Julius Bär

# MEDIA RELEASE

Julius Baer Group Ltd.

Zurich, 3 February 2020

Presentation of the 2019 full-year results for the Julius Baer Group

## Stable operating income – Satisfactory net new money from core business – IFRS net profit impacted by provision related to 2005 acquisition and significant goodwill impairment charge

- **Assets under management (AuM) CHF 426 billion, an increase of 12%, supported by strong market performance and net new money.**
- **Net new money CHF 10.6 billion, or 2.8%, impacted by significant outflows at Kairos. Excluding Kairos, the Group's net new money growth rate was 4.1%.**
- **Gross margin 82 basis points (bp) (2018: 86 bp), adjusted expense margin 58 bp (2018: 60 bp), adjusted cost/income ratio 71% (2018: 71%), and adjusted pre-tax margin 22 bp (2018: 25 bp).**
- **IFRS net profit attributable to shareholders of Julius Baer Group Ltd. CHF 465 million and IFRS earnings per share (EPS) CHF 2.14.**
- **IFRS results impacted by**
    - **provision of CHF 153 million (CHF 119 million net of taxes) related to claim by the Bundesanstalt für vereinigungsbedingte Sonderaufgaben (BvS) against Bank Julius Baer & Co. Ltd., in relation to alleged unauthorised withdrawals between 1990 and 1992 at a bank acquired in 2005 (as communicated in December 2019),**
    - **CHF 99 million non-cash goodwill impairment charge (not tax-deductible) related to the acquisition of Kairos (as communicated in November 2019).**
- **Net profit adjusted for acquisition-related items decreased 5% to CHF 772 million, impacted by increase in provisions and losses related to other legacy legal cases.**
- **Adjusted EPS attributable to shareholders of Julius Baer Group Ltd. down 4% to CHF 3.55.**
- **BIS CET1 capital ratio 14.0% and BIS total capital ratio 22.1%, well above minimum regulatory requirements and Group's own floors. Adjusted return on CET1 capital 27% (2018: 30%).**
- **Unchanged ordinary dividend of CHF 1.50 per share proposed for financial year 2019.**

**Alternative performance measures and reconciliations**
This media release and other communications to investors contain certain financial measures of historical and future performance and financial position that are not defined or specified by IFRS. Management believes that these alternative performance measures (APM), including adjusting the results consistently for items related to M&A activities, provide useful information regarding the Group's financial and operating performance. These APM should be regarded as complementary

information to, and not as a substitute for, the IFRS performance measures. The definitions of APM used in this media release and other communications to investors, together with reconciliations to the most directly reconcilable IFRS line items, are provided in the Alternative Performance Measures document available at www.juliusbaer.com/APM.

**AuM up 12%, supported by strong recovery in global markets and continued net inflows**
*Assets under management* increased by 12%, or CHF 44 billion, to CHF 426 billion. The growth in AuM was supported by a strong recovery in global markets, as well as net new money of CHF 11 billion (net new money growth rate 2.8%) and the first-time consolidation of NSC Asesores, which added CHF 3 billion.

Net new money was impacted by outflows at Italian asset and wealth management subsidiary Kairos, following underperformance in its funds in 2018 and a number of management departures in 2019. Excluding Kairos, net inflows for the Group developed at a net new money growth rate of 4.1%, with strong inflows from clients domiciled in Asia and Europe. This was achieved despite the impact of a number of client exits in the context of the client documentation review project (which was completed by the end of 2019), as well as modest outflows following a wider application of negative interest rates to large cash holdings in affected currencies.

Including assets under custody of CHF 73 billion, total client assets grew by 12% to CHF 499 billion.

**Operating income stable – Gross margin declined to 82 bp – Realignment of line items**
*Operating income* increased slightly to CHF 3,383 million (2018: CHF 3,368 million). As monthly average AuM increased to CHF 414 billion (up 5%), the gross margin declined to 82 bp (2018: 86 bp).

The financial accounting treatment of interest expense as well as the former line items 'interest income on trading portfolios' and 'dividend income on trading portfolios' was changed to bring it more in line with common market usage. As a consequence, the former line items 'net interest and dividend income' and 'net trading income' are no longer in use and have been replaced by the new line items *net interest income* and *net income from financial instruments measured at FVTPL*[1], and the results for 2018 have been realigned accordingly. The realignment had no impact on the other operating income line items or on total operating income.

*Net commission and fee income* grew by 1% to CHF 1,923 million. This was driven by a modest increase in advisory and management fees, partly offset by a decline in brokerage commissions and income from securities underwriting following a moderate year-on-year decrease in client transaction volumes.

*Net interest income* decreased by 2% to CHF 792 million. The benefit of growth in interest income on loans (on higher average rates) and interest income on debt instruments at FVOCI[2] (on a higher average volume despite a decrease in volume towards the end of the period), was more than offset by an increase in interest expense on amounts due to customers (following a year-on-year increase in the average volume of US dollar non-current account deposits).

*Net income from financial instruments measured at FVTPL* declined by 4% to CHF 618 million following a year-on-year decrease in market volatility.

*Other ordinary results* grew by CHF 40 million to CHF 59 million.

[1] Fair value through profit or loss
[2] Fair value through other comprehensive income

**Operating expenses impacted by significant goodwill impairment charge and increase in provisions**

*Operating expenses* according to IFRS went up by 14% to CHF 2,817 million. This increase was driven by a 24% rise in *general expenses* to CHF 851 million, a 225% rise in *amortisation and impairment of intangible assets* to CHF 168 million, a 10% rise in *amortisation of customer relationships* to CHF 81 million, and a 160% rise in *depreciation of property and equipment* to CHF 100 million. *Personnel expenses* decreased slightly, by CHF 5 million, to CHF 1,616 million. The first-time application of IFRS 16 (Leases) resulted effectively in a shift of CHF 64 million from general expenses to depreciation.

As in previous years, in the analysis and discussion of the results in the media release and the Business Review, *adjusted operating expenses* exclude acquisition-related expenses. In 2019, acquisition-related integration and restructuring expenses amounted to CHF 18 million (2018: CHF 10 million) and acquisition-related amortisation of intangible assets to CHF 81 million (2018: CHF 74 million). In addition, the adjusted operating expenses exclude a CHF 153 million provision related to the claim by the Bundesanstalt für vereinigungsbedingte Sonderaufgaben (BvS) against Bank Julius Baer & Co. Ltd. as successor to Bank Cantrade Ltd. (which Julius Baer acquired in 2005 through the acquisition of Bank Ehinger & Armand von Ernst Ltd. from UBS AG) in relation to alleged unauthorised withdrawals between 1990 and 1992 from a Cantrade account, as well as a CHF 99 million non-cash goodwill impairment charge related to the Group's investment in Kairos, which was acquired in steps between May 2013 and January 2018. The reconciliations to the respective IFRS line items are provided in the Alternative Performance Measures document available at www.juliusbaer.com/APM.

*Adjusted operating expenses* rose by 3% to CHF 2,466 million.

*Adjusted personnel expenses* declined by CHF 5 million to CHF 1,613 million. The slight decrease in adjusted personnel expenses was achieved despite the inclusion of CHF 19 million of one-off severance costs related to the cost-reduction programme and a 3% increase in the monthly average number of employees. Even with the first-time inclusion of 75 full-time equivalents (FTEs) at NSC Asesores and the internalisation of 112 FTEs who were formerly external employees, however, the number of FTEs was down 1% year on year to 6,638 at the end of 2019 as a result of the 2019 cost-reduction programme. The base of relationship managers (RMs) declined by 2% to 1,467 FTEs, with 20 RMs joining through NSC Asesores. The average AuM per RM increased by 14% to CHF 290 million.

*Adjusted general expenses* increased by CHF 2 million to CHF 683 million and *depreciation of property and equipment* by CHF 62 million to CHF 100 million. Both these lines were impacted by the first-time application of IFRS 16 (Leases), however, which resulted effectively in a shift of CHF 64 million from general expenses to depreciation. Had this shift not happened, adjusted general expenses would have increased by CHF 66 million to CHF 747 million (and depreciation would have declined by CHF 2 million to CHF 36 million). This CHF 66 million is to a large extent explained by a CHF 47 million increase in provisions and losses, related to legacy legal cases. The remaining increase of CHF 18 million, or 3%, was largely driven by a rise in external staff costs for the finalisation of the client documentation review project and a rise in non-capitalised IT spend.

*Adjusted amortisation and impairment of intangible assets* grew by 33% to CHF 69 million, reflecting the rise in IT-related investments in recent years.

The *adjusted cost/income ratio* (which excludes adjusted provisions and losses) was 71% (2018: 71%). The *adjusted expense margin* (also excluding adjusted provisions and losses) improved to 58 bp (2018: 60 bp).

**IFRS net profit down 37% – Adjusted net profit down 5%**
IFRS *profit before taxes* declined by 37% to CHF 566 million. As income taxes fell by 36% to CHF 101 million, *net profit* as well as net profit attributable to shareholders of Julius Baer Group Ltd. decreased by 37% to CHF 465 million, and EPS also by 37% to CHF 2.14.

*Adjusted profit before taxes* decreased by 6% to CHF 917 million, and the adjusted pre-tax margin declined by 3 bp to 22 bp. The related income taxes fell by 13% to CHF 145 million, representing a tax rate of 15.8%, compared to 17.1% in 2018.

*Adjusted net profit for the Group* receded by 5% to CHF 772 million (2018: CHF 810 million). After considering adjusted non-controlling interests of CHF 1 million (negligible in 2018), adjusted net profit attributable to shareholders of Julius Baer Group Ltd. declined by 5% to CHF 771 million, and adjusted underlying EPS attributable to shareholders by 4% to CHF 3.55.

The adjusted return on CET1 capital (RoCET1) was 27% (2018: 30%).

**Balance sheet development – Increase in Lombard loans**
*Total assets* declined by 1% to CHF 102.0 billion. *Loans* grew by 7% to CHF 48.4 billion – comprising CHF 39.5 billion of Lombard loans (+10%) and CHF 8.9 billion of mortgages (-5%). As the *due to customers* position (deposits) increased by 2% to CHF 72.9 billion, the loan-to-deposit ratio increased from 63% to 66%. *Equity attributable to shareholders of Julius Baer Group Ltd.* increased by 2% to CHF 6.2 billion.

**Solidly capitalised – CET1 ratio 14.0% – Share buy-back programme continuing**
BIS CET1 capital rose by 5% to CHF 2.9 billion. In June 2019, the Group placed CHF 350 million of perpetual Additional Tier 1 (AT1) subordinated bonds. As a result of the increase in BIS CET1 capital and the AT1 bond issue, BIS tier 1 capital grew by 12% to CHF 4.4 billion and total capital by 13% to CHF 4.5 billion.

Risk-weighted assets (RWA) receded by 4% to CHF 20.5 billion. This decline was driven by a decrease in RWA of credit risk positions and lower RWA of market risk positions, following a year-on-year decline in market volatility.

As a result, the *BIS CET1 capital ratio* strengthened to 14.0% (end 2018: 12.8%) while the *BIS total capital ratio* improved to 22.1% (end 2018: 18.7%). The leverage exposure declined by 1% to CHF 101 billion, resulting in a Tier 1 leverage ratio of 4.4% (end 2018: 3.9%).

At these levels, the Group's capitalisation continued to be solid: the CET1 and total capital ratios remained well above the Group's own floors of 11% and 15%, respectively, and significantly in excess of the regulatory minimums of 8.2% and 12.4%, respectively. The Tier 1 leverage ratio continued to be comfortably above the 3.0% regulatory minimum.

On 20 November 2019, the Group commenced the execution of the announced programme to buy back Julius Baer Group Ltd. shares up to a purchase value of CHF 400 million by the end of February 2021. At the end of 2019, 755,000 shares had been repurchased at a total value of CHF 36 million (average value of CHF 47.80 per share).

**Unchanged ordinary dividend of CHF 1.50 per share proposed**
The Board of Directors of Julius Baer Group Ltd. will propose an ordinary dividend of CHF 1.50 per share for the financial year 2019. Subject to shareholder approval at the AGM on 16 April 2020, the total proposed distribution amount is CHF 336 million, equivalent to 44% of adjusted net profit attributable to shareholders of Julius Baer Group Ltd. Following the changes in Swiss tax law, generally 50% of the dividend will be paid out of retained earnings, subject to a 35% Swiss withholding tax, and the balance out of the statutory capital reserve, not subject to Swiss withholding tax.

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The results conference will be webcast at 9.30 a.m. (CET). All documents (presentation, Business Review 2019, Consolidated Financial Statements 2019, spreadsheets, Alternative Performance Measures document, and this media release) are available at www.juliusbaer.com.

## Contacts

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## Important dates

| | |
|---|---|
| 23 March 2020: | Publication of Annual Report 2019 including Remuneration Report 2019 |
| 23 March 2020: | Publication of Corporate Sustainability Report 2019 |
| 16 April 2020: | Annual General Meeting, Zurich |
| 20 April 2020: | Ex-dividend date |
| 21 April 2020: | Record date |
| 22 April 2020: | Dividend payment date |
| 19 May 2020: | Publication of Interim Management Statement for first four months of 2020 |
| 20 July 2020: | Publication and presentation of 2020 half-year results, Zurich |

**About Julius Baer**
Julius Baer is the leading Swiss wealth management group and a premium brand in this global sector, with a focus on servicing and advising sophisticated private clients. At the end of 2019, assets under management amounted to CHF 426 billion. Bank Julius Baer & Co. Ltd., the renowned Swiss private bank with origins dating back to 1890, is the principal operating company of Julius Baer Group Ltd., whose shares are listed on the SIX Swiss Exchange (ticker symbol: BAER) and are included in the Swiss Leader Index (SLI), comprising the 30 largest and most liquid Swiss stocks.

Julius Baer is present in over 25 countries and more than 60 locations. Headquartered in Zurich, we have offices in key locations including Dubai, Frankfurt, Geneva, Hong Kong, London, Luxembourg, Mexico City, Milan, Monaco, Montevideo, Moscow, Mumbai, São Paulo, Singapore and Tokyo. Our client-centric approach, our objective advice based on the Julius Baer open product platform, our solid financial base and our entrepreneurial management culture make us the international reference in wealth management.

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

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

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

# KEY FIGURES JULIUS BAER GROUP[1]

| | 2019 CHF m | 2018 CHF m | Change in % |
|---|---|---|---|
| **Key operating data** | | | |
| Operating income | 3,382.9 | 3,367.8 | 0.4 |
| Adjusted operating expenses | 2,465.9 | 2,390.7 | 3.1 |
| Adjusted profit before taxes | 916.9 | 977.1 | -6.2 |
| Adjusted net profit for the Group | 772.0 | 809.7 | -4.7 |
| IFRS net profit for the Group | 465.0 | 735.3 | -36.8 |
| Adjusted cost/income ratio | 71.1% | 70.6% | - |
| Adjusted pre-tax margin (basis points) | 22.1 | 24.8 | - |

| | 31.12.2019 | 31.12.2018 | Change in % |
|---|---|---|---|
| **Assets under management (CHF bn)** | | | |
| Assets under management | 426.1 | 382.1 | 11.5 |
| Net new money | 10.6 | 17.4 | - |
| **Consolidated balance sheet (CHF m)** | | | |
| Total assets | 102,035.2 | 102,898.3 | -0.8 |
| Total equity | 6,189.4 | 6,041.9 | 2.4 |
| BIS total capital ratio | 22.1% | 18.7% | - |
| BIS CET1 capital ratio | 14.0% | 12.8% | - |
| Return on tangible equity (RoTE), adjusted | 24% | 28% | - |
| Return on common equity Tier 1 (RoCET1), adjusted | 27% | 30% | - |
| **Personnel (FTE)** | | | |
| Number of employees | 6,639 | 6,693 | -0.8 |
| Number of relationship managers | 1,467 | 1,501 | -2.3 |
| **Capital structure** | | | |
| Number of shares | 223,809,448 | 223,809,448 | - |
| Market capitalisation (CHF m) | 11,175 | 7,836 | 42.6 |
| **Moody's rating Bank Julius Baer & Co. Ltd.** | | | |
| Long-term deposit rating | Aa2 | Aa2 | |
| Short-term deposit rating | Prime-1 | Prime-1 | |

[1] The document Alternative Performance Measures available at www.juliusbaer.com/APM provides a reconciliation of adjusted performance measures to reported results under IFRS as well as definitions of adjusted performance measures and other alternative performance measures.

Julius Bär

# MEDIA RELEASE

Julius Baer Group Ltd.

Zurich, 3 February 2020

Shift from asset-gathering strategy to sustainable profit growth

## Julius Baer presents updated strategy and mid-term targets

- **Ambition to become the most reputable and admired brand in wealth management**
- **Sharpened, distinctive and consistent value proposition for high net worth and ultra-high net worth clients, supported by accelerated investments in human advice and technology**
- **Comprehensive three-year programme to enhance client experience and revenues, to improve productivity and efficiency and to strengthen risk culture and teamwork**
- **High-quality, sustainable profit growth and attractive capital returns to result**
- **New medium-term targets (2020 – 2022):**
  - **Adjusted[1] pre-tax margin of 25 to 28 basis points by 2022**
  - **Adjusted[1] cost/income ratio of 67% or lower by 2022**
  - **Over 10% annual growth in adjusted[1] pre-tax profit over the medium-term cycle**
  - **Adjusted[1] return on CET1 capital of at least 30% by 2022**

Julius Baer Group today provided an update of its strategy, including a new set of financial targets for the coming three-year cycle (2020 to 2022).

Philipp Rickenbacher, CEO of Julius Baer, said: “With the successful growth strategy of the past decade, Julius Baer has defined pure wealth management. In the next decade, we aim to become the most reputable and admired wealth manager in the industry. To achieve this, we need to dynamically modernise our organisation. We will sharpen our value proposition for high net worth and ultra-high net-worth clients. We will accelerate our investments in human advice and technology. And we will shift our leadership focus from an asset-gathering strategy to one of sustainable profit growth.”

While new secular dynamics are unfolding and the economics of the business are changing, wealth management remains an attractive industry. With its leading market position and size, and as the only large player focused purely on wealth management, Julius Baer is excellently positioned for the future.

**Sharpen value proposition for sophisticated high net worth and ultra-high net worth individuals**

Julius Baer will offer its two client segments, HNWI and UHNWI, a sharpened, distinct value proposition. Contrary to industry trends, HNWI will continue to be served in a personal way, with a dedicated Relationship Manager. They will be offered an unrivalled breadth of solutions that can be customised based on technology, supporting scalability. UHNWI and wealthy families will benefit from Julius Baer's global coverage, full access to its expertise and the ability to deliver highly bespoke solutions, based on the Group's open product architecture and its balance sheet, without the conflict of other lines of business.

The Group will invest even more in its range of solutions and expertise – already one of the most comprehensive ones in the industry – to enhance its relevance for clients and capture new market opportunities. Examples of innovation in these areas are digital assets, structured lending, and impact investing.

**Accelerate investments in human advice and technology**
Investments in technology to power human advice will be accelerated and will be increased by approximately 20% in 2020 and 2021. This will create new revenue opportunities and improve efficiency. The main shift will be from the modernisation of the back-end to investment in enhancing client value at the front-end.

Julius Baer will continue to attract the top entrepreneurial talent in the industry – relationship managers, but also specialists and technology experts. The Group will invest in developing junior relationship managers in-house, and will upgrade incentive and compensation systems, in line with its financial targets, entrepreneurial aspiration, and risk standards.

**Shift from asset-gathering strategy to sustainable profit growth**
With Julius Baer's shift from an asset-gathering strategy to one focused on sustainable profit growth, the Group is introducing new targets for the coming three-year cycle (2020 – 2022):

- An adjusted[1] pre-tax margin of 25 to 28 basis points
- An adjusted[1] cost/income ratio of 67% or lower
- Over 10% annual growth in adjusted[1] pre-tax profit over the cycle, assuming no meaningful deterioration in markets or foreign exchange rates
- Adjusted[1] return on CET1 capital of at least 30% by 2022, supported by active capital management.

Julius Baer remains committed to maintaining the quality and strength of its balance sheet and capitalisation. The floors of its BIS total capital and CET1 ratio will be kept at 15% and 11% respectively, representing a prudent buffer of around three percentage points above regulatory minimums.

The dividend and capital return frameworks remain unchanged and reflect the Group's strong capital generation. Ordinary annual dividends of 40% of adjusted net profits can be complemented by share buybacks or special dividends. The current CHF 400 million buy-back programme will run until the end of February 2021.

**Implementation through three-year programme**
To implement its strategy, Julius Baer is starting a three-year programme to enhance its client value, improve its productivity and efficiency, and strengthen its risk culture and teamwork. The programme is expected to deliver more than CHF 150 million of revenue improvements to offset anticipated industry-wide margin pressure through an enhanced offering, the roll-out of additional fee-based advisory models, the deepening of its structuring and credit capabilities, as well as price realisation.

Julius Baer will reduce its cost base by CHF 200 million through productivity and efficiency measures. These measures will include simplifying its organisation, improving operational excellence in all areas, and reviewing the Group’s geographic footprint based on future growth potential. It has already been decided that the booking centre in the Bahamas will close.

As part of its three-year programme, Julius Baer will also uncompromisingly strengthen its corporate values as well as its robust risk and compliance culture, based on professional integrity and teamwork.

The impact of the programme will start to materialise in 2021 and be fully realised by 2022.

The full details on Julius Baer’s updated strategy are available on www.juliusbaer.com (Full-year Presentation 2019).

[1] For definition of adjusted result, please refer to www.juliusbaer.com/APM

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

# FY 2019 RESULTS AND STRATEGY UPDATE

Presentation for Investors, Analysts & Media
Zurich, 3 February 2020

# CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

## General

This presentation by Julius Baer Group Ltd. ("the Company") does not constitute an invitation or offer to acquire, purchase or subscribe for securities nor is it designed to invite any such offer or invitation.

## Cautionary Statement Regarding Forward-looking Statements

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In view of these uncertainties, readers are cautioned not to place undue reliance on these forward-looking statements. the Company and its subsidiaries, and their directors, officers, employees and advisors expressly disclaim any obligation or undertaking to release any update of or revisions to any forward-looking statements in this presentation and these materials and any change in the Company's expectations or any change in events, conditions or circumstances on which these forward-looking statements are based, except as required by applicable law or regulation.

## Financial Information

This presentation contains certain pro forma financial information. This information is presented for illustrative purposes only and, because of its nature, may not give a true picture of the financial position or results of operations of the Company. Furthermore, it is not indicative of the financial position or results of operations of the Company for any future date or period.

## Rounding

Numbers presented throughout this presentation may not add up precisely to the totals provided in the tables and text. Percentages and percent changes are calculated based on rounded figures displayed in the tables and text and may not precisely reflect the percentages and percent changes that would be derived based on figures that are not rounded.

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# FINANCIAL RESULTS FY 2019*

## DIETER A. ENKELMANN, CFO

*Financial Results are presented on adjusted basis. See “Scope of Presentation of Financials” on the next page.

