	80.4	63.4
Total capital	3,934.9	3,800.4	4,298.5
CET1 capital ratio	13.7%	14.9%	16.7%
Tier 1 capital ratio	19.9%	18.1%	21.6%
Total capital ratio	20.2%	18.5%	22.0%

¹ The Basel III effects, but also the effects of IAS 19 revised relating to pension liabilities, is phased in as at 30 June 2017 and 31 December 2017 for the calculation of the eligible capital.

² During the phase-in period the amount of intangibles which has to be deducted directly from CET1 increased proportionally over time and the remaining amount of intangibles which is allowed to be deducted from additional tier 1 capital decreased respectively.

³ The hybrid tier 1 instruments are tier 1 bonds issued by Julius Baer Group Ltd. in 2012 (repaid in March 2018), 2014, 2015, 2016 and 2017 (issued in September 2017).

Further details regarding tier 1 capital instruments can be found in the Regulatory Disclosures section of www.juliusbaer.com. Also refer to Note 8 Debt issued.

A separate Basel III pillar 3 report has been prepared which shows a full reconciliation between all components of the Group's eligible regulatory

capital and its reported IFRS balance sheet as at 30 June 2018. This report, which is published in the Regulatory Disclosures section of www.juliusbaer.com, has been prepared in accordance with the FINMA regulations governing the disclosure obligations regarding capital adequacy and liquidity (information will be available at the end of August 2018).

ASSETS UNDER MANAGEMENT

	30.06.2018 CHF m	30.06.2017 CHF m	31.12.2017 CHF m
Assets with discretionary mandate	64,368	57,294	62,781
Other assets under management	328,612	292,462	318,941
Assets in collective investment schemes managed by the Group ¹	6,911	4,949	6,700
Total assets under management (including double counting)	399,891	354,705	388,422
<i>of which double counting</i>	10,600	7,133	9,963
	H1 2018 CHF m	H1 2017 CHF m	H2 2017 CHF m
Change through net new money	9,896	10,249	11,908
Change through market and currency impacts	-2,833	7,966	27,946
Change through acquisition	4,502 ²	395 ³	-
Change through divestment	-47 ⁴	-66 ⁴	-31 ⁴
Change through other effects	-49 ⁵	-	-6,106 ⁶
Client assets	467,438	416,480	457,134

¹ Collective investment schemes are related to GPS Investimentos Financeiros e Participações S.A., São Paulo, and to Kairos Investment Management SpA, Milan.

² In June 2018, the Group acquired Reliance Capital Participações (Reliance Group), São Paulo.

³ In February 2017, the Group acquired Wergen & Partner Vermögensverwaltungs AG, Zurich.

⁴ Assets under management were affected by the Group's decision to discontinue its offering to clients from a number of selected countries.

⁵ Assets under management were affected by the Group's decision to discontinue its offering to certain clients in selected jurisdictions.

⁶ Includes assets which have been reclassified following the completed roll-out of the new client advisory models in Switzerland and continental Europe.

METHOD OF CALCULATION

Assets under management are disclosed according to the Guidelines of the Swiss Financial Market Supervisory Authority (FINMA) governing financial statement reporting.

ACQUISITIONS

Reliance Capital Participações (Reliance Group), São Paulo (2018)

On 4 June 2018, the Group acquired 95% of the São Paulo-based Reliance Group (Reliance). Reliance is one of the largest independent wealth managers in Brazil, with client assets mainly in advisory mandates. This acquisition significantly strengthens Julius Baer's strategic position in Brazil, where the Group is already present with the wholly owned GPS Investimentos (GPS), the country's largest independent wealth manager. The purchase price of total CHF 71.4 million has been and will be paid in cash in several tranches over a maximum of three years since the acquisition date, the timing of the payments being dependent on certain conditions and the tranches being contingent on the future growth rate of the business. The purchase price is and will be fully funded by existing excess capital of the Group.

As part of the purchase agreement, the Group received the right (but not the obligation) to purchase the remaining 5% of Reliance through a call option at a contractually agreed fixed amount. In case the Group does not exercise the call option until a specific date, the sellers have the right (but not the obligation) to sell the remaining 5% to the Group at the same contractually agreed fixed amount. Therefore, for accounting purposes, the Group acquired already 100% of Reliance; hence, the above-mentioned purchase price of CHF 71.4 million includes the exercise price (the fixed amount) of the option.

For the six months ended 30 June 2018, Reliance recorded CHF 9.4 million operating income and CHF 3.4 million net profit. Since its acquisition on 4 June 2018, the entity has contributed CHF 1.6 million operating income and CHF 0.6 million net profit to the Group.

The assets and liabilities of Reliance have been provisionally recorded as follows:

	Fair value CHF m
Purchase price	
in cash	33.8
contingent deferred purchase price (liabilities)	37.6
Total	71.4
Due from banks	2.1
Loans ¹	3.1
All other assets	0.4
Assets acquired	5.6
Deferred tax liabilities	4.7
All other liabilities	2.1
Liabilities assumed	6.9
Goodwill and other intangible assets	
Goodwill	42.0
Customer relationships	30.6
Total	72.7

¹ At the acquisition date, the gross contractual amount of loans acquired was CHF 3.1 million.

Siam Commercial Bank (2018)

In March 2018, the Group signed an agreement with Siam Commercial Bank (SCB) that intends to establish a strategic joint venture focusing on bringing the most relevant and impactful advice and solutions to the growing Thai private banking market and its increasingly sophisticated clients.

The joint venture will seamlessly combine SCB's strong brand credibility and wealth management expertise with Julius Baer's full suite of international wealth management capabilities and advisory services. The cooperation will immediately complement SCB's existing private banking capabilities whilst opening access for the Group to the fast-growing Thai wealth management market. The joint venture will operate via domestic and international companies in Thailand and Singapore, respectively, and will provide a unique and holistic global wealth management proposition tailored to the needs of its Thai client base. At inception, the Group will hold 40% in the joint venture, with the option to increase to 49% over time. The joint venture is expected to take up its operations in the second half of 2018.

Kairos (2018/2016)

On 8 January 2018, the Group announced the purchase of the outstanding 20% shares in the Milan-based company Kairos Investment Management S.p.A., following its initial purchase of 19.9% in 2013 and the additional 60.1% interest in 2016.

Kairos is specialised in wealth and asset management, including investment solutions and advice and fits into the Group's growth strategy. Kairos continues to operate under its brand.

The difference between the amount of the former non-controlling interest (NCI) recognised on the balance sheet and the fair value of the consideration paid is recognised directly in equity (retained earnings).

Wergen & Partner Vermögensverwaltungs AG, Zurich (2017)

In February 2017, the Group acquired the Zurich-based Wergen & Partner Vermögensverwaltungs AG.

The purchase price, including the deferred portions due in February 2019 and February 2021 of CHF 13.5 million has been and will be paid in cash and is fully funded by existing excess capital of the Group.

The assets and liabilities of Wergen & Partner Vermögensverwaltungs AG were recorded as follows (unchanged since 2017):

	Fair value CHF m
Purchase price	
in cash	5.5
deferred purchase price (liabilities)	8.0
Total	13.5
All other assets	2.1
Assets acquired	2.1
All other liabilities	0.7
Liabilities assumed	0.7
Goodwill and other intangible assets	
Goodwill	4.7
Customer relationships	7.4
Total	12.1

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