# SCOPE OF PRESENTATION OF FINANCIALS

## FINANCIAL RESULTS ARE PRESENTED AS USUAL ON THE ADJUSTED BASIS

- *Excluding* expenses related to acquisitions or divestments (M&A) and the taxes on those respective items

- In 2019, compared to previous years, the M&A-related expenses include (next to other M&A-related items) two larger adjustments:
  - As announced on 4 December 2019: CHF 153 million provision (CHF 119 million net of taxes) related to the claim by the Bundesanstalt für vereinigungsbedingte Sonderaufgaben (BvS) against Bank Julius Baer & Co. Ltd. as successor to Bank Cantrade Ltd. (which Julius Baer acquired in 2005 through the acquisition of Bank Ehinger & Armand von Ernst Ltd. from UBS AG) in relation to alleged unauthorised withdrawals between 1990 and 1992 from a Cantrade account ("BvS provision")
  - As announced on 19 November 2019: CHF 99 million non-cash goodwill impairment charge related to the Group's investment in Kairos, which was acquired in steps between May 2013 and January 2018 ("Kairos goodwill impairment")

- Please refer to the Julius Baer Group Ltd. Consolidated Financial Statements 2019[1] for the IFRS results

- A reconciliation from the IFRS results to the adjusted results is outlined in the Appendix

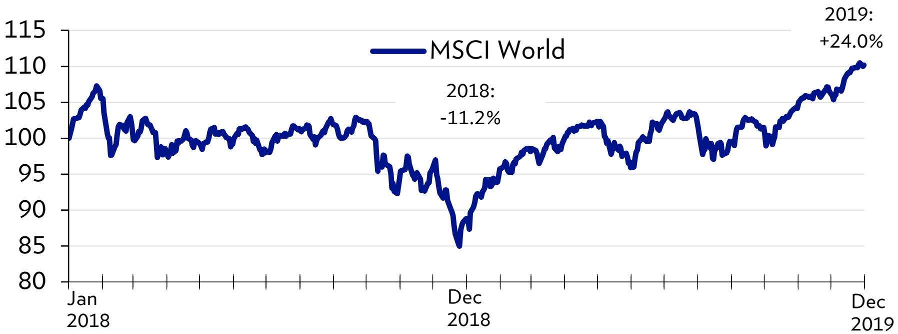
- A more detailed explanation of the adjustments, a definition of (non-IFRS) Alternative Performance Measures, as well as a more comprehensive reconciliation from the adjusted results to the most directly reconcilable IFRS line items, are provided in the Alternative Performance Measures document available from www.juliusbaer.com/APM

[1] Available from www.juliusbaer.com

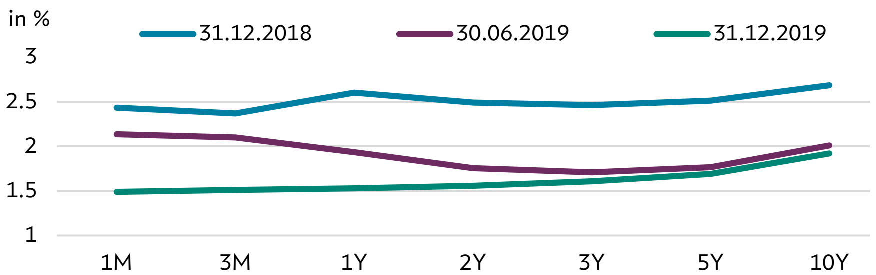
# 2019 MARKET ENVIRONMENT

## Markets recovered strongly – US interest rates significantly lower

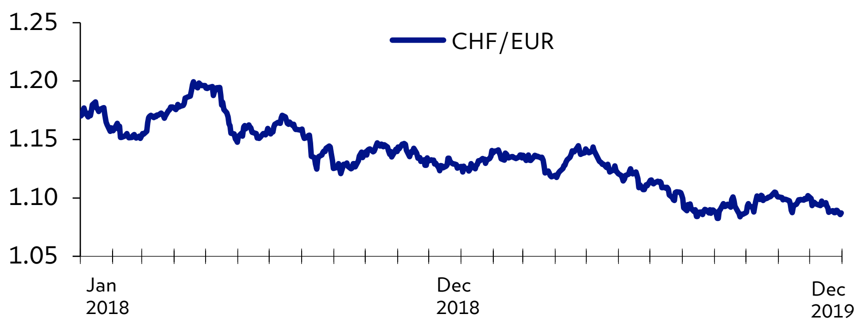
2018-2019 development MSCI All-World Index[1]




2019 development of US 1M-10Y treasury yield curve[2]




Development of CHF against EUR[1]




**Stock markets**

- Global equities recovered solidly after major losses towards end of 2018

**US interest rates**

- After moving up in 2018, yields went down significantly in 2019
- Towards end of 2019, curve was no longer inverted

**Swiss franc vs. euro**

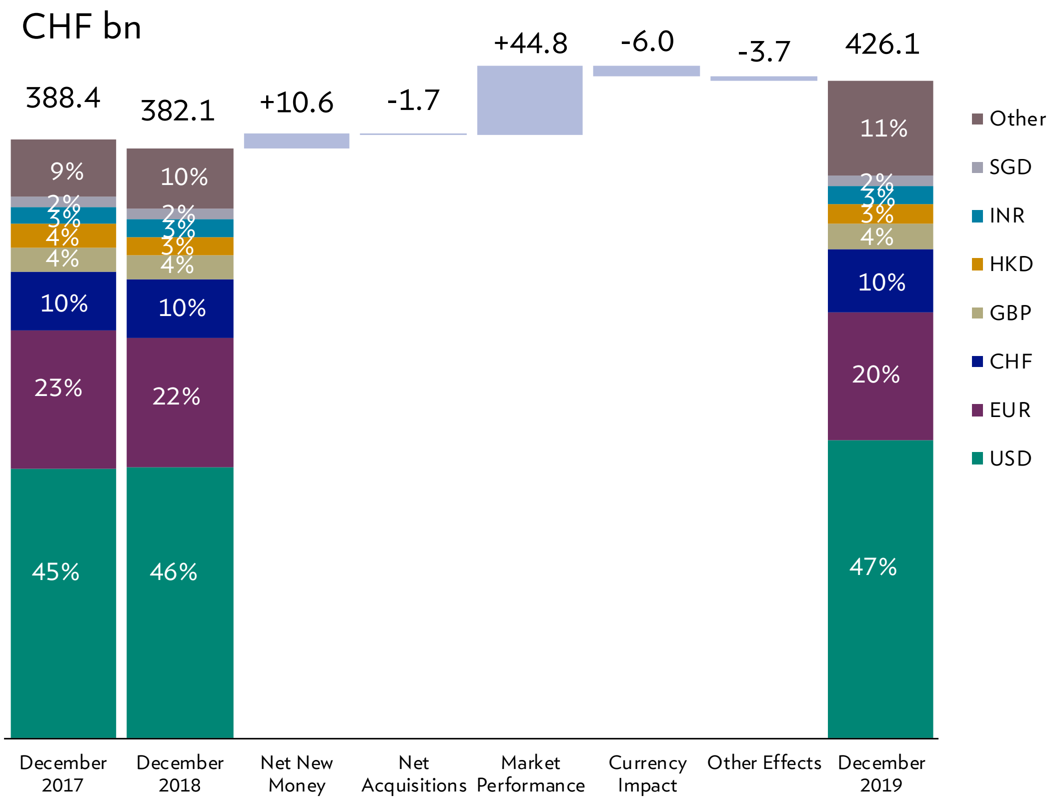
- Strengthening of CHF vs. EUR continued in 2019

[1] Source: Datastream, Julius Baer | [2] Source: Bloomberg Finance L.P., Julius Baer

# AUM UP CHF 44bn OR 12% TO CHF 426bn

## Strong market performance as main driver

### Development of Assets under Management




- AuM CHF 426bn, up CHF 44.0bn, +12%
  - Net new money CHF +10.6bn
  - Net acquisitions[1] CHF -1.7bn
  - Market performance[2] CHF +44.8bn
  - Currency impact[2] CHF -6.0bn
  - Other effects[3] CHF -3.7bn
- *Average* AuM[4] of CHF 414bn, up +5% from CHF 394bn in 2018
- Assets under custody CHF 73bn, +18%

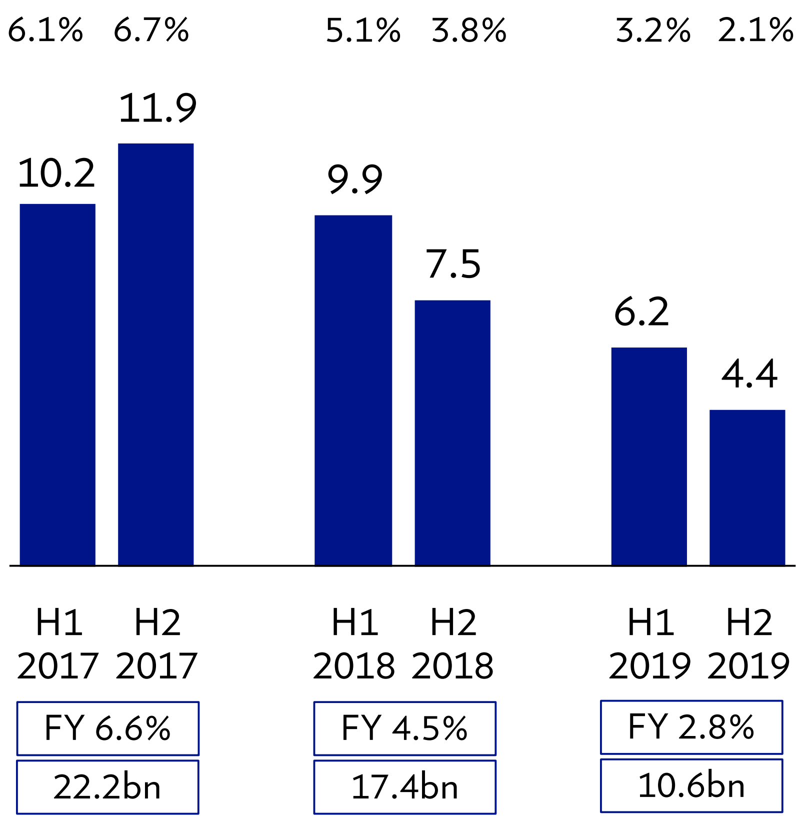
[1] Net acquisitions consisting of acquisition of CHF +3.0bn NSC Asesores and CHF -4.7bn resulting from discontinuation of offering to clients from selected countries and completion of sale of Julius Baer (Netherlands) B.V. | [2] Currency impact is approximated by applying the changes in the currency exchange rates in the period to AuM at the end of the preceding year. Market performance is approximated through the change in AuM that remains after accounting for net new money, net acquisitions, the currency impact approximation, and the other effects | [3] Includes assets which have been reclassified following the completed roll-out of the new client advisory models in Switzerland and continental Europe | [4] Calculated on the basis of monthly AuM levels

# SATISFACTORY NET INFLOWS FROM CORE WM BUSINESS

## NNM excluding Kairos: 4.1%

**Net New Money**

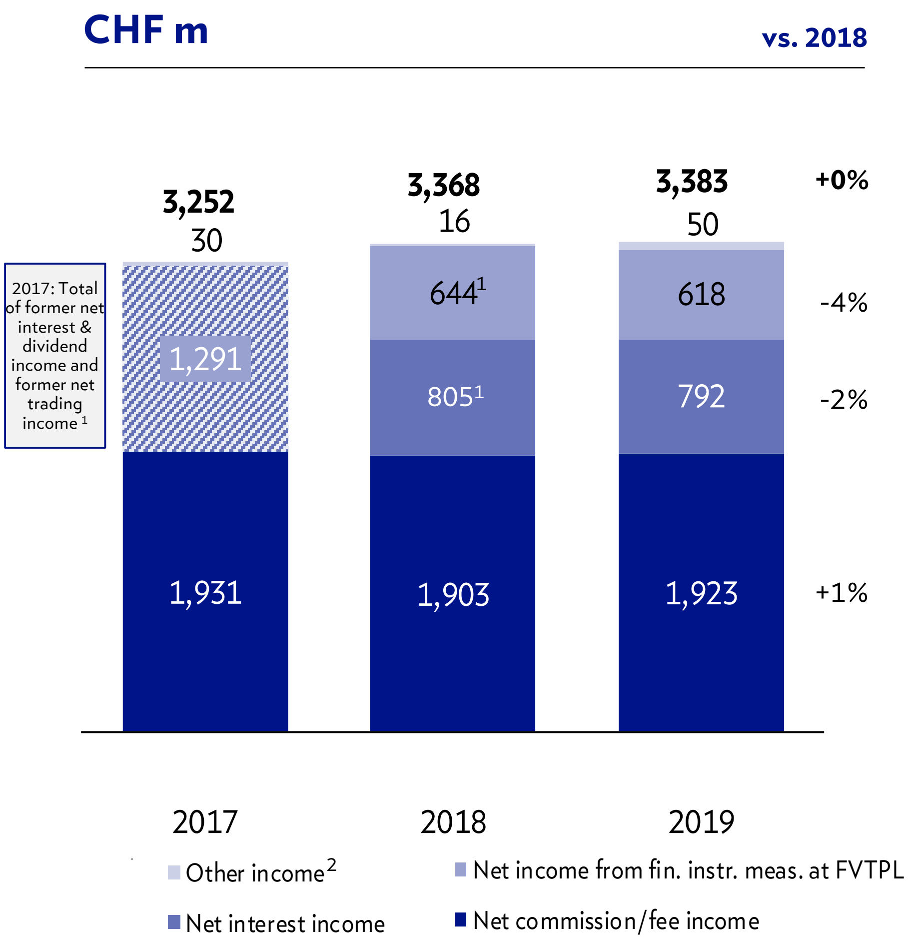
in CHF bn and %




- NNM CHF 10.6bn (2.8%), negatively impacted by Kairos outflows, following 2018 underperformance and 2019 management departures
- Excluding Kairos, NNM inside target range (4.1%), despite some outflows related to
  - client documentation review project
  - wider application of negative interest rates
- Strong inflows from clients domiciled in Asia and Europe

# OPERATING INCOME UNCHANGED AT CHF 3.4bn

## Realignment between net interest income and (former) net trading income




**Net commission/fee income: +1% to CHF 1,923m**

- +1% increase recurring income
  - Higher average AuM
  - Somewhat lower contribution from Kairos (higher performance fees; lower AuM)
  - Modest fee pressure on discretionary mandates
- Slight y-o-y decrease in client transaction volumes

**Net interest income[1]: -2% to CHF 792m**

- Increase in interest income on loans (average rate increase)
- Increase in interest on treasury portfolio (on higher average volume, despite decrease towards year-end)
- Increase in cost of deposits (increase in average volumes of USD non-current accounts)

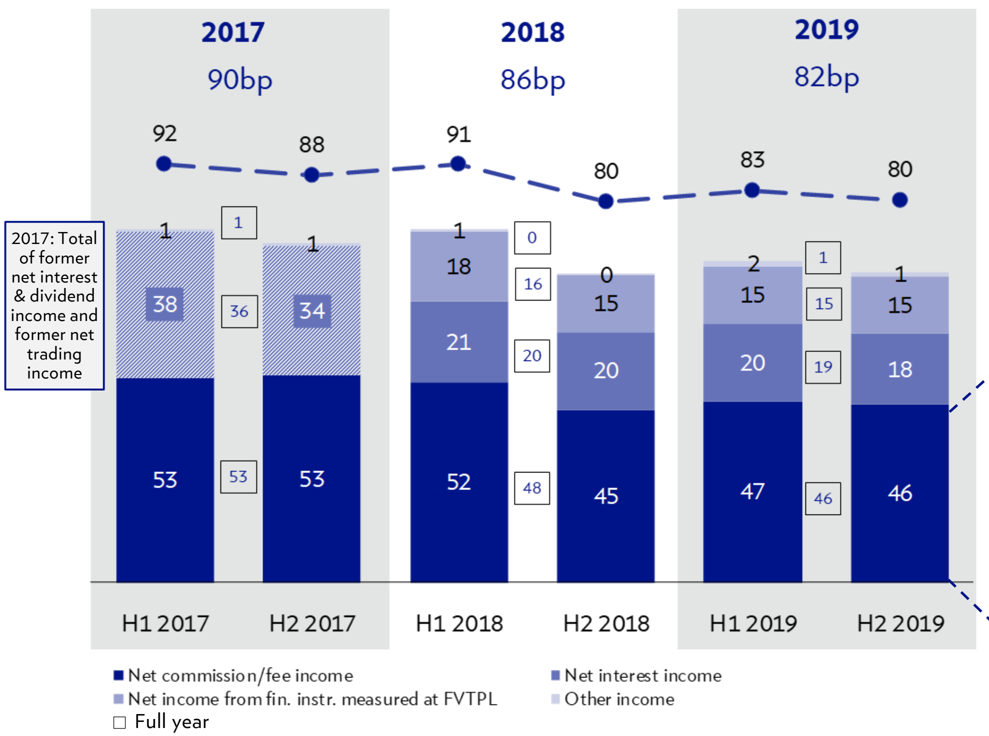
**Net income from financial instruments measured at FVTPL[1]: -4% to CHF 618m**

- Decrease in market volatility

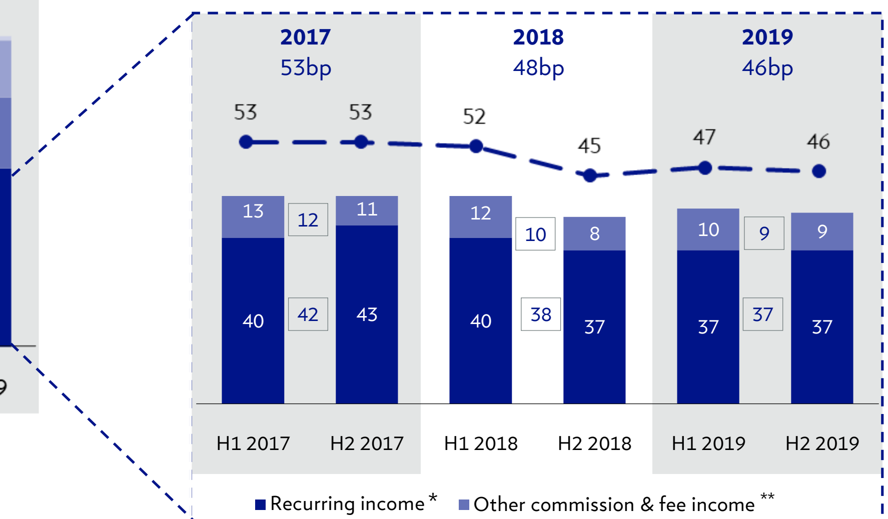
[1] Former line items “net interest and dividend income” and “net trading income” have been replaced by new line items “net interest income” and “net income from financial instruments at fair value through profit or loss (FVTPL)”. The 2018 numbers have been realigned accordingly (but not 2017). See the Appendix for more details | [2] Other income is the total of IFRS income statement items “other ordinary results” and “net credit losses/(recoveries) on financial assets”

# GROSS MARGIN

## Gross Margin



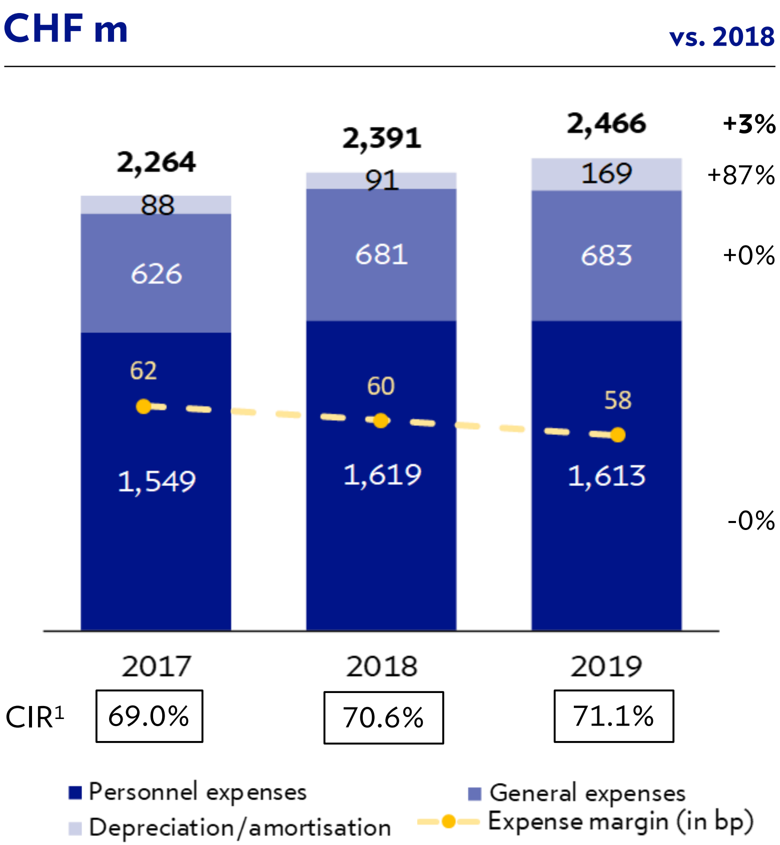

## Gross Margin Net Commission/Fee Income




* Total of "advisory and management fees", "commission income from credit-related activities" and "commission and fee income on other services" | ** "Brokerage commissions and income from securities underwriting" minus "commission expense"

# ADJUSTED OPERATING EXPENSES +3% TO CHF 2.5bn

## Benefits of 2019 cost-reduction programme materialising




Adjusted operating expenses – approx. breakdown by currency

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| CHF | 54% | SGD | 11% | USD | 5% | BRL | 2% |
| EUR | 12% | HKD | 7% | GBP | 5% | Other | 4% |

**Personnel expenses: slight decrease to CHF 1,613m**

- Lower performance-related pay more than offset 3% higher avg. FTE and CHF 19m severance costs (cost-reduction programme)
- Year-end FTE down 1% vs. end 2018 – despite first-time inclusion NSC Asesores (76) and internalisation formerly external staff (112)
- Excluding these two effects, year-end FTE down more than 240

**General expenses unchanged at CHF 683m**

- IFRS 16: shift of CHF 64m leasehold expenses to depreciation
- CHF 47m increase in provisions mainly related to legacy cases
- Excluding these two effects: underlying increase 3% to CHF 686m
  - Finalisation client documentation review project ('Atlas')
  - Increase in non-capitalised IT spend, accelerated in Q4

**Depreciation/amortisation CHF +79m to CHF 169m**

- Of which CHF 64m IFR 16-related shift from general expenses
- Remaining CHF 15m increase mainly IT-related

**Cost/income ratio[1] 71.1%** (H1 2019: 71.0%, H2 2019: 71.1%)

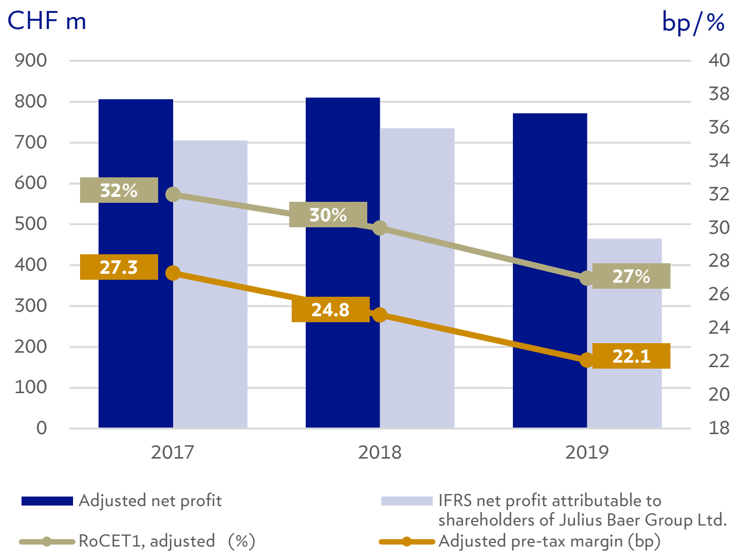
- CHF 100m cost-reduction programme completed: ~60% in 2019
- CIR close to FY 2018 level - despite 4bp lower gross margin
- Clear improvement in CIR compared to H2 2018 (74.3%)

**Expense margin improved to 58bp** (2018: 60bp)

- Reflecting benefits of 2019 cost-reduction programme
- Expense margin has improved by 5bp since FY 2016

[1] Cost/income ratio excluding adjusted provisions and losses

# ADJUSTED NET PROFIT[1] CHF 772m (-5%)




- Adjusted net profit[1] at CHF 772m due to:
  - AuM growth
  - improved expense margin
  - lower tax rate
- Yet, net profit decline of 5%, as impact of:
  - decline in gross margin
  - increase in provisions related mainly to legacy cases
- IFRS net profit attributable to shareholders[2] declined by 37% to CHF 465m, mainly due to impact of the BvS provision and the Kairos goodwill impairment

| CHF m | 2017 | 2018 | 2019 | Change 2019/2018 |
|---|---|---|---|---|
| Average assets under management (CHF bn) | 362.5 | 393.9 | 414.0 | +5% |
| Operating income | 3,252 | 3,368 | 3,383 | +0% |
| Adjusted operating expenses | 2,264 | 2,391 | 2,466 | +3% |
| **Adjusted profit before taxes** | **989** | **977** | **917** | **-6%** |
| **Adjusted pre-tax margin (bp)** | **27.3** | **24.8** | **22.1** | **-2.7 bp** |
| Adjusted income taxes | 183 | 167 | 145 | -13% |
| **Adjusted net profit[1]** | **806** | **810** | **772** | **-5%** |
| Adjusted EPS attributable to shareholders[2] (CHF) | 3.66 | 3.72 | 3.55 | -4% |
| RoCET1, adjusted (%) | 32% | 30% | 27% | -3 pt |
| Tax rate (%) | 18.5% | 17.1% | 15.8% | -1.3 pt |
| **IFRS net profit attributable to shareholders[2]** | **705** | **735** | **465** | **-37%** |

**Tax guidance:** Adjusted tax rate (FY 2019: 15.8%) currently expected ~15% in next few years

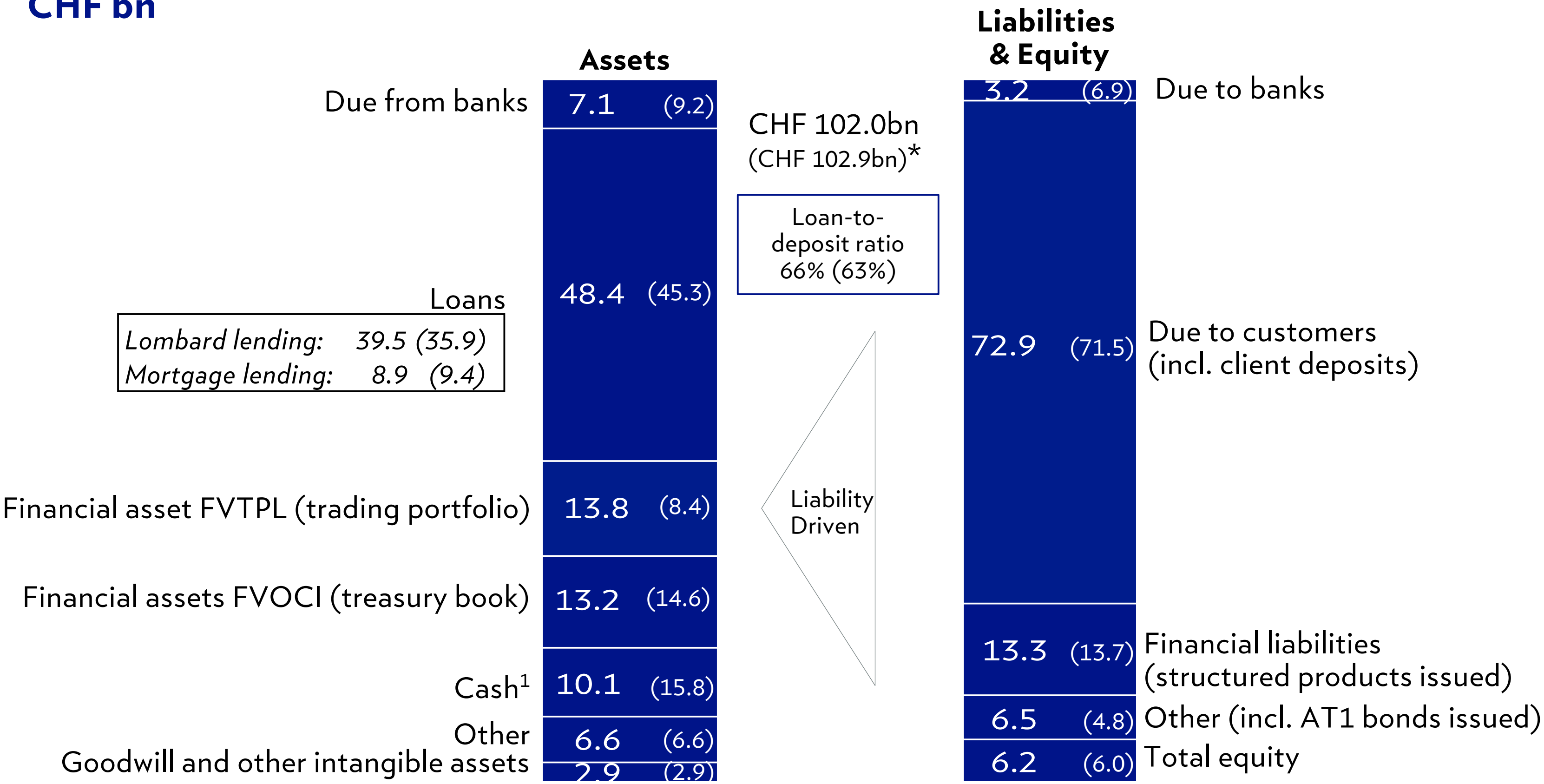
- Mainly following Swiss tax reform and a much increased profit contribution from Asian platforms

[1] Reconciliation to IFRS result available in Appendix and from www.juliusbaer.com/APM | [2] of Julius Baer Group Ltd.

# SOLID BALANCE SHEET – LOW RISK PROFILE

## Loan-to-deposit ratio up to 66% after 7% increase in loans and 2% higher deposits

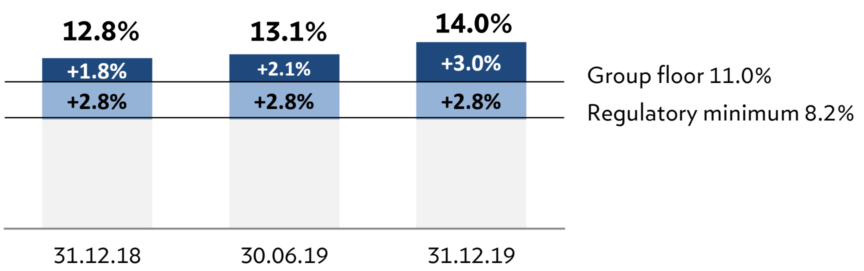
**CHF bn**



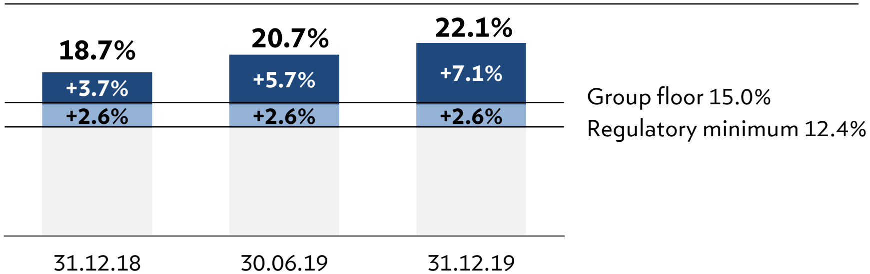

Figures as at 31 December 2019, summarised and regrouped from Financial Statements.
*In brackets: figures as at 31 December 2018
[1] Cash held mainly at Swiss National Bank as well as at Deutsche Bundesbank, Banque centrale du Luxembourg and Banque de France

# CAPITAL AND LEVERAGE RATIOS STRENGTHENED SIGNIFICANTLY

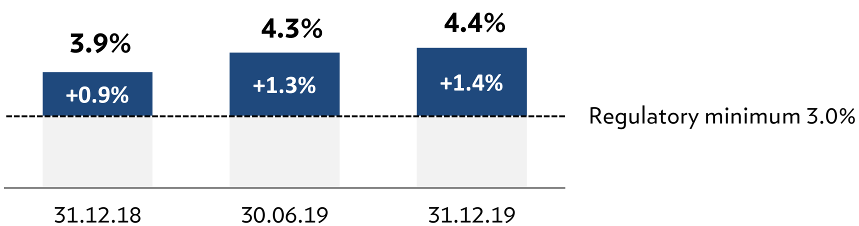
### BIS CET1 capital ratio




### BIS total capital ratio




### Tier 1 leverage ratio




CET1 ratio 14.0%, up ~120bp year-on-year, driven by:

- CHF 0.1bn CET1 capital build (net of CHF 0.4bn dividend accrual, share buy-back and other capital effects)
- CHF 0.9bn RWA decrease
  - CHF -0.8bn credit RWA: decrease in mortgages and treasury book more than offset Lombard loan increase
  - CHF -0.6bn market RWA: lower market volatility
- ~30bp negative impact from NSC Asesores[1]
- ~40bp negative impact from rate impact Swiss pensions[2]

### RWA, capital, leverage exposure

| BIS approach / CHF m | 31.12.2018 *Basel III* | 30.06.2019 *Basel III* | 31.12.2019 *Basel III* |
|---|---|---|---|
| **Risk-weighted positions** | | | |
| Credit risk | 14,528 | 15,207 | 13,749 |
| Non-counterparty-related risk | 353 | 612 | 613 |
| Market risk | 1,245 | 540 | 671 |
| Operational risk | 5,213 | 5,341 | 5,462 |
| **Total risk-weighted positions** | **21,338** | **21,700** | **20,495** |
| | | | |
| CET1 capital | 2,731 | 2,837 | 2,877 |
| Tier 1 capital | 3,933 | 4,387 | 4,421 |
| *- of which hybrid tier 1 capital instruments* | *1,202* | *1,550* | *1,544* |
| Total capital | 3,991 | 4,496 | 4,522 |
| Leverage exposure | 101,679 | 102,830 | 101,002 |

[1] Acquisition of additional 30% stake and first-time consolidation | [2] Impact of lower Swiss interest rates on the Swiss pension fund liabilities

# STRATEGY UPDATE

## PHILIPP RICKENBACHER, CEO

# WE ARE IN A UNIQUE POSITION

**PERSONAL** CONNECTIONS

**PURE** WEALTH MANAGEMENT

Julius Bär

**INTERNATIONAL** NETWORK

**SOLID** FOUNDATIONS

## WE RANK AMONG THE TOP WEALTH MANAGERS

**TOP 10** – Wealth managers globally
Total AuM 2018[1]

**TOP 5** – Wealth managers for UHNWI outside North America
UHNWI AuM 2018[2]

**TOP 5** – Wealth managers in Asia ex-China onshore
Asia AuM 2018[3]

**TOP 5** – Wealth managers in Switzerland
PB CH onshore AuM 2018[4]

**Outstanding Private Bank for Growth Strategy**
Private Banker Intl. Global Wealth Awards 2016-2019

**Best Boutique Private Bank, Asia**
The Asset, Asset Asian Awards 2010-2019

**Outstanding Wealth Management Technology Platform**
Private Banker International Awards Switzerland 2019

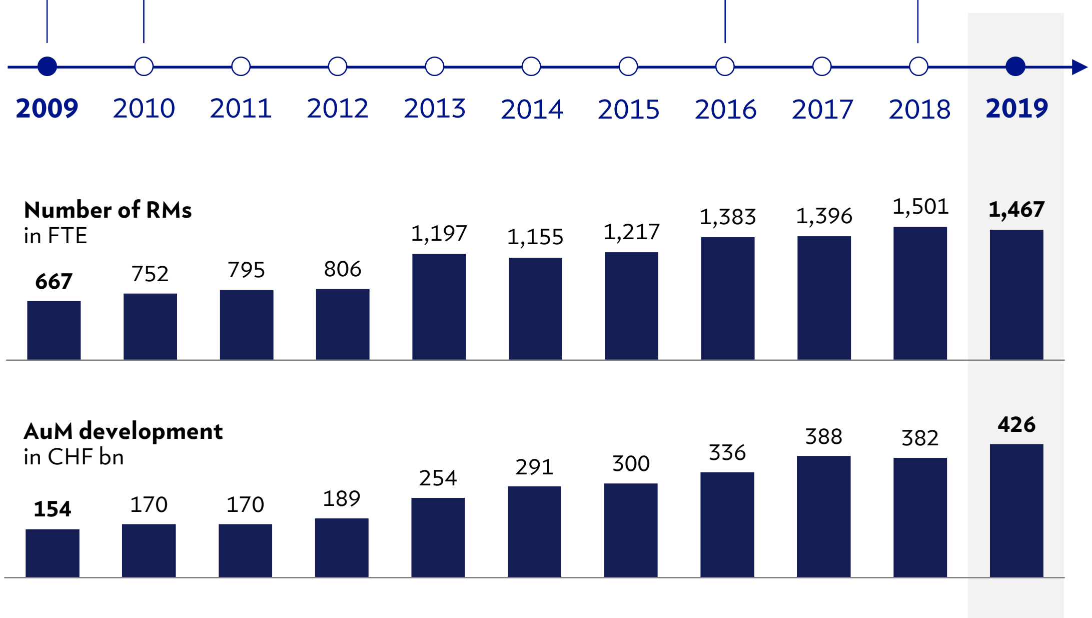
[1, 2, 4] Source: Annual reports, McKinsey & Company | [3] Source: Asian Private Banker

# JULIUS BAER HAS DEFINED PURE WEALTH MANAGEMENT OVER THE LAST DECADE

**Spin-off asset management business**, exclusive focus on pure wealth management

**Cooperations**
- Joint venture with Siam Commercial Bank, Thailand
- Strategic partnership with Nomura, Japan

**Period of major acquisitions**, amongst them
- ING Bank (Switzerland) Ltd. (2010)
- Merill Lynch Intl. Wealth Management (2012)
- Commerzbank Intl. S.A. Luxembourg (2016)

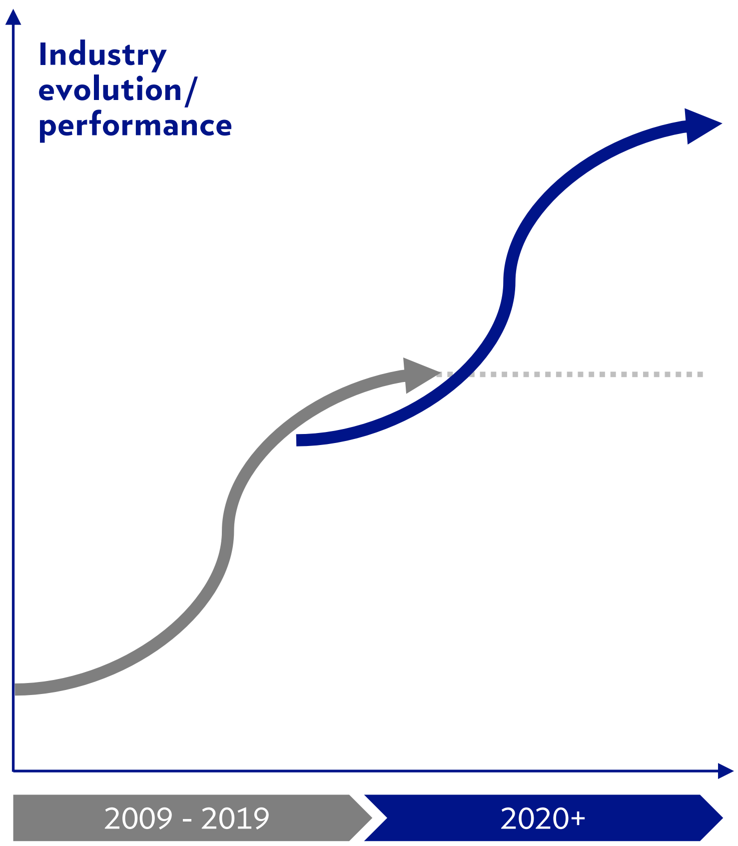



## WE CREATED CRITICAL MASS

- **Strong footprint in our core markets** incl. Switzerland, Germany, the United Kingdom, Singapore, Hong Kong and Brazil
- **Establishment of a global presence** in over 25 countries with more than 60 locations and 8 booking centres worldwide
- International bench of **>1,000 investment, credit and wealth planning specialists**
- **Strong balance sheet** and capitalisation

# A NEW PARADIGM IN WEALTH MANAGEMENT IS EMERGING

## Growth strategies need a step change to succeed




'Global citizens' with complex needs and heightened expectations require **even broader capabilities and deeper expertise**

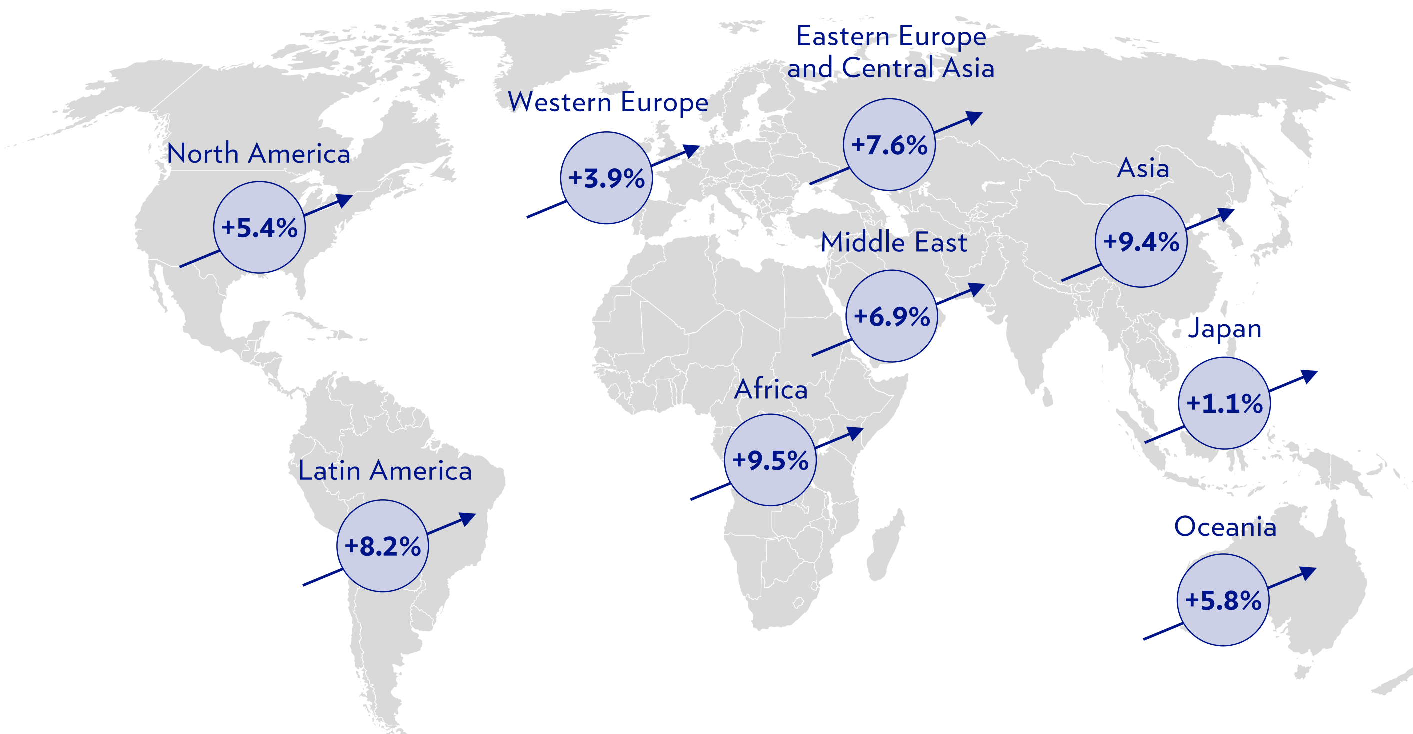
With a generational shift being underway, clients ask for **differentiation through values and purpose**

Margin pressure calls for **different ways of creating value** for and together with clients

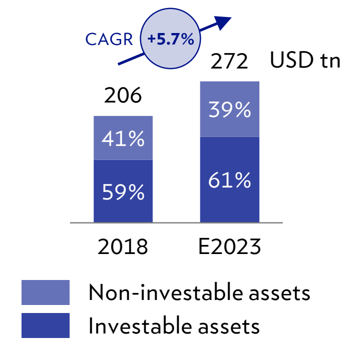
Structural costs of doing business increase with regulatory requirements and transformation for the digital age - **growth investments need to be even more focused**

# WEALTH MANAGEMENT REMAINS A GROWTH INDUSTRY

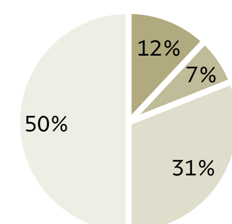
## EXPECTED GROWTH OF PERSONAL FINANCIAL WEALTH FROM 2018 TO 2023 (CAGR)




### Global wealth




### Share of global wealth by wealth band, 2018




| Wealth band | **CAGR 2018-2023** |
|---|---|
| >USD 100m | **7.7%** |
| USD 20m-100m | **8.6%** |
| USD 1m-20m | **5.9%** |
| USD 0m-1m | **4.8%** |

Source: BCG Global Wealth Report 2019 – BCG Global Wealth Market Sizing Database

# OUR AMBITION FOR THE NEXT DECADE

## TO BE THE MOST ADMIRED GLOBAL WEALTH MANAGER

The **best holistic and trusted independent advisor** for wealthy private clients and families

The **most entrepreneurial place to work** for top wealth management talents

Financially strong,
**solid balance sheet,**
**robust risk management**

A highly attractive **pure play and internationally diversified** investment

# WHAT WE WILL DO DIFFERENTLY

## We radically change how we execute

**SHARPEN**
VALUE PROPOSITION

From historically grown individual client management to a distinctive segment value proposition

**ACCELERATE**
INVESTMENTS

From building the foundations to delivering a state-of-the-art client experience

**SHIFT**
LEADERSHIP FOCUS

From an asset gathering strategy to sustainable profit growth

# FOCUS ON SOPHISTICATED HNWI AND UHNWI CLIENTS

## Distinctive value proposition for each segment

❯ **SHARPEN**

ACCELERATE

SHIFT

### HNWI

- 'Large client' treatment with dedicated Relationship Manager
- Holistic, comprehensive and individually customised solutions and advice
- Scalable engine

### UHNWI

- Julius Baer as 'wealth architect'
- Global coverage, open architecture, access to balance sheet
- Highly bespoke, multi-disciplinary solutions

### INTERMEDIARIES

Serving the same segments through partnerships with selected Intermediaries

# MOST RELEVANT AND COMPREHENSIVE OFFERING

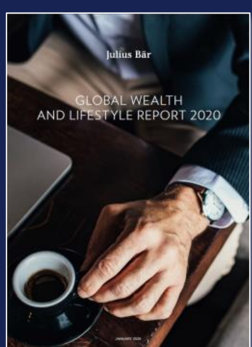
## Innovating at global and local level

**❯ SHARPEN**

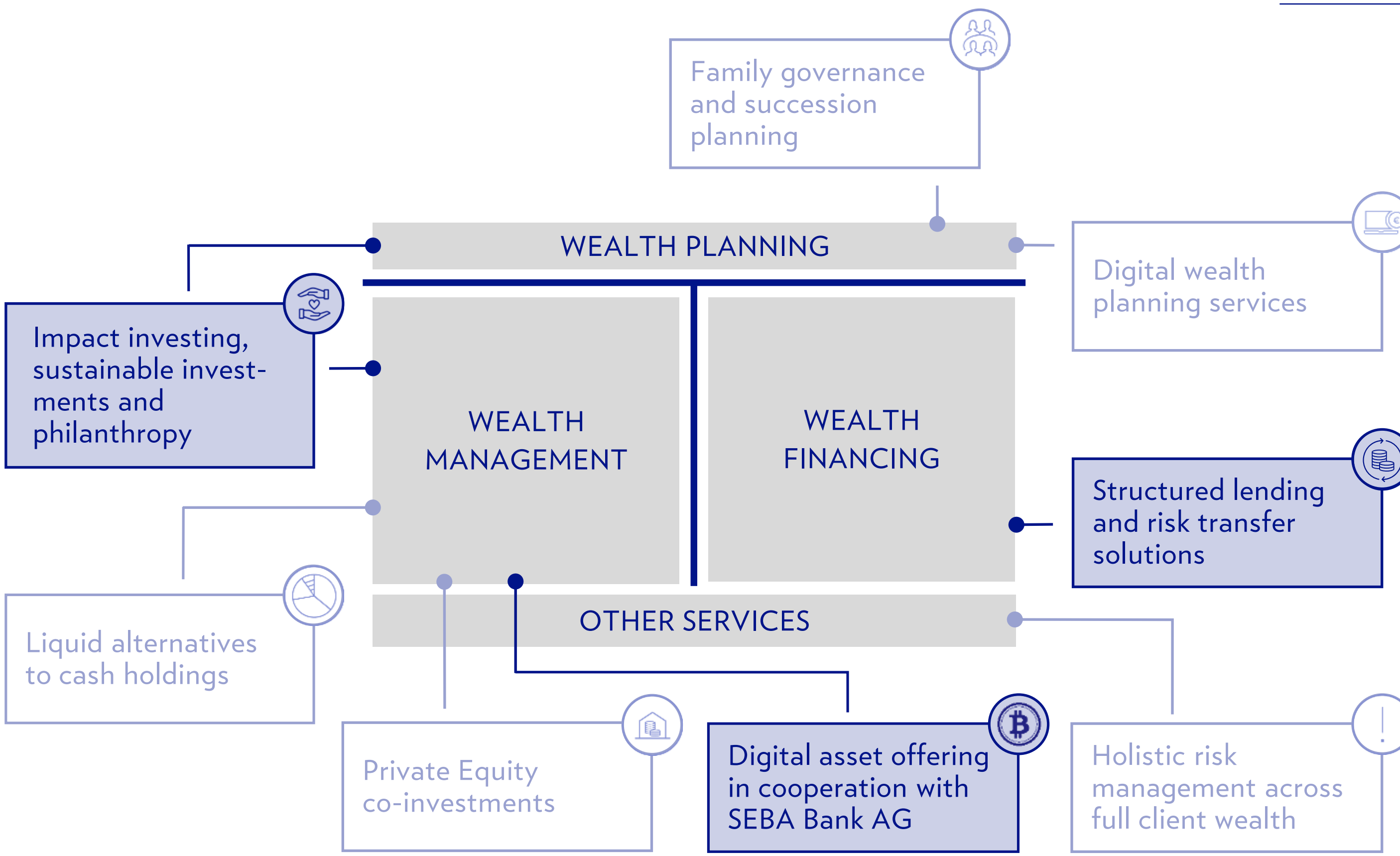
ACCELERATE

SHIFT

*Global Wealth and Lifestyle Report 2020*




*Examples*

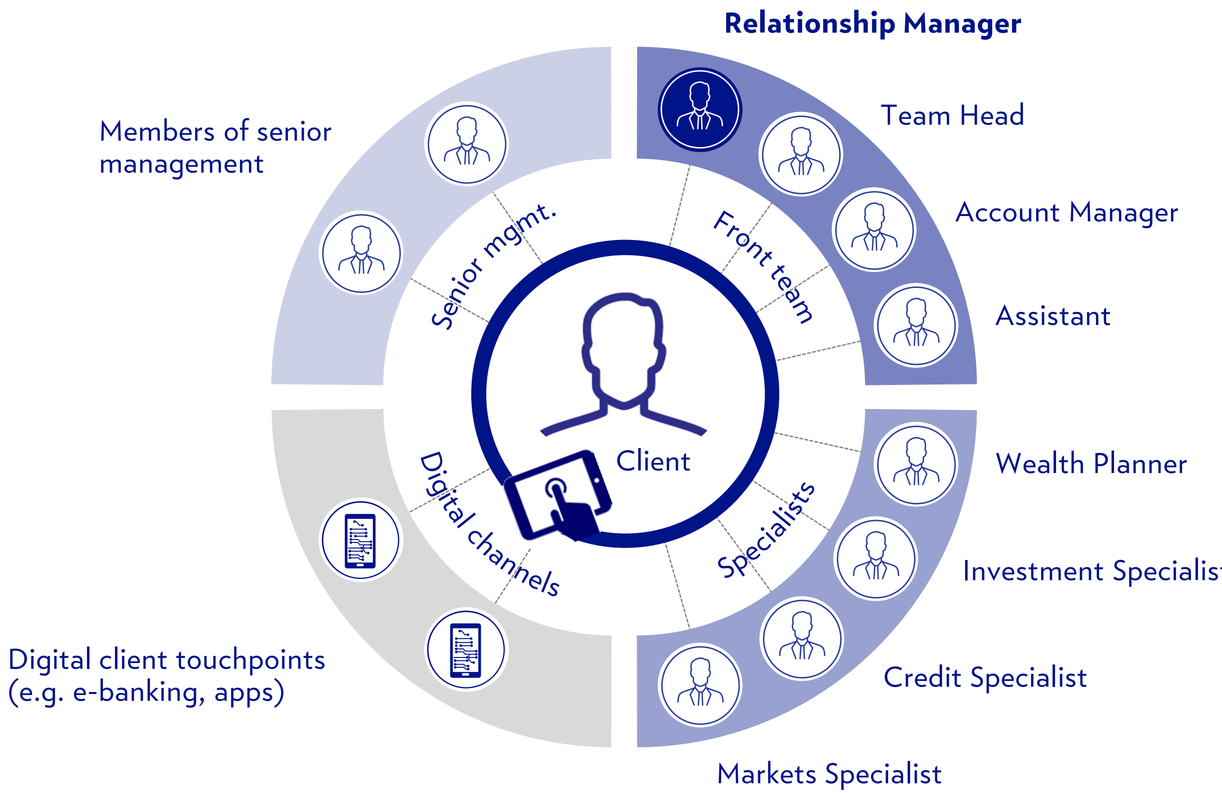


# BRINGING THE WHOLE BANK TO THE CLIENT – AND THE CLIENT TO THE WHOLE BANK

SHARPEN

**❯ ACCELERATE**

SHIFT




**Enhanced front team roles** with the Relationship Manager in the lead

**Flexible teams of experts**, ready to address specific client needs

Client experience and solutions **tailored to both client segments**

# UPGRADED TECHNOLOGY TO POWER HUMAN ADVICE

## Smart investments into data analytics and tool support

SHARPEN

**❯ ACCELERATE**

SHIFT

### INCREASE IN TECHNOLOGY INVESTMENTS BY ~20% IN 2020 AND 2021

#### NEW OPPORTUNITIES

**Target Insights**

Predictive data analytics and AI to analyse the client book for client retention manage-ment and share of wallet potential

**Risk Analytics**

Advanced analytics support in risk management, risk intelligence & automation

#### SCALABLE TAILORING

**PM & Advisory**

Guided tailoring of discre-tionary mandates and digitally supported, consistent and scalable client advisory process (DiAS)

**Toolboxes**

State-of-the-art digital toolboxes for bespoke products and fast execution (e.g. EPIC for AMCs, SPARK)

#### QUALITY AND EFFICIENCY

**Process Engineering**

Smart redesign of workflows integrating new technology, optimised processes and upgraded risk management systems for AML

**Robotics**

Leveraging of robots for routine tasks in the mid and back office and enhanced process efficiency

Client value and revenue enhancement

Productivity and efficiency improvement

# OUR VISION: CLIENT COMMUNITIES

## Building next-level relationships across client generations

SHARPEN

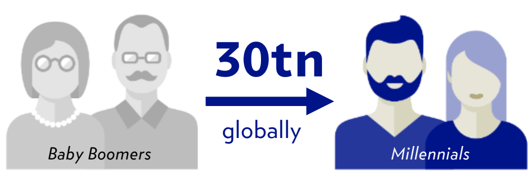
**❯ ACCELERATE**

SHIFT

- Exclusive virtual platform for **knowledge & experience sharing**
- **Cross-generational relationships** built on trust and purpose
- **Co-creation** of new content and business opportunities

### JULIUS BAER YOUNG PARTNERS

**Expected intergenerational wealth transfer**
over the next 20 years, in USD




Community launched in 2009 - annual global flagship event and seminars for communities in local chapters worldwide

### JULIUS BAER UK ENTREPRENEUR NETWORK

**Snapshot UK Entrepreneur Network**
HNWI and UHNWI owning businesses

**45** Average age of entrepreneur

**3.0** Average number of companies started

Community launched in 2019 - entrepreneurs from multiple sectors, many with focus on Social Impact/ESG

# STRENGTHENING THE TALENT BENCH AND FOSTERING AN ENTREPRENEURIAL CULTURE

SHARPEN

**❯ ACCELERATE**

SHIFT

ATTRACT TOP TALENT

- **Relationship Managers, experts and technology talents**
- **Entrepreneurial mind-set**, purpose-driven and treasuring the human touch to nurture the Julius Baer culture

INVEST IN SKILLSET

- **Continuous learning** on all levels
- Structured **personal development** and talent management
- Training more **Junior Relationship Managers** and attracting **top graduates**

UPGRADE INCENTIVES

- Upgraded **incentive and compensation systems**
- Alignment with **financial targets**, **entrepreneurial aspiration** and **risk standards**

# UNCOMPROMISING FOCUS ON SUSTAINABLE PROFIT GROWTH

SHARPEN

ACCELERATE

❯ **SHIFT**

**Adj. pre-tax profit growth**

Medium-term target: >10% p.a.[1]

1. **Smart asset growth**
2. **Gross margin stabilisation**
3. **Enhanced cost efficiency**

[1] Over the 2020-2022 cycle

# OPERATIONALISATION OF OUR STRATEGY FOR PROFIT GROWTH

SHARPEN

ACCELERATE

❯ **SHIFT**

| CLIENT VALUE & REVENUES | PRODUCTIVITY & EFFICIENCY | SHAPING OUR CULTURE |
|---|---|---|
| **Revenue improvements of >CHF 150m by 2022 to offset gross margin pressure** | **Cost savings of CHF 200m by 2022[1]** | **Corporate values and risk and compliance culture** |
| **Enhanced offering** and global rollout of fee-based advisory models, guided tailoring of mandates | **Simplification of the organisation, front and back office structures** (already started in 2019) | **“Atlas” completed**, setting a new standard of our KYC quality |
| **Programme to enhance client value** incl. systematic client book analysis | **Review of geographic footprint**<br>• Closure of booking centre Bahamas<br>• Further optimisations in H1 2020 | **Code of Ethics and Business Conduct, risk and compliance culture and processes** |
| State-of-the-art **Markets & Credit** services and digital toolboxes | Improved **operational excellence** | **Teamwork and joint responsibility** |
| Improved value realisation through **pricing** | | |

[1] Cost initiatives with restructuring costs of CHF ~60m between 2020 and 2021

# NEW MEDIUM-TERM FINANCIAL TARGETS

## Introduction of pre-tax profit growth target reflects change in leadership focus

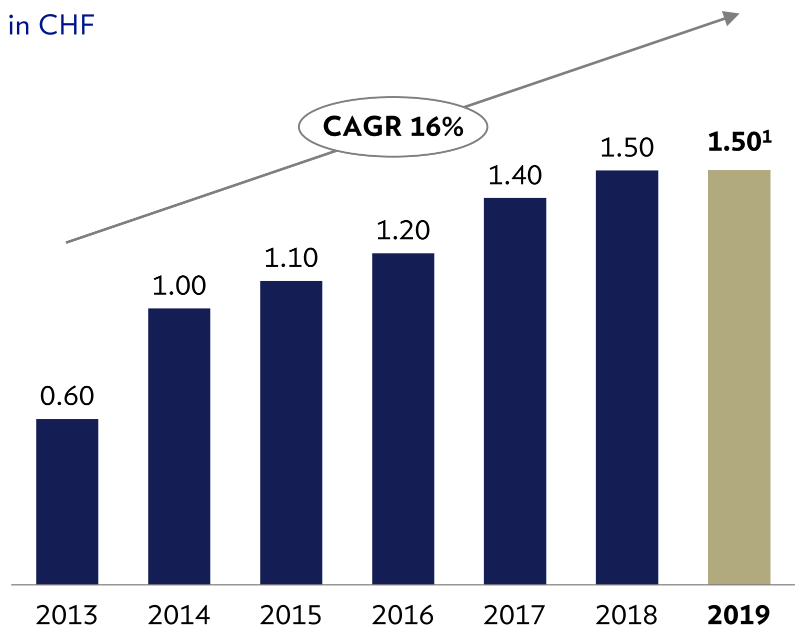
| ALL TARGETS BASED ON ADJUSTED RESULTS | FY 2019 RESULTS | MEDIUM-TERM TARGETS |
|---|---|---|
| Cost/income ratio[1] | 71% | **<67%** by 2022 |
| Pre-tax margin | 22bp | **25-28bp** by 2022 |
| Profit before taxes | CHF 917m | **>10% growth p.a.** over 2020-22 cycle |
| RoCET1 | 27% | **>30%** by 2022 |

[1] Excluding adjusted provisions and losses

# DIVIDEND AND CAPITAL RETURN FRAMEWORK

## Successful execution of pure WM strategy delivers strong capital generation

### DIVIDEND IN FINANCIAL YEARS 2013-2019




| 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| 28% | 38% | 35% | 38% | 40% | 41% | **44%** |

**Dividend pay-out ratio[2]**

### DIVIDEND/CAPITAL RETURN POLICY

- Intention to distribute **~40%**[2] via ordinary dividends
- Unless justified by significant events, **per-share** ordinary **dividend at least equal to previous year's** ordinary dividend
- At all times considering capital floors, business and market outlook, and near-term significant investment requirements and opportunities
- From time to time, if justified, **special dividends** and **share buy-backs** could be considered

**Current share buy-back continuing**

- Programme launched 20 November 2019
- Buy back up to CHF 400m purchase value until end February 2021
- Status end 2019: CHF 36m / 755,000 shares

[1] Subject to approval at the Annual General Meeting of shareholders on 16 April 2020
[2] Total dividend distribution amount divided by adjusted net profit attributable to shareholders of Julius Baer Group Ltd. (2015: excluding CHF 521m US provision [CHF 422m net of tax])

# LEADING GLOBAL WEALTH MANAGER

## Dynamic modernisation

- **Most relevant for clients** through distinctive value proposition, coverage, solutions, and value-add
- **Entrepreneurial environment** for top talent, **joint ownership** of the business
- **Innovation** within the industry and beyond
- Sound and robust **risk and compliance culture**
- Shift from asset gathering strategy to **sustainable profit growth**
- To become the **most reputable and admired brand** in wealth management

# APPENDIX

# RECONCILIATION CONSOLIDATED FINANCIAL STATEMENT[1]

## IFRS to adjusted net profit

| CHF m | 2017 | 2018 | 2019 |
|---|---|---|---|
| **IFRS net profit attributable to shareholders of Julius Baer Group Ltd.** | **704.8** | **735.4** | **464.8** |
| Non-controlling interests | 11.1 | -0.1 | 0.2 |
| **IFRS Net profit of the Group** | **715.9** | **735.3** | **465.0** |
| Total adjustments to personnel expenses | 6.6 | 2.6 | 2.9 |
| Total adjustments to general expenses | 23.3 | 7.1 | 167.5 |
| Amortisation of intangible assets related to previous acquisitions: | | | |
| ING | 16.3 | 16.3 | 16.3 |
| IWM | 36.3 | 36.3 | 40.6 |
| GPS | 4.7 | 4.1 | 3.8 |
| Kairos | 8.9 | 9.0 | 8.9 |
| Commerzbank Luxembourg | 1.7 | 1.7 | 1.7 |
| Leumi and Fransad | 1.9 | 1.9 | 1.9 |
| Wergen | 0.7 | 0.8 | 0.8 |
| WMPartners | 1.4 | 1.4 | 1.4 |
| Reliance | - | 2.0 | 3.3 |
| NSC Asesores | - | - | 2.5 |
| Total adjustments to amortisation of customer relationships | 71.9 | 73.5 | 81.2 |
| Total adjustments to amortisation and impairment of other intangible assets | - | - | 99.2 |
| Total adjustment to depreciation | 0.3 | - | - |
| **Total adjustments to operating expenses and profit before taxes** | **102.1** | **83.2** | **350.7** |
| Impact of total adjustments on income taxes | -12.4 | -8.9 | -43.7 |
| **Adjustments to net profit** | **89.8** | **74.3** | **307.0** |
| | | | |
| **Adjusted net profit of the Group** | **805.6** | **809.7** | **772.0** |
| Adjusted non-controlling interests | 12.8 | -0.1 | 0.9 |
| **Adjusted net profit attributable to shareholders of Julius Baer Group Ltd.** | **792.8** | **809.7** | **771.1** |

Further details on transaction-related amortisation:

- ING: CHF 16.3m p.a. until December 2019
- IWM: approx. CHF 35m p.a. in 2020 and 2021, declining to approx. CHF 10m in 2022, and approx. CHF 1m in 2023 and 2024 (ending September 2024)[2,3]
- GPS: BRL 15.4m p.a. until March 2023
- Leumi: CHF 1.0m p.a. until February 2025
- Fransad: CHF 0.9m p.a. until October 2024
- Kairos: CHF 8.9m p.a. until March 2026
- Commerzbank Luxembourg: CHF 1.7m p.a. until June 2025
- Wergen: CHF 0.8m p.a. until January 2026
- WMPartners: CHF 1.4m p.a. until December 2022
- Reliance: CHF 2.0m in 2018; BRL 12.9m p.a. until May 2027
- NSC Asesores: CHF 3.0m p.a. until February 2028

[1] Please see detailed financial statements in the Consolidated Financial Statement 2019. Further information provided in Alternative Performance Measures document, available from www.juliusbaer.com/APM | [2] The acquisition of Bank of America Merrill Lynch's international wealth management business outside the US (IWM) took place in steps and is to a small extent subject to CHF translation | [3] In 2019 one-off step-up following discontinuation of services in certain acquired locations

# ADJUSTED FULL-YEAR PERFORMANCE

| CHF m | 2017 | 2018 | 2019 | Change 2019/2018 | 2019 in % |
|---|---|---|---|---|---|
| Net interest income [1] | 988 | 805 | 792 | -2% | 23% |
| Net commission and fee income | 1,931 | 1,903 | 1,923 | +1% | 57% |
| Net income from financial instruments measured at FVTPL [1] | 304 | 644 | 618 | -4% | 18% |
| Other ordinary results | 30 | 16 | 50 | +219% | 1% |
| **Operating income** | **3,252** | **3,368** | **3,383** | **+0%** | **100%** |
| Personnel expenses | 1,549 | 1,619 | 1,613 | -0% | 65% |
| General expenses | 626 | 681 | 683 | +0% | 28% |
| Depreciation and amortisation | 88 | 91 | 169 | +87% | 7% |
| **Operating expenses** | **2,264** | **2,391** | **2,466** | **+3%** | **100%** |
| **Profit before taxes** | **989** | **977** | **917** | **-6%** | |
| Pre-tax margin (bp) | 27.3 | 24.8 | 22.1 | -2.7 bp | |
| Income taxes | 183 | 167 | 145 | -13% | |
| **Adjusted net profit for the Group [2]** | **806** | **810** | **772** | **-5%** | |
| Adjusted EPS attributable to shareholders of Julius Baer Group Ltd. (CHF) | 3.66 | 3.72 | 3.55 | -4% | |
| RoTE, adjusted (%) | 30% | 28% | 24% | -3% pt | |
| RoCET1, adjusted (%) | 32% | 30% | 27% | -3% pt | |
| Gross margin (bp) | 89.7 | 85.5 | 81.7 | -3.8 bp | |
| Expense margin (bp) | 61.9 | 60.4 | 58.1 | -2.3 bp | |
| Cost/income ratio (%) [3] | 69.0 | 70.6 | 71.1 | +0.5% pt | |
| Tax rate | 18.5% | 17.1% | 15.8% | -1.3% pt | |
| Staff (FTE) | 6,292 | 6,693 | 6,638 | -1% | |
| Provisions and losses | 20 | 14 | 61 | +346% | |
| Net new money (CHF bn) | 22.2 | 17.4 | 10.6 | -39% | |
| Assets under management (CHF bn) | 388.4 | 382.1 | 426.1 | +12% | |
| Average assets under management (CHF bn) | 362.5 | 393.9 | 414.0 | +5% | |

[1] The 2018 numbers have been aligned to the improved structure of interest and dividend reporting related to financial instruments measured at FVTPL.
[2] Including non-controlling interests of CHF 0.9m for 2019, CHF -0.1m for 2018, CHF 12.8m for 2017
[3] Excluding adjusted provisions and losses

# ADJUSTED HALF-YEARLY PERFORMANCE

| CHF m | H2 2018 | H1 2019 | H2 2019 | Change H2 19/H2 18 | Change H2 19/H1 19 | H2 2019 in % |
|---|---|---|---|---|---|---|
| Net interest income [1] | 400 | 411 | 381 | -5% | -7% | 23% |
| Net commission and fee income | 887 | 956 | 967 | +9% | +1% | 57% |
| Net income from financial instruments measured at FVTPL [1] | 290 | 302 | 317 | +9% | +5% | 19% |
| Other ordinary results | 2 | 31 | 19 | +840% | -38% | 1% |
| **Operating income** | **1,579** | **1,699** | **1,684** | **+7%** | **-1%** | **100%** |
| Personnel expenses | 773 | 833 | 780 | +1% | -6% | 63% |
| General expenses | 364 | 317 | 367 | +1% | +16% | 30% |
| Depreciation and amortisation | 48 | 80 | 90 | +88% | +13% | 7% |
| **Operating expenses** | **1,185** | **1,229** | **1,237** | **+4%** | **+1%** | **100%** |
| **Profit before taxes** | **394** | **470** | **447** | **+13%** | **-5%** | |
| Pre-tax margin (bp) | 19.9 | 23.0 | 21.3 | +1.4 bp | -1.7 bp | |
| Income taxes | 64 | 79 | 66 | +2% | -17% | |
| **Adjusted net profit for the Group [2]** | **330** | **391** | **381** | **+16%** | **-2%** | |
| Adjusted EPS attributable to shareholders of Julius Baer Group Ltd. (CHF) | 1.51 | 1.79 | 1.75 | +16% | -2% | |
| RoTE, adjusted (%) | 22% | 25% | 24% | +2% pt | -1% pt | |
| RoCET1, adjusted (%) | 24% | 28% | 27% | +2% pt | -1% pt | |
| Gross margin (bp) | 79.6 | 83.2 | 80.2 | +0.6 bp | -3.0 bp | |
| Expense margin (bp) | 59.2 | 59.1 | 57.1 | -2.1 bp | -2.0 bp | |
| Cost/income ratio (%) [3] | 74.3 | 71.0 | 71.1 | -3.2% pt | +0.1% pt | |
| Tax rate | 16.3% | 16.9% | 14.7% | -1.6% pt | -2.2% pt | |
| Staff (FTE) | 6,693 | 6,768 | 6,638 | -1% | -2% | |
| Provisions and losses | 12 | 22 | 39 | +238% | +75% | |
| Net new money (CHF bn) | 7.5 | 6.2 | 4.4 | -41% | -28% | |
| Assets under management (CHF bn) | 382.1 | 412.3 | 426.1 | +12% | +3% | |
| Average assets under management (CHF bn) | 396.6 | 408.3 | 419.7 | +6% | +3% | |

[1] H2 2018 & H1 2019 numbers have been aligned to the improved structure of interest and dividend reporting related to financial instruments measured FVTPL.
[2] Including non-controlling interests of CHF 0.8m for H2 2019, CHF 0.1m for H1 2019 and CHF -0.1m for H2 2018
[3] Excluding adjusted provisions and losses

# REALIGNMENT DETAILS 1ST HALF YEAR 2019

## Shifts between net interest and net trading income

| CHF m | H1 2019 *Old Format* | Changes *interest income* | Changes *interest and dividend income to trading income* | Changes *interest expense to trading income* | H1 2019 *New Format* | **Realigned line items** |
|---|---|---|---|---|---|---|
| **Net interest income** | | | | | | |
| Interest income on amounts due from banks | **40.6** | | | | **40.6** | |
| Interest income on loans | **492.9** | -10.4 | - | | **482.5** | |
| Interest income on debt instruments at FVOCI | **144.8** | - | - | | **144.8** | |
| Negative interest received on liabilities | | 10.4 | | | **10.4** | |
| **Interest income on financial instruments measured at amortised cost or FVOCI** | **678.3** | - | - | **-** | **678.3** | |
| Interest income on trading portfolios | 28.1 | | -28.1 | | - | |
| Dividend income on trading portfolios | 161.6 | | -161.6 | | - | |
| Total interest and dividend income | **868.1** | - | -189.7 | **-** | **678.3** | Total net interest income |
| Interest expense on amounts due to banks | **16.3** | | | | **16.3** | |
| Interest expense on amounts due to customers | **284.0** | - | - | -85.2 | **198.8** | |
| Interest expense on debt issued | **32.9** | | | | **32.9** | |
| Negative interest paid on financial assets | **16.4** | | | | **16.4** | |
| Interest expense on lease liabilities | **3.2** | | | | **3.2** | |
| **Interest expense on financial instruments measured at amortised cost** | **352.8** | - | - | -85.2 | **267.6** | |
| **Total** | **515.2** | - | -189.7 | 85.2 | **410.7** | |
| **Net trading income** | | | | | | |
| **Total** | **197.1** | - | 189.7 | -85.2 | **301.6** | Net income from financial instruments at fair value through profit or loss (FVTPL) |

# REALIGNMENT DETAILS 1ST HALF YEAR 2018

## Shifts between net interest and net trading income

| CHF m | H1 2018 Old Format | Changes interest income | Changes interest and dividend income to trading income | Changes interest expense to trading income | H1 2018 New Format | Realigned line items |
|---|---|---|---|---|---|---|
| **Net interest income** | | | | | | |
| Interest income on amounts due from banks | **25.5** | | | | **25.5** | |
| Interest income on loans | **433.9** | -9.6 | -3.8 | | **420.5** | |
| Interest income on debt instruments at FVOCI | **107.0** | - | - | | **107.0** | |
| Negative interest received on liabilities | | 9.6 | | | **9.6** | |
| **Interest income on financial instruments measured at amortised cost or FVOCI** | **566.4** | - | -3.8 | - | **562.6** | |
| Interest income on trading portfolios | 14.3 | | -14.3 | | - | |
| Dividend income on trading portfolios | 158.9 | | -158.9 | | - | |
| Total interest and dividend income | **739.6** | - | -177.0 | - | **562.6** | Total net interest income |
| Interest expense on amounts due to banks | **12.9** | | | | **12.9** | |
| Interest expense on amounts due to customers | **123.3** | - | - | -29.2 | **94.1** | |
| Interest expense on debt issued | **34.6** | | | | **34.6** | |
| Negative interest paid on financial assets | **15.3** | | | | **15.3** | |
| Interest expense on lease liabilities | - | | | | - | |
| **Interest expense on financial instruments measured at amortised cost** | **186.1** | - | - | -29.2 | **156.9** | |
| **Total** | **553.5** | - | -177.0 | 29.2 | **405.7** | |
| **Net trading income** | | | | | | |
| **Total** | **206.3** | - | 177.0 | -29.2 | **354.1** | Net income from financial instruments at fair value through profit or loss (FVTPL) |

# REALIGNMENT DETAILS 2ND HALF YEAR 2018

## Shifts between net interest and net trading income

| *CHF m* | **H2 2018** ***Old Format*** | Changes *interest income* | Changes *interest and dividend income to trading income* | Changes *interest expense to trading income* | **H2 2018** ***New Format*** | **Realigned line items** |
|---|---|---|---|---|---|---|
| **Net interest income** | | | | | | |
| Interest income on amounts due from banks | **40.6** | - | - | - | **40.6** | |
| Interest income on loans | **475.1** | -8.6 | -4.1 | - | **462.5** | |
| Interest income on debt instruments at FVOCI | **125.2** | - | - | - | **125.2** | |
| Negative interest received on liabilities | - | 8.6 | - | - | **8.6** | |
| **Interest income on financial instruments measured at amortised cost or FVOCI** | **641.0** | - | -4.1 | - | **636.9** | |
| Interest income on trading portfolios | 24.7 | - | -24.7 | - | - | |
| Dividend income on trading portfolios | 19.2 | - | -19.2 | - | - | |
| Total interest and dividend income | **684.8** | - | -47.9 | - | **636.9** | Total net interest income |
| Interest expense on amounts due to banks | **14.6** | - | - | - | **14.6** | |
| Interest expense on amounts due to customers | **239.6** | | - | -81.8 | **157.8** | |
| Interest expense on debt issued | **32.4** | - | - | - | **32.4** | |
| Negative interest paid on financial assets | **32.4** | - | - | - | **32.4** | |
| Interest expense on lease liabilities | - | - | - | - | - | |
| **Interest expense on financial instruments measured at amortised cost** | **319.1** | - | - | -81.8 | **237.3** | |
| **Total** | **365.7** | - | -47.9 | 81.8 | **399.6** | |
| **Net trading income** | | | | | | |
| **Total** | **323.9** | - | 47.9 | -81.8 | **290.0** | Net income from financial instruments at fair value through profit or loss (FVTPL) |

# REALIGNMENT DETAILS FULL YEAR 2018

## Shifts between net interest and net trading income

| *CHF m* | 2018 *Old Format* | Changes *interest income* | Changes *interest and dividend income to trading income* | Changes *interest expense to trading income* | 2018 *New Format* | **Realigned line items** |
|---|---|---|---|---|---|---|
| **Net interest income** | | | | | | |
| Interest income on amounts due from banks | **66.1** | | | | **66.1** | |
| Interest income on loans | **909.0** | -18.1 | -7.9 | | **882.9** | |
| Interest income on debt instruments at FVOCI | **232.3** | - | - | | **232.3** | |
| Negative interest received on liabilities | | 18.1 | | | **18.1** | |
| **Interest income on financial instruments measured at amortised cost or FVOCI** | **1,207.4** | - | -7.9 | **-** | **1,199.5** | |
| Interest income on trading portfolios | 38.9 | | -38.9 | | - | |
| Dividend income on trading portfolios | 178.1 | | -178.1 | | - | |
| Total interest and dividend income | **1,424.4** | - | -224.9 | **-** | **1,199.5** | Total net interest income |
| Interest expense on amounts due to banks | **27.6** | | | | **27.6** | |
| Interest expense on amounts due to customers | **362.9** | - | - | -111.0 | **251.9** | |
| Interest expense on debt issued | **67.1** | | | | **67.1** | |
| Negative interest paid on financial assets | **47.6** | | | | **47.6** | |
| Interest expense on lease liabilities | **-** | | | | **-** | |
| **Interest expense on financial instruments measured at amortised cost** | **505.1** | - | - | -111.0 | **394.1** | |
| **Total** | **919.2** | - | -224.9 | 111.0 | **805.3** | |
| **Net trading income** | | | | | | |
| **Total** | **530.2** | - | 224.9 | -111.0 | **644.1** | Net income from financial instruments at fair value through profit or loss (FVTPL) |

# DETAILED RWA AND CAPITAL RATIO DEVELOPMENT

| **BIS approach / CHF m** | **31.12.2018** ***Basel III*** | **30.06.2019** ***Basel III*** | **31.12.2019** ***Basel III*** |
|---|---|---|---|
| **Risk-weighted positions** | | | |
| Credit risk | 14,528 | 15,207 | 13,749 |
| Non-counterparty-related risk | 353 | 612 | 613 |
| Market risk | 1’245 | 540 | 671 |
| Operational risk | 5,213 | 5,341 | 5,462 |
| **Total risk-weighted positions** | **21,338** | **21,700** | **20,495** |
| CET1 capital [1] | 2,731 | 2,837 | 2,877 |
| Tier 1 capital [1] | 3,933 | 4,387 | 4,421 |
| *- of which hybrid tier 1 capital instruments* | *1,202* | *1,550* | *1,544* |
| Total capital [1] | 3,991 | 4,496 | 4,522 |
| **CET1 capital ratio [1]** | **12.8%** | **13.1%** | **14.0%** |
| **Tier 1 capital ratio [1]** | **18.4%** | **20.2%** | **21.6%** |
| **Total capital ratio [1]** | **18.7%** | **20.7%** | **22.1%** |
| Leverage ratio (LERA, tier 1 divided by total exposure) | 3.9% | 4.3% | 4.4% |
| Liquidity coverage ratio (LCR) | 196.9% | 196.3% | 179.2% |
| Net stable funding ratio (NSFR) | 129.2% | 122.3% | 116.5% |
| Leverage exposure | 101,679 | 102,830 | 101,002 |

[1] After dividend

# CAPITAL DEVELOPMENT

| CHF m | 31.12.2018 *Basel III* | 31.12.2019 *Basel III* | Change last 12 months | 30.06.2019 *Basel III* | 31.12.2019 *Basel III* | Change last 6 months |
|---|---|---|---|---|---|---|
| **Equity at the beginning of the period** | **5,854** | **6,042** | **+3%** | **6,042** | **6,087** | **+1%** |
| Julius Baer Group Ltd. dividend | -313 | -336 | | -336 | 0 | -100% |
| Net profit (IFRS) | 735 | 465 | | 343 | 122 | -64% |
| Effect of adoption of IFRS 9 | 4 | - | | - | - | |
| Change in treasury shares | -33 | -54 | | -33 | -22 | |
| Treasury shares and own equity derivative activity | -1 | 30 | | -5 | 35 | |
| Remeasurement of defined benefit obligation | 8 | -75 | | -83 | 8 | |
| Other components of equity | -106 | 112 | | 151 | -39 | |
| *Financial assets measured at fair value through other comprehensive income* | *-45* | *165* | | *171* | *-6* | |
| *FX translation differences* | *-61* | *-53* | | *-20* | *-34* | |
| Others | -108 | 6 | | 7 | -2 | |
| **Equity at the end of the period** | **6,042** | **6,189** | **+2%** | **6,087** | **6,189** | **+2%** |
| - Goodwill & other intangible assets (as per capital adequacy rules) | -2,902 | -2,842 | | -2,948 | -2,842 | -4% |
| - Other deductions | -409 | -471 | | -302 | -471 | +56% |
| **CET1 capital** | **2,731** | **2,877** | **+5%** | **2,837** | **2,877** | **+1%** |
| + Tier 1 capital instruments | 1,202 | 1,544 | | 1,550 | 1,544 | -0% |
| **= BIS tier 1 capital** | **3,933** | **4,421** | **+12%** | **4,387** | **4,421** | **+1%** |
| + Tier 2 capital | 58 | 101 | | 109 | 101 | -8% |
| **= BIS total capital** | **3,991** | **4,522** | **+13%** | **4,496** | **4,522** | **+1%** |

# BALANCE SHEET – FINANCIAL ASSETS (FVOCI)

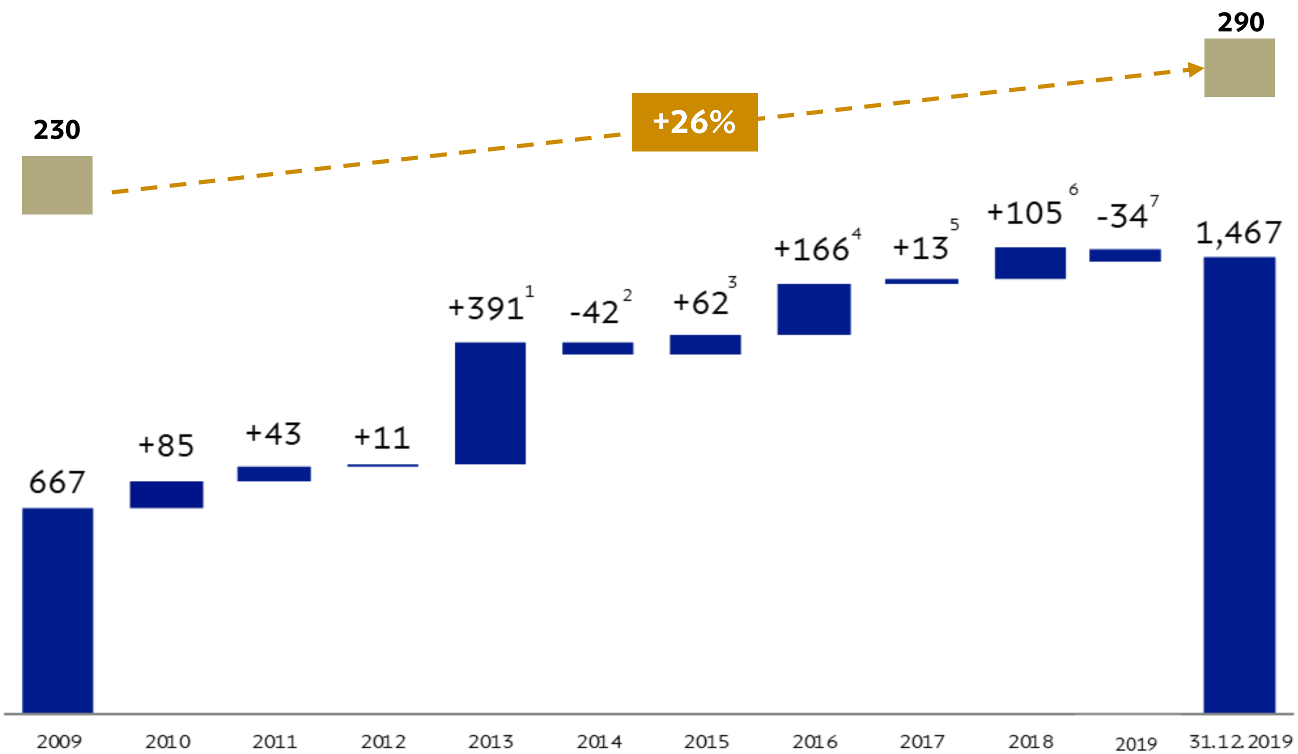
| CHF m | 31.12.2017 | 31.12.2018 | 31.12.2019 | in % | Change vs. 31.12.2018 |
|---|---|---|---|---|---|
| **Debt instruments** | **12,060** | **14,442** | **12,934** | **98%** | **-10%** |
| Government and agency bonds | 2,848 | 3,291 | 5,017 | 38% | +52% |
| Financial institution bonds | 5,769 | 7,113 | 4,695 | 36% | -34% |
| Corporate bonds | 3,437 | 4,038 | 3,222 | 24% | -20% |
| Other bonds | 6 | - | - | 0% | - |
| **Equity instruments** | **187** | **145** | **232** | **2%** | **+60%** |
| **Total financial assets measured at FVOCI** | **12,247** | **14,588** | **13,166** | **100%** | **-10%** |
| Cash with central banks | 10,838 | 15,811 | 10,071 | | -36% |

| Debt instruments by credit rating classes | | Moody's | 31.12.2017 | 31.12.2018 | 31.12.2019 | in % | Change vs. 31.12.2018 |
|---|---|---|---|---|---|---|---|
| 1–2 | AAA – AA- | Aaa – Aa3 | 8,386 | 8,775 | 8,480 | *66%* | -3% |
| 3 | A+ – A- | A1 – A3 | 3,517 | 4,718 | 3,901 | *30%* | -17% |
| 4 | BBB+ – BBB- | Baa1 – Baa3 | 127 | 933 | 536 | *4%* | -42% |
| 5 | BB+ – BB- | Ba1 – Ba3 | 17 | 17 | 17 | *0%* | +2% |
| Unrated[1] | | | 13 | - | - | - | - |
| **Total** | | | **12,060** | **14,442** | **12,934** | ***100%*** | **-10%** |

[1] New issues or unrated bonds from top rated issuers

# LONG TERM RM DEVELOPMENT

## **Development of Number of RMs & AuM per RM** (in CHFm)

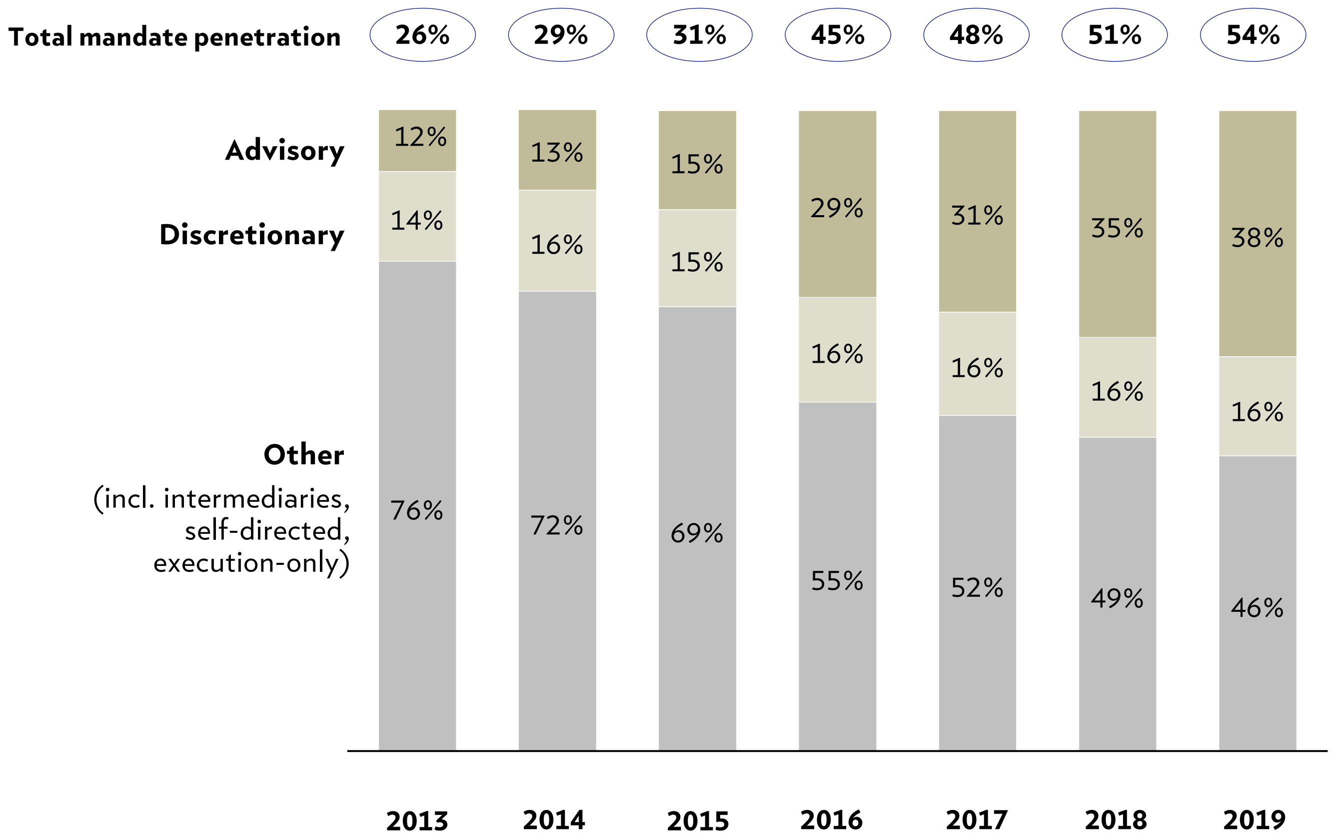



**2019: RM net decrease of -34 FTEs**

- Includes +20 RMs from NSC Asesores

[1] +391, mostly from RMs transferring in from Bank of America's International Wealth Management business (IWM) outside the US | [2] -42, driven by IWM transaction-related synergy realisations | [3] +62, of which net +40 from hiring, remainder from acquisitions | [4] Incl. +50 RMs transferring following the consolidation of Kairos and Commerzbank International S.A. Luxembourg | [5] +13, of which +41 net from hiring, -28 following internal transfers | [6] Incl. +13 RMs from the acquisition of Reliance Group | [7] Incl. +20 RMs from the acquisition of NSC Asesores

# MANDATE PENETRATION



# BREAKDOWN OF AUM

| Asset mix | 31.12.2017 | 31.12.2018 | 31.12.2019 |
|---|---|---|---|
| Equities | 28% | 26% | 28% |
| Bonds (including Convertible Bonds) | 19% | 20% | 19% |
| Investment Funds [1] | 26% | 25% | 26% |
| Money Market Instruments | 3% | 4% | 4% |
| Client Deposits | 18% | 19% | 17% |
| Structured Products | 5% | 5% | 5% |
| Precious Metals | 1% | 1% | 1% |
| **Total** | **100%** | **100%** | **100%** |

| Currency mix | 31.12.2017 | 31.12.2018 | 31.12.2019 |
|---|---|---|---|
| USD | 45% | 46% | 47% |
| EUR | 23% | 22% | 20% |
| CHF | 10% | 10% | 10% |
| GBP | 4% | 4% | 4% |
| HKD | 4% | 3% | 3% |
| INR | 3% | 3% | 3% |
| SGD | 2% | 2% | 2% |
| BRL | 1% | 2% | 2% |
| JPY | 1% | 1% | 1% |
| AUD | 1% | 1% | 1% |
| CNY | 1% | 1% | 1% |
| CAD | 1% | 1% | 1% |
| Other | 4% | 4% | 6% |
| **Total** | **100%** | **100%** | **100%** |

[1] Includes, amongst other asset classes, further exposure to equities and bonds

# JULIUS BAER: PURE-PLAY WEALTH MANAGEMENT GROUP

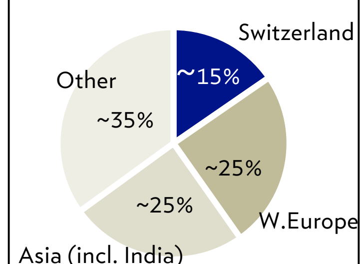
## Well positioned for further growth


**Legend**

- Head office
- Location
- Booking centre
- GPS
- Kairos
- NSC (70%)
- SCB-Julius Baer Securities (40%)
- Reliance Group
- Julius Baer Nomura Wealth Management (60%)

- World's largest pure wealth management Group, with premium brand
- Client-centric approach
- Balanced exposure to traditional and growth markets
- Present in more than 60 locations
- More than 6,600 highly dedicated staff, incl. over 1,400 RMs[1]
- AuM CHF 426bn[1]
- Strongly capitalised:
  - BIS total capital ratio 22.1%[1]
  - BIS CET1 capital ratio 14.0%[1]
- Moody's long-term deposit rating Bank Julius Baer & Co. Ltd: Aa2/stable outlook
- Market capitalisation: CHF 11bn[2]

AUM by client domicile




[1] At 31 December 2019 | [2] At market close on 31 January 2019 | [3] Additional advisory locations in Bangalore, Chennai, Hyderabad, Kolkata and New Delhi

Julius Bär

Julius Bär

# BUSINESS REVIEW 2019

## JULIUS BAER GROUP

**Pre-print as at 3 February 2020**

# ABOUT JULIUS BAER

Julius Baer is the leading Swiss wealth management group. We focus on providing personal advice to private clients around the world, powered by high-end services and expertise. As pioneers, we actively embrace change to remain at the forefront of our industry – as we have done since 1890.

We manage our company for the long term and with an exclusive strategic focus on wealth management.

Our strategy is driven by the desire to achieve unparalleled client satisfaction, to further strengthen the reputation and standing of our Group and to realise sustainable, profitable growth.

We help our clients to achieve their financial aspirations through holistic solutions that take into account what truly matters to them – in their business and personal life, today and for future generations.

With over 6,600 employees, we stand for:

**SOLID** FOUNDATIONS

**PURE** WEALTH MANAGEMENT

**PERSONAL** CONNECTIONS

**INTERNATIONAL** NETWORK

# CONTENTS

# KEY FIGURES JULIUS BAER GROUP[1]

| | **2019** CHF m | 2018 CHF m | *Change in %* |
|---|---|---|---|
| **Key operating data** | | | |
| Operating income | 3,382.9 | 3,367.8 | 0.4 |
| Adjusted operating expenses | 2,465.9 | 2,390.7 | 3.1 |
| Adjusted profit before taxes | 916.9 | 977.1 | -6.2 |
| Adjusted net profit for the Group | 772.0 | 809.7 | -4.7 |
| IFRS net profit for the Group | 465.0 | 735.3 | -36.8 |
| Adjusted cost/income ratio | 71.1% | 70.6% | - |
| Adjusted pre-tax margin (basis points) | 22.1 | 24.8 | - |

| | **31.12.2019** | 31.12.2018 | *Change in %* |
|---|---|---|---|
| **Assets under management (CHF bn)** | | | |
| Assets under management | 426.1 | 382.1 | 11.5 |
| Net new money | 10.6 | 17.4 | - |
| **Consolidated balance sheet (CHF m)** | | | |
| Total assets | 102,035.2 | 102,898.3 | -0.8 |
| Total equity | 6,189.4 | 6,041.9 | 2.4 |
| BIS total capital ratio | 22.1% | 18.7% | - |
| BIS CET1 capital ratio | 14.0% | 12.8% | - |
| Return on tangible equity (RoTE), adjusted | 24% | 28% | - |
| Return on common equity Tier 1 (RoCET1), adjusted | 27% | 30% | - |
| **Personnel (FTE)** | | | |
| Number of employees | 6,639 | 6,693 | -0.8 |
| Number of relationship managers | 1,467 | 1,501 | -2.3 |
| **Capital structure** | | | |
| Number of shares | 223,809,448 | 223,809,448 | - |
| Market capitalisation (CHF m) | 11,175 | 7,836 | 42.6 |
| **Moody's rating Bank Julius Baer & Co. Ltd.** | | | |
| Long-term deposit rating | Aa2 | Aa2 | |
| Short-term deposit rating | Prime-1 | Prime-1 | |

[1] The document Alternative Performance Measures available at www.juliusbaer.com/APM provides a reconciliation of adjusted performance measures to reported results under IFRS as well as definitions of adjusted performance measures and other alternative performance measures.

# FOREWORD

Dear Reader

Financial markets performed remarkably well during 2019. Many stock indices repeatedly printed new all-time highs, climbing the proverbial wall of investors' worries, which ranged from trade and geopolitical tensions to growth uncertainties. Some relief came at the end of the year with the emergence of an initial deal in the Sino-American trade dispute and the UK finding solid political footing to finally end the Brexit saga. Against this demanding backdrop, Julius Baer's operating performance and capital generation remained robust. With the company's strong financial foundation thus further strengthened, the Board of Directors decided to return excess capital to shareholders via a share buy-back programme.

'We have opened a new chapter for Julius Baer.'

In 2019, the Board of Directors fundamentally reviewed the Group's strategy and the strategic framework for long-term value creation. The updated strategy and management's plan to execute it were presented in detail on 3 February 2020. More information is available at www.juliusbaer.com/reporting[1]. By opening this new chapter for Julius Baer, we aim to enhance client focus, enable fast decision-making and thus substantially increase the bottom line potential of our Group. The execution of the related three-year transformation programme will release considerable resources, which we will reinvest into our franchise along altered strategic priorities: we remain true to our pure wealth management business model, but will change the way and pace of implementation. We will explore the substantial untapped potential to deliver value to our targeted client segments. As the architects of our clients' wealth, we will tailor highly individual solutions in a client-centric, integral way – as personal as possible, yet powered by the best that technology has to offer.

Our future is all about being agile and connected. What applies to our employees and how they collaborate across organisational boundaries equally holds true for clients. Digitalisation will continue to be an important enabler, providing clients with rich channels to interact, and to get information and expert opinion. Internally, our set of digital tools to support relationship managers is constantly expanding. The purpose of such tools is to provide our clients with the best possible support to achieve their goals. The efficiency we gain in the process represents time freed for our front organisation to spend with clients – because personal interaction and true connections remain the key drivers of our business.

[1] For the purpose of the 2019 reporting, this information takes the place of the usual section *Julius Baer's strategic framework for long-term value creation* that is normally provided in the Business Review and the Group's annual report.

[1] Cf. footnote 1 to the table on page 5

At the end of 2019, the three-year client documentation review project was completed successfully. This enables us to control client-related risk even more effectively while at the same time allowing us to provide our clients with more targeted services and advice. The Group will continue to invest in further strengthening its risk management and compliance framework. Running and expanding our business profitably is the key to financial and capital strength. At the end of December 2019, the BIS CET1 capital ratio was 14.0%, and the BIS total capital ratio stood at 22.1%. At these levels, the capital ratios remain comfortably above the Group's floors of 11% and 15%, respectively, and significantly exceed the regulatory floors of 8.2% and 12.4%, respectively. The Board of Directors intends to propose to the Annual General Meeting on 16 April 2020 an unchanged dividend of CHF 1.50 per share. The total proposed dividend payout amounts to CHF 336 million, or 44% of the adjusted net profit[2] for 2019.

Our 130 eventful years of corporate history reflect the stamina of those many 'Baers' whose journey we are proud to continue. Looking forward to the future with confidence would be impossible without the continued support of all those who dedicate their work, trust and capital to Julius Baer. For this, we sincerely thank all our stakeholders.

**Romeo Lacher**
Chairman

**Philipp Rickenbacher**
Chief Executive Officer

# FINANCIAL PERFORMANCE IN 2019

While operating income was stable and the 2019 cost reduction programme started to benefit the expense base, the adjusted result[1] was impacted by an increase in provisions related to legacy legal cases. The Group's capital position strengthened further.

**Dieter A. Enkelmann, Chief Financial Officer**

This Business Review and other communications to investors contain certain financial measures of historical and future performance and financial position that are not defined or specified by IFRS. Management believes that these alternative performance measures (APM), including adjusting the results consistently for items related to M&A activities, provide useful information regarding the Group's financial and operating performance. These APM should be regarded as complementary information to, and not as a substitute for, the IFRS performance measures. The definitions of APM used in this media release and other communications to investors, together with reconciliations to the most directly reconcilable IFRS line items, are provided in the Alternative Performance Measures document available at www.juliusbaer.com/APM.

*Assets under management* (AuM) increased by 12%, or CHF 44 billion, to CHF 426 billion. The growth in AuM was supported by a strong recovery in global markets, as well as net new money of CHF 11 billion (net new money growth rate 2.8%) and the first-time consolidation of NSC Asesores, which added CHF 3 billion.

Net new money was impacted by outflows at Italian asset and wealth management subsidiary Kairos, following underperformance in its funds in 2018 and a number of management departures in 2019. Excluding Kairos, net inflows for the Group developed at a net new money growth rate of 4.1%, with strong inflows from clients domiciled in Asia and Europe. This was achieved despite the impact of a number of client exits in the context of the client documentation review project (which was completed by the end of 2019), as well as modest outflows following a wider application of negative interest rates to large cash holdings in affected currencies.

[1] Cf. footnote 1 to the table on the next page

# ADJUSTED CONSOLIDATED INCOME STATEMENT[1]

| | 2019<br>CHF m | 2018<br>CHF m | Change<br>% |
|---|---|---|---|
| Net interest income | 792.2 | 805.3[2] | -1.6 |
| Net commission and fee income | 1,922.9 | 1,902.9 | 1.1 |
| Net income from financial instruments measured at FVTPL | 618.1 | 644.1[2] | -4.0 |
| Net credit losses/(recoveries) on financial assets | 9.2 | 3.0 | - |
| Other ordinary results | 58.7 | 18.5 | 217.1 |
| **Operating income** | **3,382.9** | 3,367.8 | 0.4 |
| | | | |
| Adjusted personnel expenses | 1,613.3 | 1,618.8 | -0.3 |
| Adjusted general expenses | 683.3 | 681.4 | 0.3 |
| Adjusted depreciation and amortisation | 169.4 | 90.5 | 87.1 |
| **Adjusted operating expenses** | **2,465.9** | 2,390.7 | 3.1 |
| **Adjusted profit before taxes** | **916.9** | 977.1 | -6.2 |
| | | | |
| Adjusted income taxes | 144.9 | 167.4 | -13.4 |
| **Adjusted net profit for the Group** | **772.0** | 809.7 | -4.7 |
| **IFRS net profit for the Group** | **465.0** | 735.3 | -36.8 |
| | | | |
| Adjusted net profit attributable to: | | | |
| Shareholders of Julius Baer Group Ltd. | 771.1 | 809.7 | -4.8 |
| Non-controlling interests | 0.9 | -0.1 | - |
| | | | |
| Adjusted EPS attributable to shareholders of Julius Baer Group Ltd. (CHF) | 3.55 | 3.72 | -4.3 |
| | | | |
| **Key performance ratios** | | | |
| Adjusted cost/income ratio | 71.1% | 70.6% | - |
| Gross margin (basis points) | 81.7 | 85.5 | - |
| Adjusted pre-tax margin (basis points) | 22.1 | 24.8 | - |
| Adjusted tax rate | 15.8% | 17.1% | - |

[1] The document Alternative Performance Measures available at www.juliusbaer.com/APM provides a reconciliation of adjusted performance measures to reported results under IFRS as well as definitions of adjusted performance measures and other alternative performance measures.
[2] The 2018 numbers have been aligned to the improved structure of interest and dividend reporting related to financial instruments measured at FVTPL.

Including assets under custody of CHF 73 billion, total client assets grew by 12% to CHF 499 billion.

*Operating income* increased slightly to CHF 3,383 million (2018: CHF 3,368 million). As monthly average AuM increased to CHF 414 billion (up 5%), the gross margin declined to 82 basis points (bp) (2018: 86 bp).

The financial accounting treatment of interest expense as well as the former line items 'interest income on trading portfolios' and 'dividend income on trading portfolios' was changed to bring it more in line with common market usage. As a consequence, the former line items 'net interest and dividend income' and 'net trading income' are no longer in use and have been replaced by the new line items *net interest income* and *net income from financial instruments measured at FVTPL*[1], and the results for 2018 have been realigned accordingly. The realignment had no impact on the other operating income line items or on total operating income.

*Net commission and fee income* grew by 1% to CHF 1,923 million. This was driven by a modest increase in advisory and management fees, partly offset by a decline in brokerage commissions and income from securities underwriting following a moderate year-on-year decrease in client transaction volumes.

BREAKDOWN OF ASSETS UNDER MANAGEMENT BY CURRENCY

| | **31.12.2019** | 31.12.2018 |
|---|---|---|
| USD | 47% | 46% |
| EUR | 20% | 22% |
| CHF | 10% | 10% |
| GBP | 4% | 4% |
| HKD | 3% | 3% |
| SGD | 2% | 2% |
| RUB | 1% | 1% |
| CAD | 1% | 1% |
| Other | 12% | 11% |

*Net interest income* decreased by 2% to CHF 792 million. The benefit of growth in interest income on loans (on higher average rates) and interest income on debt instruments at FVOCI[2] (on higher average volume despite a decrease in volume towards the end of the period), was more than offset by an increase in interest expense on amounts due to customers (following a year-on-year increase in the average volume of US dollar non-current account deposits).

*Net income from financial instruments measured at FVTPL* declined by 4% to CHF 618 million following a year-on-year decrease in market volatility.

*Other ordinary results* grew by CHF 40 million to CHF 59 million.

*Operating expenses* according to IFRS went up by 14% to CHF 2,817 million. This increase was driven by a 24% rise in *general expenses* to CHF 851 million, a 225% rise in *amortisation and impairment of intangible assets* to CHF 168 million, a 10% rise in *amortisation of customer relationships* to CHF 81 million, and a 160% rise in *depreciation of property and equipment* to CHF 100 million. *Personnel expenses* decreased slightly, by CHF 5 million, to CHF 1,616 million. The first-time application of IFRS 16 (Leases) resulted effectively in a shift of CHF 64 million from general expenses to depreciation.

As in previous years, in the analysis and discussion of the results in the Business Review, *adjusted operating expenses* exclude acquisition-related expenses. In 2019, acquisition-related integration and restructuring expenses amounted to CHF 18 million (2018: CHF 10 million) and acquisition-related amortisation of intangible assets to CHF 81 million (2018: CHF 74 million). In addition, the adjusted operating expenses exclude a CHF 153 million provision related to the claim by the Bundesanstalt für vereinigungsbedingte Sonderaufgaben (BvS) against Bank Julius Baer & Co. Ltd. as successor to Bank Cantrade Ltd. (which Julius Baer acquired in 2005 through the acquisition of Bank Ehinger & Armand von Ernst Ltd. from UBS AG) in relation to alleged unauthorised withdrawals between 1990 and 1992 from a Cantrade account, as well as a

[1] Fair value through profit or loss
[2] Fair value through other comprehensive income

# ASSETS UNDER MANAGEMENT

| | **31.12.2019** *CHF bn* | 31.12.2018 *CHF bn* | Change *%* |
|---|---|---|---|
| **Assets under management** | **426.1** | 382.1 | 11.5 |
| *Change through net new money* | *10.6* | *17.4* | - |
| *Change through market and currency impacts* | *38.8* | *-26.8* | - |
| *Change through acquisition* | *3.0* | *4.5* | - |
| *Change through divestment*[1] | *-4.7* | *-1.4* | - |
| *Change through other effects*[2] | *-3.7* | *-0.1* | - |
| | | | |
| **Average assets under management** | **414.0** | 393.9 | 5.1 |

[1] Assets under management were affected by the Group's decision to discontinue its offering to clients from a number of selected countries and completion of sale of Julius Baer (Netherlands) B.V.

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

CHF 99 million non-cash goodwill impairment charge related to the Group's investment in Kairos, which was acquired in steps between May 2013 and January 2018. The reconciliations to the respective IFRS line items are provided in the Alternative Performance Measures document available at www.juliusbaer.com/APM.

*Adjusted operating expenses* rose by 3% to CHF 2,466 million.

*Adjusted personnel expenses* declined by CHF 5 million to CHF 1,613 million. The slight decrease in adjusted personnel expenses was achieved despite the inclusion of CHF 19 million of one-off severance costs related to the cost reduction programme and a 3% increase in the monthly average number of employees. Even with the first-time inclusion of 75 full-time equivalents (FTEs) at NSC Asesores and the internalisation of 112 FTEs who were formerly external employees, however, the number of FTEs was down 1% year on year to 6,638 at the end of 2019 as a result of the 2019 cost reduction programme. The base of relationship managers (RMs) declined by 2% to 1,467 FTEs, with 20 RMs joining through NSC Asesores. The average AuM per RM increased by 14% to CHF 290 million.

*Adjusted general expenses* increased by CHF 2 million to CHF 683 million and *depreciation of property and equipment* by CHF 62 million to CHF 100 million. Both these lines were impacted by the first-time application of IFRS 16 (Leases), however, which resulted effectively in a shift of CHF 64 million from general expenses to depreciation. Had this shift not happened, adjusted general expenses would have increased by CHF 66 million to CHF 747 million (and depreciation would have declined by CHF 2 million to CHF 36 million). This CHF 66 million is to a large extent explained by a CHF 47 million increase in provisions and losses, related to legacy legal cases. The remaining increase of CHF 18 million, or 3%, was largely driven by a rise in external staff costs for the finalisation of the client documentation review project and a rise in non-capitalised IT spend.

*Adjusted amortisation and impairment of intangible assets* grew by 33% to CHF 69 million, reflecting the rise in IT-related investments in recent years.

The *adjusted cost/income ratio* (which excludes adjusted provisions and losses) was 71% (2018: 71%). The *adjusted expense margin* (also excluding adjusted provisions and losses) improved to 58 bp (2018: 60 bp).

IFRS *profit before taxes* declined by 37% to CHF 566 million. As income taxes fell by 36% to CHF 101 million, *net profit* as well as net profit attributable to shareholders of Julius Baer Group Ltd. decreased by 37% to CHF 465 million, and EPS also by 37% to CHF 2.14.

*Adjusted profit before taxes* decreased by 6% to CHF 917 million, and the adjusted pre-tax margin declined by 3 bp to 22 bp. The related income taxes fell by 13% to CHF 145 million, representing a tax rate of 15.8%, compared to 17.1% in 2018.

*Adjusted net profit for the Group* receded by 5% to CHF 772 million (2018: CHF 810 million). After considering adjusted non-controlling interests of CHF 1 million (negligible in 2018), adjusted net profit attributable to shareholders of Julius Baer Group Ltd. declined by 5% to CHF 771 million, and adjusted underlying EPS attributable to shareholders by 4% to CHF 3.55.

The adjusted return on CET1 capital (RoCET1) was 27% (2018: 30%).

## BALANCE SHEET AND CAPITAL DEVELOPMENT

*Total assets* declined by 1% to CHF 102.0 billion. *Loans* grew by 7% to CHF 48.4 billion – comprising CHF 39.5 billion of Lombard loans (+10%) and CHF 8.9 billion of mortgages (-5%). As the *due to customers* position (deposits) increased by 2% to CHF 72.9 billion, the loan-to-deposit ratio increased from 63% to 66%. *Equity attributable to shareholders of Julius Baer Group Ltd.* increased by 2% to CHF 6.2 billion.

BIS CET1 capital rose by 5% to CHF 2.9 billion. In June 2019, the Group placed CHF 350 million of perpetual Additional Tier 1 (AT1) subordinated bonds. As a result of the increase in BIS CET1 capital and the AT1 bond issue, BIS tier 1 capital grew by 12% to CHF 4.4 billion and total capital by 13% to CHF 4.5 billion.

### BREAKDOWN OF ASSETS UNDER MANAGEMENT BY ASSET MIX

| | **31.12.2019** | 31.12.2018 |
|---|---|---|
| Equities | 28% | 26% |
| Investment funds | 26% | 25% |
| Bonds/convertibles | 19% | 20% |
| Client deposits | 17% | 19% |
| Structured products | 5% | 5% |
| Money market instruments | 4% | 4% |
| Other | 1% | 1% |

Risk-weighted assets (RWA) receded by 4% to CHF 20.5 billion. This decline was driven by a decrease in RWA of credit risk positions and lower RWA of market risk positions, following a year-on-year decline in market volatility.

As a result, the *BIS CET1 capital ratio* strengthened to 14.0% (end 2018: 12.8%) while the *BIS total capital ratio* improved to 22.1% (end 2018: 18.7%). The leverage exposure declined by 1% to CHF 101 billion, resulting in a Tier 1 leverage ratio of 4.4% (end 2018: 3.9%).

At these levels, the Group's capitalisation continued to be solid: the CET1 and total capital ratios remained well above the Group's own floors of 11% and 15%, respectively, and significantly in excess of the regulatory minimums of 8.2% and 12.4%, respectively. The Tier 1 leverage ratio continued to be comfortably above the 3.0% regulatory minimum.

On 20 November 2019, the Group commenced the execution of the announced programme to buy back Julius Baer Group Ltd. shares up to a purchase value of CHF 400 million by the end of February 2021. At the end of 2019, 755,000 shares had been repurchased at a total value of CHF 36 million (average value of CHF 47.80 per share).

# CONSOLIDATED BALANCE SHEET

| | **31.12.2019** *CHF m* | 31.12.2018 *CHF m* | Change *%* |
|---|---|---|---|
| **Assets** | | | |
| Due from banks | 7,082.5 | 9,228.8 | -23.3 |
| Loans to customers[1] | 48,427.3 | 45,323.2 | 6.8 |
| Financial assets measured at FVTPL | 13,776.2 | 8,415.6 | 63.7 |
| Financial assets measured at FVOCI | 13,166.2 | 14,587.6 | -9.7 |
| Goodwill and other intangible assets | 2,866.1 | 2,932.2 | -2.3 |
| Other assets | 16,716.8 | 22,411.1 | -25.4 |
| **Total assets** | **102,035.2** | 102,898.3 | -0.8 |
| **Liabilities and equity** | | | |
| Due to banks | 3,160.0 | 6,892.2 | -54.2 |
| Deposits from customers | 72,913.1 | 71,506.4 | 2.0 |
| Financial liabilities designated at fair value | 13,281.1 | 13,703.6 | -3.1 |
| Other liabilities | 6,491.6 | 4,754.2 | 36.5 |
| Total liabilities | 95,845.8 | 96,856.4 | -1.0 |
| Equity attributable to shareholders of Julius Baer Group Ltd. | 6,180.2 | 6,039.9 | 2.3 |
| Non-controlling interests | 9.2 | 1.9 | - |
| Total equity | 6,189.4 | 6,041.9 | 2.4 |
| **Total liabilities and equity** | **102,035.2** | 102,898.3 | -0.8 |
| **Key performance ratios** | | | |
| Loan-to-deposit ratio | 66% | 63% | - |
| Book value per share outstanding (CHF)[2] | 29.1 | 28.4 | 2.5 |
| Return on tangible equity (RoTE), adjusted | 24% | 28% | - |
| Return on common equity Tier 1 (RoCET1), adjusted | 27% | 30% | - |
| **BIS statistics** | | | |
| Risk-weighted assets | **20,494.6** | 21,338.4 | -4.0 |
| BIS total capital | **4,521.7** | 3,991.2 | 13.3 |
| BIS CET1 capital | **2,876.7** | 2,731.2 | 5.3 |
| BIS total capital ratio | **22.1%** | 18.7% | - |
| BIS CET1 capital ratio | **14.0%** | 12.8% | - |

[1] Mostly Lombard lending and mortgages to clients.
[2] Based on shareholders' equity.

# DEVELOPMENTS IN 2019

We further strengthened our Group's positioning along our market priorities and continued to complement our holistic offering. At the same time, we have opened a new chapter for Julius Baer, thus ensuring industry leadership in the world of tomorrow.

## EVOLVING STRATEGIC PRIORITIES

In order to fully capture the attractive long-term growth potential in our industry, our strategy has three elements. Smart market coverage ensures that we grow in or develop those markets that yield the best returns for our company. Holistic and personalised advice differentiates Julius Baer in offering wealthy clients relevant and valuable solutions in an increasingly commoditised world. And technology and digital transformation forms the core of our drive to pioneer innovation in wealth management, in order to fulfil client requirements and to further improve our operational efficiency today and in the future.

These strategic elements were confirmed at the beginning of 2020, and will now be implemented by the newly formed management team. The way and pace at which this will be done, however, will be changed. As the architects of our clients' wealth, we will tailor and deliver highly individual solutions in a client-centric, integral way – as personal as possible, yet powered by the best technology has to offer. This approach will be supported by a simplified organisational model that gives our clients seamless access to our offering. Our strategy is driven by the desire to achieve unparalleled client satisfaction, to further strengthen the reputation and standing of our Group and to realise sustainable, profitable growth.

## TECHNOLOGY, PLATFORM AND INNOVATION

Julius Baer's IT strategy is powered by three operational hubs, located in Switzerland, Luxembourg and Asia. These platforms ensure utmost flexibility in adapting our business model to evolving local and regulatory requirements, client-specific preferences as well as flexible interfaces to proprietary robotics and third-party FinTech solutions.

In all three hubs, digitalisation continues to be the focus of various initiatives towards new and further improved tools and channels. Our digital services enable clients to interact with the Bank in an easier and more convenient way, allowing them to handle administrative tasks directly and access information via the mobile banking applications, while relying on the personal support and competence of the relationship managers (RMs) where needed. In Switzerland, recently introduced additions include personalised trade ideas displayed directly on clients' mobile phones and a chat functionality to interact with RMs in the secure mobile banking environment.

The global roll-out of our *Digital Advisory Suite* (DiAS) reached another considerable milestone at the end of July with the go-live for clients booked in Switzerland. This proprietary platform guides RMs through sharing opportunities with clients, placing orders and performing regulatory duties in an integral way. Its outstanding versatility was recognised by the *Outstanding Wealth Management Technology Platform in Switzerland 2019* award we received by the leading trade journal *Private Banker International.*

Through our partnership with *F10 FinTech Incubator & Accelerator* association, we remain close to the rapidly evolving Swiss FinTech ecosystem and since November 2019 participate as co-founding member in *F10 Singapore*. This allows us to evaluate novel approaches and solutions in a growing number of application areas for possible integration into our business, including our own corporate start-up in advanced analytics. In order to support process automation, many robotic solutions have been deployed in Luxembourg, Guernsey, London, Switzerland and Singapore, which resulted in a significant capacity increase in 2019.

Following the granting of a banking licence to SEBA Bank AG by FINMA in August 2019, the cooperation with Julius Baer as announced in February 2019 was formally launched. It gives Julius Baer's clients the opportunity to access the digital asset universe in a regulated and carefully supervised manner, including secure private key storage and transaction solutions as well as consolidated portfolio overviews across both conventional and digital assets.

The Swiss consumer protection legislation FIDLEG will enter into force on 1 January 2020. Given the large overlap with the recently implemented MiFID II legislation, Julius Baer has already implemented a large number of the new rules. The legal gap analysis was finished in Q4 2019, taking into account the final version of the ordinance. Implementation is expected to be completed well within the two-year transition period lasting until the end of 2021.

Risk management remains an area of focus, embedded in the Group's overall risk management framework and the related risk tolerance framework. The comprehensive three-year client documentation review project was completed at the end of 2019. This enables us to control client-related risk even more effectively and in line with industry standards. At the same time, it will allow us to provide clients with data-driven, more targeted services and advice (see page 15). Information and IT security risks keep being mitigated by technical and organisational means. Continued investments in technical counter measures are complemented by a continuous awareness campaign for employees, making them ambassadors of smart and far-sighted handling of information security.

In parallel, the Group's compliance framework has been further strengthened in both scope and effectiveness. Apart from the increasing use of automated monitoring and sophisticated analytics tools, compliance awareness and knowledge among employees remains key. Related compliance training efforts have been rolled out to the entire Group – RMs and other client-facing staff in particular – including mandatory certification programmes and corresponding refresher courses.

## SWITZERLAND

Switzerland is Julius Baer's home market and the Group's main booking centre. As the leading Swiss wealth management group, we serve a significant number of Swiss domestic clients and resident clients with an international background. The country's location in the heart of Europe makes it easily accessible from all over the world and attracts a diverse population of wealthy individuals. Its notable cultural and linguistic diversity is matched by our broad network of locations, thus ensuring client proximity, which is an important aspect of our value proposition. Switzerland is considered a relatively saturated banking market. However, its high degree of wealth concentration and the level of sophistication that goes along with it provide ample opportunities for us as a pure wealth manager with our comprehensive offering encompassing wealth management, wealth planning and wealth financing.

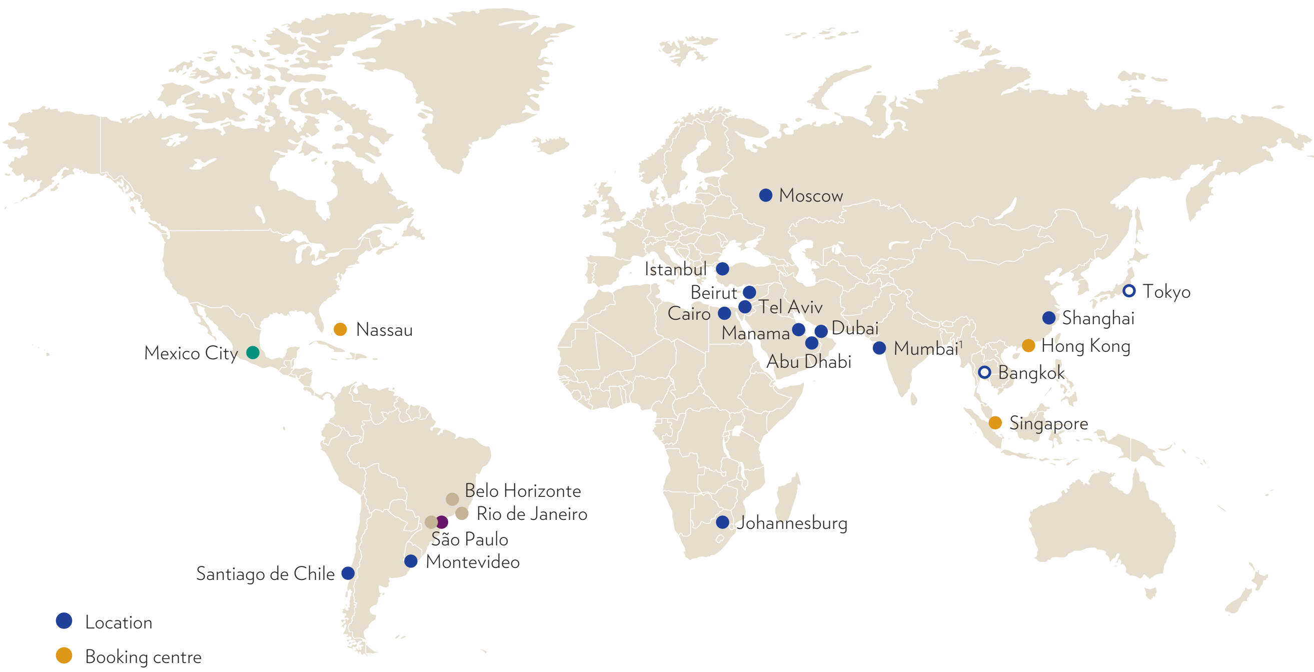
Our clients value the holistic quality of our structured advisory approach *Julius Baer – Your Wealth*. It also enables us to fully harness the Group's broad range of expertise for the benefit of our clients. In order to sensitise existing as well as new clients to key interdependencies in managing personal wealth and the resulting long-term implications, we ran a year-long comprehensive information campaign for clients in 2019. Topics we covered comprised home market bias, responsible and *Next Generation* investments as well as real estate, including all associated aspects from taxation and succession planning to household diversification. The systematic involvement of subject matter specialists guiding clients towards individual solutions has proven very effective and resulted in a strong increase in wealth planning-related mandates.

# GLOBAL PRESENCE

## EUROPE


## SWITZERLAND


## OUR LOCATIONS IN OTHER PARTS OF THE WORLD




- Location
- Booking centre
- GPS, a fully owned subsidiary
- Reliance Group, fully consolidated subsidiary
- NSC Asesores, majority participation of 70%
  Julius Baer is present in Mexico City with a representative office
- Strategic partnerships in Bangkok, Thailand, with The Siam Commercial Bank and in Tokyo, Japan, with Nomura Holdings Inc.
- Kairos Investment Management S.p.A., a fully owned subsidiary
  Julius Baer is present in Milan with Julius Baer Fiduciaria S.p.A.

[1] Additional advisory locations in Bangalore, Chennai, Hyderabad, Kolkata and New Delhi

Asset gathering was challenging overall but markedly improved in the second half of the year. Clients' relatively cautious stance held back revenue development despite higher asset levels.

Fully aligned with our *Next Generation* investment philosophy, Julius Baer again opened a window to the future at the second *Julius Baer Swiss E-Prix,* which took place in the country's capital of Berne on 22 June 2019. As part of our global partnership with *ABB FIA Formula E,* it gave us the opportunity to share with a larger audience our ambition to help shape (and benefit from) the sustainable structural changes of tomorrow. Beyond the obvious topic of mobility, our campaign centred on the motto *How we invest today is how we live tomorrow* and touched on topics such as energy transition, future cities and digital disruption.

Recognising our strong domestic franchise, Julius Baer was named *Outstanding Private Bank Switzerland – Domestic Players 2019* by the leading trade journal *Private Banker International*.

## EUROPE

Europe is an important region for our Group where we see good growth opportunities. In line with our clients' preferences, we serve the region both from international Group locations as well as locally from our advisory locations across the continent. While our private client business in Germany is predominantly booked locally, our booking centre in Luxembourg serves as the hub for our other European business, including our growing advisory business conducted out of Luxembourg.

The Luxembourg hub supports our European operating model by providing integrated, steadily expanding booking centre capabilities for private clients and intermediaries. In our effort to streamline our European operations further, the client base booked in Monaco was technically consolidated into our European hub in Luxembourg at the beginning of November 2019, with Monaco remaining an independent booking centre of the Group.

2019 saw a strong continuation of net new money inflows from European clients. The introduction of MiFID II continued to impact client behaviour, which is particularly evident in the increased share of mandate-based solutions. Higher assets under management contributed to broadly stable revenues.

***Germany*** is one of the most attractive wealth management markets in Europe and is served from a number of Group locations. Despite being fragmented and mature, the German market continues to show sustainable growth rates.

Against a backdrop of ongoing industry consolidation, we were able to further broaden our base of experienced RMs in 2019, leveraging our strong market standing built over the past years. Our local focus on pure wealth management for private clients and family offices, our outstanding reputation, our solid financial foundation and our excellent client proximity and service offered through our network of ten locations across the country are important factors in retaining existing clients and winning new ones.

Frankfurt-based *Bank Julius Bär Deutschland AG's* locally booked private client business showed robust momentum in 2019. Net new money inflows remained encouraging, albeit at a slower pace than in 2018. Higher assets under management contributed to overall positive development of revenues.

In ***Spain***, the seeming dominance of a few large universal banks obscures the true business potential for clients seeking pure wealth management services. Capitalising on Julius Baer's growing reputation in the Spanish market, we complemented our local presence with a new office in Barcelona at the beginning of April 2019. We also broadened our RM base in our Madrid office, including a large team dedicated to the market of ***Portugal***. This resulted in continued healthy net new money inflows, contributing to higher asset levels and well supported revenues.

We continued to outpace the overall market growth in ***Monaco*** in 2019, thus confirming our position as the leading wealth manager in the principality. Business momentum remained strong throughout the year, with healthy net new money inflows contributing to higher assets under management and rising revenues. The new advisory service models we are introducing there will benefit not only our large and growing local client base but also private clients from selected markets in Western and Eastern Europe, the Middle East and Latin America.

***Italy*** is served from various Swiss locations. Local activities centre on specialised wealth and asset manager *Kairos* and on *Julius Baer Fiduciaria S.p.A.* in Milan, one of the largest fiduciary companies in the country. Italy is one of the biggest European markets in terms of savings, with significant potential for risk diversification as well as geographic diversification of the local asset base. However, persistent political and economic uncertainty dampened business momentum and net new money development in 2019.

The investment products of our Italian asset management subsidiary *Kairos* performed well in 2019, resulting in a number of industry accolades, for example the *Kairos Pegasus Fund* winning in the category *European equity long-term performance* (5 years) at the *HFM European Hedge Fund Performance Awards 2019*. However, the subsidiary continued to suffer net outflows because of its funds' underperformance in 2018 and management changes throughout 2019. Following a thorough strategic review of Kairos, the collaboration and operational alignment with Julius Baer will be intensified by leveraging each unit's strength and targeting revenue synergies.

Our local business activities in the ***United Kingdom*** showed good overall momentum in 2019. On the back of the prolonged uncertainties related to Brexit, clients adopted a more cautious stance as the year progressed. Following the rapid expansion of recent years both in London and in establishing a comprehensive regional presence, we turned our focus on utilising the strong market standing we have built among high net worth individuals across the UK.

Client proximity remains a distinctive element of our strategy, both in terms of our offering and physical presence. The latter was complemented by a new office in Belfast, which became operational in the second quarter of 2019. Wealth planning solutions remain a central pillar of our high-value services to clients. Consequently, the share of discretionary mandates continued to rise, steadily approaching the 50% mark. This development was well supported by investment performance, which contributed to a number of industry awards, such as *Private Bank of the Year* at the *Magic Circle Awards Results 2019* by industry network *Citywealth*.

Our locally well-connected business in the smaller yet dynamic wealth management market of ***Ireland*** is served from Dublin. On the back of the country's growing base of internationally oriented investors and entrepreneurs, it achieved very substantial net new money growth in 2019, which contributed to higher asset levels and rising revenues.

## RUSSIA, CENTRAL & EASTERN EUROPE

This geographic area continues to be a key region for our growth investments. Given persistent geopolitical, regulatory and economic uncertainties, however, the business environment was challenging in 2019. Continued deleveraging in clients' portfolios and the negative interest rate environment weighed on net new money inflows, which nevertheless remained very encouraging. Assets under management remained well supported. The share of mandate solutions grew further, increasingly backed by our wealth planning services.

The size of our franchise, our brand recognition and our market reach combined with exemplary client proximity continue to set us apart. Our aim is to gain market share, also by continuously expanding our base of RMs. Our local presence in ***Russia*** has been significantly strengthened by the upgrade of our Moscow office with a new advisory licence. This allows us to increase our client proximity and service offering in what is our biggest target market in the region. In Central and Eastern Europe, we focus on serving clients in the Czech Republic, Hungary and Poland. In addition to our office in Moscow, clients from this attractive region are also served from various Group locations in Europe, the Middle East and Asia.

## ASIA

Despite the dampening effect of the Sino-American trade dispute on the overall economic growth in the region, Asia still hosts eight of the global top ten countries with the fastest growing population of ultra-high net worth individuals (UHNWIs) and high net worth individuals (HNWIs).

Julius Baer is one of the region's largest wealth management providers, and therefore we call Asia the Group's second home market. As the region's base of investable assets grows, so does the degree of sophistication of existing and new clients. Their rising propensity for holistic wealth management solutions makes us the first address for private clients in search of a trusted advisor.

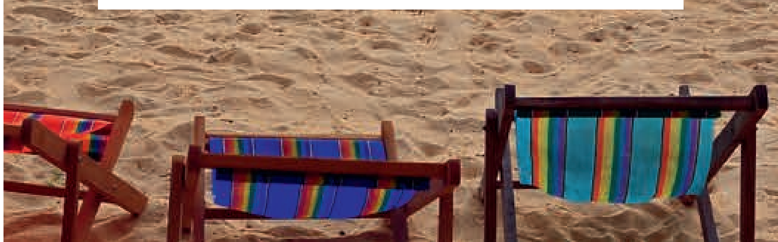
Julius Baer serves this diverse region from a number of locations, including local booking centres in ***Singapore*** and ***Hong Kong,*** our representative office in Shanghai, our domestic presence in India, and via joint ventures in Bangkok and Tokyo.

## MEASURING THE PULSE AT THE VERY HEART OF CLIENT RELATIONSHIPS

*Know your customer* or KYC has been one of the most prominent areas of tighter regulatory standards across the globe in recent years. At the same time, serving our clients based on a deep understanding of their individual situation has been the very driver of Julius Baer's private banking business for 130 years now. To close any possible regulatory gaps, to mitigate related compliance risks and to ultimately assure the most accurate client knowledge, we embarked on a comprehensive client documentation review project at the beginning of 2017.

The successful completion of the project at the end of 2019 puts Julius Baer at the forefront of our industry, not only concerning regulatory accuracy of client data. In fact, the depth and breadth of systematic information now available was an opportunity to get to know our clients even better, thanks to a deeper understanding of their backgrounds, wishes and financial aspirations. Maintaining this standard will allow us to measure our clients' pulse where it is essential: at the very heart of our client relationships.

Our detailed knowledge of and privileged access to our clients enables us to provide holistic advice during all stages of their lives, encompassing wealth planning, wealth management and wealth financing. At the same time, the comprehensive client data now available will pave the way for data-driven, more targeted service and advice for clients, thus further contributing to an outstanding client experience.



Client confidence improved as the year progressed, as evidenced in higher transaction activity and rising credit penetration. Individual investment solutions remained in demand, pushing mandate penetration towards one third of assets. Net new money inflows markedly improved year on year, contributing to higher assets under management and rising revenues. Locally booked clients account for about a quarter of the Group's total assets under management.

To complement our organic growth in the region, we seek strategic opportunities via partnerships and other inorganic initiatives. After having received the necessary approvals and licences, our joint venture with The Siam Commercial Bank (SCB) in ***Thailand,*** *SCB-Julius Baer Securities Co., Ltd.,* opened for business in April with more than 50 professionals. The joint venture combines SCB's strong reputation and deep domestic knowledge with Julius Baer's pure wealth management expertise, resulting in a competitive offering of international wealth management capabilities for Thai clients in Asia. The Thai wealth management landscape and the market for luxury goods was analysed in a dedicated *SCB Julius Baer Wealth Report: Thailand* launched in June 2019.

Our strategic partnership with Nomura in ***Japan*** showed good momentum as the year progressed. *Julius Baer Nomura Wealth Management Ltd.'s* aim is to introduce our bespoke discretionary mandate services to Nomura's local high net worth client base. At the end of May 2019, the two partners held a joint client event to launch the fifth annual *Julius Baer Wealth Report: Japan* at the Swiss embassy in Tokyo.

Our strong standing in the region also showed in a number of prestigious awards we received in 2019. At the *Private Banker International's Global Wealth Awards 2019*, Julius Baer won the *Outstanding Private Bank for Growth Strategy* award for the fourth consecutive year, highlighting the Group's pioneering and rewarding growth strategy in the region. In addition, Julius Baer was named *Best Boutique Private Bank in Asia* for the tenth consecutive time by *The Asset*.

Julius Baer is one of the largest and best-established foreign wealth managers in ***India.*** The domestic Indian market is covered from the major cities of Mumbai, New Delhi, Kolkata, Chennai, Bangalore and newly Hyderabad. In addition, Julius Baer serves a large and rising global base of non-resident Indians from different Group locations in Asia, the Middle East and Europe. This *Global India* approach is a key competitive advantage for Julius Baer. It offers clients the best of both interlinked worlds, fosters retention and referrals, and is a significant source of further promising business developments. Despite clients' cautious stance towards financial markets in general and the Indian capital market in particular, business momentum held up well in 2019, as evidenced by very healthy net new money inflows.

*Julius Baer India* excelled in several categories at the *Euromoney Awards 2019,* including number one rankings in *Technology, International Clients* and *Social Impact Investing.* In the categories *High Net Worth Clients* and *Best Private Banking Services Overall*, Julius Baer ranked second and third, respectively.

## EASTERN MEDITERRANEAN, MIDDLE EAST & AFRICA

Despite the challenging geopolitical tensions, subdued economic expansion and ever changing regulatory regimes, we were able to maintain positive business momentum across the Eastern Mediterranean region as well as our chosen markets in the Middle East and Africa. We serve this diverse region primarily from our main regional hub in Dubai, complemented by local offices in Istanbul, Beirut, Manama, Abu Dhabi and Tel Aviv, as well as from a growing number of Group locations in Europe and Asia. Brand recognition continued to rise on the back of the Bank's dedicated offering, further supported by its global reach combined with local proximity. At the beginning of April 2019, we further strengthened our presence in ***South Africa*** by complementing our existing representative office in Johannesburg with a fully licensed advisory office, enabling a wider offering.

We successfully broadened our base of experienced RMs in several teams in 2019, which contributed to well supported net new money inflows and asset levels, also benefiting mandate penetration. While the negative interest environment proved challenging, demand for credit solutions held up well.

Julius Baer ranks among the top foreign wealth managers in ***Israel.*** We serve this appealing but highly competitive market from a number of Group locations and locally from our Tel Aviv office. We target Israel's significant wealth creation both domestically and via the global Israeli community. On the back of an expanding domestic economy and particularly tech-oriented sectors, net new money inflows remained very robust in 2019, contributing to record-high asset levels.

## LATIN AMERICA

Latin America is a demographically young region with a well-educated middle class and rapidly growing population of entrepreneurs. The region's considerable economic progress, however, is clouded by cycles of domestic political and economic obstacles – as witnessed in the period under review. Generally, we view the region's long-term potential as attractive.

We are serving Latin American private clients locally from our offices in Santiago de Chile, Montevideo, São Paulo, Rio de Janeiro, Belo Horizonte and Mexico City as well as increasingly from other Group locations. This combination of local proximity with our international investment expertise differentiates us from most domestic competitors. As a major international wealth manager in Latin America, our holistic approach to investment advice and our comprehensive offering appeal to the region's HNWIs and UHNWIs.

In 2019, we aimed to reduce complexity and risk while realigning our business strategy to focus on core markets and key client segments. As anticipated, 2019 presented limited business potential and net new asset development. Yet, the business overhaul also paved the way for new growth opportunities. We further strengthened our regionalised offering and reinforced our base of experienced RMs covering key markets – such as Chile, where we have the largest local presence of any international wealth manager. Given the many prevailing uncertainties, the performance we achieved in our core markets was satisfactory, and we are poised for solid growth from the base of a sustainable business.

In ***Brazil***, Julius Baer is the largest local independent wealth manager. Our two fully owned subsidiaries *GPS* and *Reliance* were operationally combined under *Julius Baer Family Office Brasil* at the end of August 2019. This will foster the collaboration between these two complementary businesses, which combine local proximity with Julius Baer's international investment expertise in an independent multicustody framework. Clients' growing interest in diversifying their assets geographically and by asset classes favoured our comprehensive offering. In addition, we broadened our offering of selected alternative investments. With the emerging segment of younger, tech-savvy investors in mind, at the beginning of May 2019 we joined forces with the leading local digital investment advisor Magnetis. The aim is to create the best digital experience for a broad range of investors.

Our activities in ***Mexico*** continued to develop very favourably. On the back of our growing RM base and brand recognition, business with Mexican clients yielded substantial net new money inflows. Our cooperation with *NSC Asesores,* one of the largest independent wealth management companies in Mexico, reached a new level at the beginning of March 2019. By acquiring an additional 30% stake, Julius Baer became majority shareholder with a 70% participation. The advancing integration of the business, combined with the opening of a Bank Julius Baer representative office in Mexico City at the end of November 2019, reinforced Julius Baer's brand and reputation within the Mexican market.

## INTERMEDIARIES BUSINESS

In order to further strengthen our collaboration with intermediaries, i.e. external asset managers (EAMs) and external financial advisors (EFAs), the Bank created a dedicated front unit for intermediaries in 2019. The aim is to deploy the Group's solution capabilities – including our investment management and wealth planning expertise, our product structuring capabilities and our connectivity and execution services – to the full benefit of intermediaries and their clients.

During 2019, we were able to grow our Intermediaries franchise further. Particularly strong net new money inflows originated from strategic growth markets in the Asia Pacific region, Emerging Markets and from Europe. In close collaboration with the Bank's private client business, we were able to expand our local activities in Asia, the Emerging Markets and Europe as well as selectively in Switzerland.

Technology is a significant component of our service offering to intermediaries. Julius Baer provides a comprehensive digital platform while simultaneously expanding technological capabilities across the Group's different booking centres. A particular emphasis is placed on connectivity services, which allow intermediaries to connect their systems more efficiently with ours for automated end-to-end processing.

In the course of the realignment of the Bank, the intermediaries business became a distinct part of the Group's Chief Operating Officer organisation. This move will accelerate the technological transformation of this business-to-business (B2B) segment and thus ensure the high level of integrated state-of-the-art services for its clients going forward.

# JULIUS BAER'S HOLISTIC SERVICE AND SOLUTIONS OFFERING

We focus on clients' needs with respect to wealth accumulation, wealth preservation and wealth transfer to future generations. Our holistic advisory approach *Julius Baer – Your Wealth* tailors financial solutions for clients based on their unique situations, encompassing wealth planning, wealth management and wealth financing. By utilising our investment management and advisory solutions capabilities as well as markets teams, complemented by credit and global custody services, we provide solutions that holistically match our clients' individual preferences.

## INVESTMENT MANAGEMENT

Our product and investment experts around the globe are important contributors to our holistic *Julius Baer – Your Wealth* offering. They have decades of experience in managing wealth for our high net worth private clients on a discretionary basis.

Our Chief Investment Officer (CIO) maps out the investment strategy backed by a solid, well-proven investment philosophy and asset allocation process. Investment decisions rely on comprehensive qualitative and quantitative analysis and seek to deliver consistent risk-adjusted investment returns for our clients. Our strong governance framework drives the implementation of our investment decisions in an effective way.

We are taking firm steps to ensure that our investment management solutions remain relevant for our clients, by

- complementing our proven traditional multi- and single-asset-class solutions through value-adding alternative investments such as private equity and hedge funds;
- strengthening our offering of outsourced CIO services, giving third-party providers access to professional support in managing their portfolios in an increasingly complex investment environment;
- expanding our offering with thematic and regionally focused mandates;
- continuously digitalising our investment processes, which provides us greater efficiency and scalability in matching our solutions with client preferences.

## RESEARCH

The *Research* team further leveraged our *Next Generation* investment philosophy to identify, analyse and follow up on the long-term structural changes that are shaping the world. The *Future Cities* theme attracted a lot of attention while established themes such as *Artificial Intelligence*, *Digital Health* and *Future Mobility* remained key topics. In 2020, in a number of dedicated reports we will continue our assessment of how shifting social values and increasingly conscious consumers are changing the way businesses will work in future.

## ADVISORY SOLUTIONS

In assessing our clients' needs for financial solutions, we adopt a structured *Holistic Advice* approach. Our advisory experts support our RMs in this service. The *Holistic Advice* approach is currently in use in Switzerland and the UK.

An important part of *Julius Baer – Your Wealth* is the expert investment advice we provide to clients. Our *Advisory Mandates* form part of this and support its delivery by encompassing portfolio monitoring, personalised investment ideas and tailor-made strategies. Our Advice Advanced and Premium mandates offer clients financial advice from experienced and dedicated experts. Within a staggered approach, the roll-out of the new advisory mandates for the Middle East offices is in progress.

Our proprietary *Digital Advisory Platform* supports our client advisory approach by enabling us to share opportunities and address risks with our clients, in tune with financial market development. It has been successfully implemented in several European locations with clients booked in Switzerland, Luxembourg and recently in Monaco.

A growing network of internal and external specialists and a wide range of sophisticated solutions support our comprehensive *Wealth Planning* services. We have now developed our local footprint in Dubai, Luxembourg and India and, more recently, Russia and Mexico. This proximity enables us to provide increasingly multifaceted advice relevant both locally and across borders for individuals and families with multinational circumstances.

In Asia, we sustained strong growth in assets under management for both investment advisory and wealth planning solutions. We presented our high conviction ideas and key investment themes to clients at various external events and on social media. We continually look to engage with clients on first-rate private investment opportunities and deals. The collaboration between Investment Advisory and Investment Management in Asia continues to generate meaningful value for clients as well as business volume. At the beginning of 2020, we received the precious award *Best Private Bank – Discretionary Portfolio Management* for 2019 from *Asian Private Banker*.

## MARKETS

The Markets teams deliver trade execution, product structuring and advisory services across all asset classes. Our efficient transaction and risk management infrastructure, combined with comprehensive market access via a large counterparty network, ensures the high-quality level of our execution and trading activities. Between the centres in Zurich, Singapore and Hong Kong, we offer 24-hour availability for our client base. Access to our experts for RMs and clients ensures comprehensive support in all execution, trading and structuring-related matters.

The Markets unit plays an important role as manufacturer of structured products issued from Julius Baer Group's balance sheet. The continued development of our structured products offering across all asset classes is addressing the diverse needs of our global customer base. The *Markets Toolbox,* a real-time platform for structured products, currencies and precious metals, is a key enabler in achieving a high level of service experience and efficiency for private clients and intermediaries. In cooperation with a F10 start-up, we have additionally built a platform for the integral management of Julius Baer-issued Actively Managed Certificates, meeting the fast growing demand from our intermediaries business.

## CREDIT

As part of our holistic *wealth financing* offering, our private clients have access to a wide range of credit products on a secured basis. We offer Lombard loans to accommodate clients' leverage and liquidity purposes as well as real estate lending in the form of residential mortgages, predominantly in Switzerland. The Credit team also provides our UHNW clients with bespoke in-house solutions such as *Collateralised Cash Flow backed Lending* secured by non-listed securities, and we act as a broker for specific financing services that we do not perform. Our loan book is prudently managed using a sophisticated credit risk framework.

## GLOBAL CUSTODY

As a dedicated provider of custodian services and solutions in Switzerland, this unit enjoys an excellent reputation as a best-in-class global custodian in its well-defined areas of specialised expertise for institutional clients and investment funds as well as for private clients with institutional requirements.

The business covers the full range of country-specific expertise and client-oriented solutions comprising a wide variety of products and services, including custody, centralised asset and depository services as well as transaction banking and access to a wealth of other value-adding bank capabilities such as analytics and reporting. With its modular offering, clients benefit from a high degree of flexibility regarding daily business processes and individualised services to cover their needs.

# INVESTMENT RESEARCH: 2019 AND BEYOND

Every decade in the past hundred years reshaped the world, and financial markets along with it. The decade now drawing to a close has been about cleaning up past excesses and establishing new business models. Doing so has pushed the world into an uncomfortable corner of low growth and low inflation, with interest rates providing an indication of the growth/inflation mix.

## A LOOK BACK AT 2019: US-CHINA TRADE WAR SPURRED LOWER RATES

2019 will be remembered for US-China trade to have triggered a global industrial recession. Central banks then came to the rescue, and the opposing parties eventually agreed on a 'mini deal'.

Financial markets ended 2018 in panic mode. However, global monetary support and the prospects of the trade war easing were supportive of risk assets throughout 2019, despite intermediate setbacks in May and August. Information technology stocks did best during the year, while oil & gas assets lagged. In the fixed income space, corporates outperformed money markets by a large margin. In the alternatives space, real estate benefited from lower rates, while agricultural commodities tanked.

## 2020: NO SILVER BULLET WITH FISCAL POLICY YET

The world economy ended 2019 on a soft note. Looking ahead, we expect the following four topics to define 2020:

**A bottoming economy:** Absent exogenous shocks, a bottoming of the economy is in the cards for the first half of 2020, as monetary support is back and economic sentiment is improving. The missing ingredient for a more meaningful upturn is government spending. Plenty of governments around the world have a blank cheque to spend, particularly in Europe. Whether governments will dare to promote fiscal spending is one of the wild cards for 2020.

**US presidential elections:** Politics remain in the driving seat. 2020 is a US presidential election year – that says it all. It is still early days to assess the impact on financial markets, as the current roster of candidates in the Democratic nomination race presents rather extreme alternatives. More guidance is expected after the primary elections in Q1 2020.

**Negative yield:** Pressure from negative yield on investors persists, and the longer it lasts, the more it hurts. At the peak of the growth scare in 2019, almost USD 17 trillion worth of global fixed income assets yielded negative rates. Unless governments fire the magic silver bullet to spur growth, negative interest rates will not go away any time soon.

**Innovators/disruptors:** The prevailing theme of the current cycle remains the leadership of innovators/disruptors in the corporate sector. This plays out at the sector level (e.g. information technology), the market level (e.g. the Nasdaq, the Chinese stock market) and the individual equity level (where a competitor has a cutting edge in a traditional industry). Investors will have to decide which levels suit their risk-return requirements best.

# CEO PHILIPP RICKENBACHER ABOUT MAKING A SUSTAINABLE IMPACT AT JULIUS BAER

Philipp Rickenbacher has been an advocate of sustainable development since long before being appointed CEO of Julius Baer on 1 September 2019. Only three weeks into his new role, Bank Julius Baer became one of the founding signatories of the UN Principles for Responsible Banking. In this interview, Philipp Rickenbacher shares his vision for shaping a sustainable future – and the steps Julius Baer will undertake in this regard.

## WHY WAS IT IMPORTANT FOR JULIUS BAER TO ENDORSE THE PRINCIPLES FOR RESPONSIBLE BANKING?

'At Julius Baer, we believe that sustainability is critical for our future success. Not just for the environment, but for the global economy and for society as a whole. We have effectively "hardwired" the idea of sustainability in our process and thinking across the Bank. As the first Swiss bank to endorse the UN Principles for Responsible Banking and one of the founding signatories, we have demonstrated that we want to take an active leadership role with regard to sustainability. It is the key to ensuring the success and well-being of generations to come.'

## HOW DO THE NEW UN PRINCIPLES HELP JULIUS BAER MEET THE EMERGING REQUESTS OF THE BANK'S CLIENTS, EMPLOYEES AND SHAREHOLDERS?

'The Principles for Responsible Banking offer guidance on how we can achieve our ambition. They provide independent external feedback on existing gaps, helping us to improve our way of doing business, and inform how we can meet and perhaps even exceed the expectations of our internal and external stakeholders. Our current strategy is in line with the Principles, confirming that we are on the right track. Further proof was provided by Julius Baer's inclusion in the SXI Switzerland Sustainability 25 Index at the end of September 2019, which covers the 25 listed stocks from the SMI Expanded Index with the best sustainability scores.'

## WHAT CAN STAKEHOLDERS EXPECT IN TERMS OF CORPORATE SUSTAINABILITY AND RESPONSIBLE INVESTMENT GOING FORWARD?

'In 2019, we started a new chapter in our sustainability strategy. We carefully listened to our stakeholders and collected their input on what we should aim for. In a stakeholder panel conducted in early September, we gathered input on what is relevant and material to our business and to our clients. And in November, we appointed a new Head of Corporate Sustainability and Responsible Investment, Yvonne Suter.

At the outset of a new decade, we are working on further strengthening our sustainability strategy and defining new long-term targets, in line with the Sustainable Development Goals of the United Nations. Clients and other stakeholders can expect to see Julius Baer taking a much more active role in both corporate sustainability and responsible investment. This will be a cornerstone of our relationship with clients, form part of our product offering and be reflected in the company's bonds with its employees.'

# CORPORATE SUSTAINABILITY AND RESPONSIBLE INVESTMENT

For Julius Baer, sustainability is far more than a responsibility we have towards our clients, employees, investors and society – it is an opportunity to take an active role in creating value for generations to come. We have embarked on a sustainability journey to strengthen our strategy and to contribute to achieving the UN Sustainable Development Goals.

The urgency surrounding sustainability and climate change as well as the associated responsibility we all carry as a society has gained significant momentum in recent years. As a bank, we play an important role in the transformation towards sustainability. In this context, we are confronted with the following:

- *Societal awareness*: Stakeholders no longer just expect companies to operate responsibly, but to add value to society. The private sector – particularly the financial sector – is increasingly expected to mobilise the necessary resources to tackle issues such as climate change and global wealth inequality.
- *Investing for impact*: In 2019, our relationship managers (RMs) and advisors reported a noticeable increase in the demand for sustainable and impact investment (especially from younger generations). At Julius Baer, we offer a full range of sustainable portfolio solutions, diversified across asset classes.
- *New wealth and changing demographics*: Over the next twenty years, there will be a significant wealth transfer to younger generations, as well as new wealth emerging, for example from the middle class in Asia. For Julius Baer, this means that we need to adjust our product and service offering to the needs of these groups.
- *New digital technologies*: A quick, seamless, secure and technologically advanced service is viewed as a matter of course by clients. Our ongoing investments in this area focus on the technological support provided to our clients and RMs. Our technology investments amounted to over one billion Swiss francs in the last five years.
- *Regulation*: After a decade of addressing the impact and causes of the financial crisis and establishing new business models, financial institutions are increasingly exposed to a shifting political landscape. Current regulatory issues include an increased need for sustainable finance definitions and guidelines as well as the EU Action Plan for Financing Sustainable Growth.

These developments present challenges and opportunities. Our corporate sustainability and responsible investment strategy guides us in responding to trends as well as to changes in clients' and society's expectations. It also ensures the incorporation of sustainable business practices into our daily investment and business decisions.

## CORPORATE SUSTAINABILITY AND RESPONSIBLE INVESTMENT STRATEGY

In 2019, we embarked on a journey to strengthen our corporate sustainability and responsible investment strategy. To facilitate this process, we launched a dedicated and centralised global corporate sustainability and responsible investment programme to oversee and align the Group's activities. In November 2019, we welcomed Yvonne Suter as our new Head of Corporate Sustainability and Responsible Investment.

The materiality assessment and stakeholder engagement process that has been undertaken helped us to identify those sustainability topics that matter most to our stakeholders. Consultations revealed that internal and external stakeholders are in agreement that climate change as well as the triangle 'client experience – front training – solutions' are most critical to our long-term success.

In parallel to these efforts, Julius Baer was the first Swiss bank to endorse the UNEP FI United Nations Principles of Responsible Banking. By becoming a signatory in September 2019, we have demonstrated that we want to take a much more active role regarding sustainability.

## BUSINESS CONDUCT AND INTEGRITY

Our *Code of Ethics & Business Conduct* (the *Code*) guides all decision-making at Julius Baer. It covers topics such as tax, conflicts of interest, combating financial crime, confidentiality, human rights, diversity and environmental protection. Via our Integrity Platform, employees can confidentially report suspected *Code* violations. To further increase its tangibility and ultimately foster a strong individual sense of responsibility and judgement among employees, the *Code* was reviewed and evolved accordingly in 2019.

In addition to the *Code*, we operate under a diverse range of policies to prevent and combat financial crime. Our policies apply to all Julius Baer employees worldwide. Staff are regularly trained on the content and application of these policies.

Furthermore, we have a code of conduct for our suppliers. In 2019, we started in-depth discussions on how to adequately collaborate with our third-party suppliers in order to manage related risks. This will strengthen our framework for managing suppliers and assessing their compliance with the terms stipulated in the *Code* and with international norms on human and labour rights, health and safety, and corruption prevention.

Taken together, these measures ensure full compliance with industry regulations, awareness of potential threats and risks to our business, and application of the highest possible standards of business conduct.

## CLIENT EXPERIENCE

Julius Baer focuses on private clients, providing them with holistic advice and highly individual wealth management solutions. Understanding what matters most to our clients is at the heart of everything we do, resulting in a unique client experience.

Client experience continues to be very strongly impacted by digitalisation in terms of 24/7 availability, communications, personal service and risk management. Digitalisation increases the risk of fraud, identity theft and system downtimes. Julius Baer's Security Committee oversees these challenges by actively managing these risks and by investing in state-of-the-art defence measures as well as workflows and tools to comply with the EU's General Data Protection Regulation.

High levels of security and privacy are essential to do business. Given the public perception of cybersecurity, however, security and privacy might grow into truly differentiating factors. At the same time, we are expanding our online banking platform to build on the development of new digital technologies and provide our clients with future-proof services.

## RESPONSIBLE INVESTMENT

In our increasingly connected and fast-paced world, integrating the environmental, social and governance (ESG) perspective is going to be the norm. Julius Baer's investment process already considers financially material ESG factors in order to achieve long-term economic benefits. We are convinced that such a holistic approach improves our ability to uncover risks and detect opportunities. Therefore, we make sure that the ESG perspective is an integral rather than peripheral part of Julius Baer's investment process.

Julius Baer currently offers different responsible investment solutions, individually tailored to clients' requests. Complementing the traditional financial risk analysis, an ESG evaluation is applied to the entire investment universe. In case of controversial findings, they are discussed by the Julius Baer Responsible Investment Committee, which then adapts the ESG rating accordingly.

*Sustainable investing*
In an initial analysis, ESG ratings are derived by selecting the ESG leaders, i.e. those companies with the highest ESG ratings and no public controversies. Investors thus gain exposure to firms with a solid corporate culture based on a long-term oriented business model as well as responsibility towards all stakeholders. Our sustainable investment universe covers equities and bonds as well as parts of the alternative investment segment and related products, enabling diversified, individually structured portfolios.

The United Nations Sustainable Development Goals (SDGs) for 2030 provide important guidelines. To combat issues like climate change and wealth inequality, governments need support from the private sector. Therefore, the SDGs serve as a compass and common language to identify companies whose sustainability originates directly from their business. Investable themes to support the SDGs include, for example, health, nutrition, clean energy and water.

*Impact investing*
Impact investing aims to generate a measurable social or environmental impact alongside a financial return. Impact investing can be done through shareholder engagement, by voting at shareholder meetings or directly by engaging financially in non-listed companies and projects. Listed instruments include green bonds and alternative assets like microfinance funds and private equity investments.

## RESPONSIBILITY TO EMPLOYEES

Our ambition to be the employer of choice in wealth management is greatly supported by our work culture, which attracts, advances and retains the talent we need to achieve our business targets. We believe that a good and strong culture contributes to high motivation, sparks the willingness to go the extra mile and is the best risk manager.

Excellent training and development opportunities are one major factor to attract and retain outstanding and ambitious employees. To enhance both technical and soft skills, we provide training, promote learning and support performance. Our efforts specifically target the areas of competitive advantage and risk mitigation, which are covered by programmes to strengthen leadership competencies, foster professional skills and develop young talents.

To get an unbiased overview of how our employees feel about their work at Julius Baer, we launched the first-ever global employee survey in 2019. The possibility for managers to directly acknowledge and comment on anonymised employee opinions made the survey an instant success. Our employees' strong commitment to Julius Baer was confirmed by a slightly above-average engagement score within the finance industry. We plan to conduct similar pulse surveys on a regular basis in 2020.

### KEY RESPONSIBLE INVESTMENT INDICATORS

| | **2019** | 2018 | *Change in %* |
|---|---|---|---|
| Assets with ESG integration (CHF m)[1] | 52,486 | 43,537 | *20.6* |
| *As percentage of total assets under management (%)* | *12.7* | *11.4* | - |
| Discretionary sustainability mandates (CHF m)[2] | 1,625[3] | 973 | n.a.[4] |
| Recommended sustainable and impact investment funds (CHF m)[5] | 535 | 435 | 23.0 |

[1] Based on assets under management in central mandates (only front regions, excluding intermediaries).
[2] Including various asset classes and currencies.
[3] Including mandates implemented outside of Switzerland.
[4] Change for mandates implemented only in Switzerland is +23.7%.
[5] Total assets under management invested through Julius Baer in recommended Sustainable Investment and Impact Investment funds on the open product platform.

## RESPONSIBILITY TO SOCIETY

We are active corporate citizens. Our credo is to operate responsibly and with social awareness. That is why we engage in a great variety of ways with the local communities where Julius Baer operates.

For more than fifty years, the *Julius Baer Foundation* has dedicated itself to making a meaningful and impactful contribution to society. In 2019, the Foundation made grants of almost 3 million Swiss francs, with the majority of funds supporting partner projects in the Foundation's core areas: *Vocational Training*, *Recycling PLUS* and *Wealth Inequality*.

*Julius Baer Cares*, an employee-driven community, organises philanthropic activities such as fundraising and volunteering, and supports bottom-up community engagement organisations. It builds programmes along our Company Volunteering Guidelines, which grant Julius Baer employees two days a year to work on local charity projects. Our goal is to have a global volunteering programme by 2021, with customisable offerings through a centralised platform.

The *Julius Baer Art Collection* specialises in works by contemporary Swiss artists as well as by artists living in Switzerland. Art reflects the time and culture that surrounds it. For this reason, Julius Baer has supported Swiss contemporary art for almost 40 years, displaying many of the collection's more than 5,000 pieces in the Bank's offices for the benefit of clients and employees.

### KEY HUMAN CAPITAL INDICATORS

| | **2019** | 2018 | *Change in %* |
|---|---|---|---|
| **Our people** | | | |
| Total headcount (total workforce excl. externals)[1] | 6,958 | 6,985 | -0.4 |
| *Of which regular staff* | *6,773* | *6,738* | *0.5* |
| | | | |
| Number of employees (FTE) (total workforce excl. externals)[1] | 6,638.5 | 6,692.5 | -0.8 |
| *Of whom in Switzerland (%)* | *51.6* | *52.8* | - |
| *Of whom in rest of Europe (%)* | *17.7* | *17.4* | - |
| *Of whom in Asia-Pacific (%)* | *21.6* | *21.4* | - |
| *Of whom in Latin America (%)* | *6.0* | *5.5* | - |
| *Of whom in Middle East and Africa (%)* | *3.0* | *2.8* | - |
| | | | |
| Total net employee turnover (%)[2] | 11.4 | 8.8 | - |
| | | | |
| **People and diversity** | | | |
| Ratio of women (% of total regular staff headcount) | 42.2 | 41.9 | - |
| Women in senior management (% of total senior management headcount)[3] | 27.2 | 27.1 | - |

1 Total workforce includes regular staff (employees with an ordinary open-ended Julius Baer contract on a full or part-time basis), temporary staff, trainees, apprentices and graduates.
2 Fluctuation rate / net turnover of regular staff in %, including resignations and terminations.
3 Julius Baer defines senior management as all employees with the rank of Director and above.

## ENVIRONMENTAL RESPONSIBILITY

Environmental responsibility is also an important element of Julius Baer's corporate sustainability and responsible investment efforts. Because we are a services-based business, our environmental impact mainly shows through our products and services as well as our efforts to steer the finance sector towards environmentally smart solutions.

Additionally, we manage our own environmental impact responsibly. For 2020, we aim to reduce energy consumption by 10%, reduce water use by 5% and to switch to renewable electricity wherever possible. Regarding the latter, as of 2019 all our Swiss locations, which account for 77% of our reported global electricity consumption, began sourcing 100% European hydroelectric power.

### KEY ENVIRONMENTAL INDICATORS[1,2]

| | **2018** | 2017[3] | *Change in %* |
|---|---|---|---|
| Energy consumption (MWh) | 32,575 | 32,518 | *0.2* |
| *Electricity (MWh)* | 23,711 | 23,498 | *0.9* |
| | | | |
| Greenhouse gas emissions ($tCO_2e$)[4] | 18,397 | 18,153 | *1.3* |
| *Of which business travel ($tCO_2e$)[5]* | *12,917* | *12,418* | *4.0* |
| | | | |
| Water consumption ($m^3$) | 120,323 | 122,994 | -2.2 |

1 The figures in this table are for reporting years 2017 and 2018. The 2019 results will be included in the Corporate Sustainability Report 2019.

2 Unless stated otherwise, the numbers in this table are based on information from Julius Baer's main business locations. These are Zurich, Geneva, Lugano, Basle and Berne in Switzerland, as well as our locations in Germany, the United Kingdom, Guernsey, Hong Kong, Singapore, India and Uruguay. These locations cover approximately 80% of our total employees.

3 2017 data was restated to include additional business locations and updated emission factors.

4 Greenhouse gas emissions were calculated according to the WRI/WBCSD Greenhouse Gas Protocol. This figure includes scopes 1, 2 and 3 emissions.

5 Business travel figures are a sum of emissions from air, rental car and train travel data provided by our central Global and Hong Kong Travel Offices (covering all employees globally), as well as emissions from company cars used at sites.

# IMPORTANT DATES

Publication of Annual Report (incl. Remuneration Report) 2019 and
Corporate Sustainability Report 2019: 23 March 2020
Annual General Meeting: 16 April 2020
Publication of Interim Management Statement: 19 May 2020
Publication of 2020 half-year results: 20 July 2020

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This brief report also appears in German. The English version is prevailing.

Once published, the Annual Report 2019 of Julius Baer Group Ltd. containing the audited IFRS financial accounts of the Julius Baer Group for the year 2019 is available at www.juliusbaer.com.

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The Julius Baer Group
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Montevideo, Moscow, Mumbai,
São Paulo, Singapore and Tokyo.

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**Supporting material for the full-year results presentation of 3 February 2020.**

# CONSOLIDATED FINANCIAL STATEMENTS JULIUS BAER GROUP 2019 (AUDITED)

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENT

| | Note | **2019** CHF m | 2018 CHF m | Change % |
|---|---|---|---|---|
| Interest income on financial instruments measured at amortised cost or FVOCI | | **1,293.1** | 1,199.5[1] | 7.8 |
| Interest expense on financial instruments measured at amortised cost | | **500.9** | 394.1[1] | 27.1 |
| Net interest income | 1 | **792.2** | 805.3 | -1.6 |
| Commission and fee income | | **2,139.6** | 2,131.3 | 0.4 |
| Commission expense | | **216.6** | 228.5 | -5.2 |
| Net commission and fee income | 2 | **1,922.9** | 1,902.9 | 1.1 |
| Net income from financial instruments measured at FVTPL | 3 | **618.1** | 644.1[1] | -4.0 |
| Net credit losses/(recoveries) on financial assets | | **9.2** | 3.0 | - |
| Other ordinary results | 4 | **58.7** | 18.5 | 217.1 |
| **Operating income** | | **3,382.9** | 3,367.8 | 0.4 |
| Personnel expenses | 5 | **1,616.2** | 1,621.4 | -0.3 |
| General expenses | 6 | **850.8** | 688.5 | 23.6 |
| Depreciation of property and equipment | 11 | **100.0** | 38.5 | 159.9 |
| Amortisation of customer relationships | 12 | **81.2** | 73.8 | 10.0 |
| Amortisation and impairment of intangible assets | 12 | **168.5** | 51.8 | 225.5 |
| **Operating expenses** | | **2,816.7** | 2,473.9 | 13.9 |
| **Profit before taxes** | | **566.2** | 893.9 | -36.7 |
| Income taxes | 7 | **101.2** | 158.6 | -36.2 |
| **Net profit** | | **465.0** | 735.3 | -36.8 |
| Attributable to: | | | | |
| Shareholders of Julius Baer Group Ltd. | | **464.8** | 735.4 | -36.8 |
| Non-controlling interests | | **0.2** | -0.1 | - |
| | | **465.0** | 735.3 | -36.8 |

[1] The 2018 numbers have been aligned to the improved structure of interest and dividend reporting related to financial instruments measured at FVTPL.

| | Note | **2019** CHF | 2018 CHF | Change % |
|---|---|---|---|---|
| **Share information** | | | | |
| Basic earnings per share (EPS) | 20 | **2.14** | 3.37 | -36.5 |
| Diluted earnings per share (EPS) | 20 | **2.12** | 3.38 | -37.2 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | **2019** *CHF m* | 2018 *CHF m* |
|---|---|---|
| **Net profit recognised in the income statement** | **465.0** | 735.3 |
| 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 | **108.6** | -61.3 |
| Net realised (gains)/losses on debt instruments measured at FVOCI reclassified to the income statement | **-9.4** | 12.2 |
| Net credit losses on debt instruments measured at FVOCI | **-0.8** | 0.4 |
| Translation differences | **-52.8** | -60.9 |
| Realised (gains)/losses on translation differences reclassified to the income statement | **-0.2** | - |
| **Items that will not be reclassified to the income statement** | | |
| Net unrealised gains/(losses) on equity instruments designated at FVOCI | **66.6** | 3.8 |
| Net realised (gains)/losses on equity instruments designated at FVOCI reclassified to retained earnings | **-** | -0.3 |
| Remeasurement of defined benefit obligation | **-74.7** | 8.1 |
| **Other comprehensive income** | **37.2** | -97.7 |
| **Total comprehensive income** | **502.2** | 637.6 |
| Attributable to: | | |
| Shareholders of Julius Baer Group Ltd. | **502.0** | 638.2 |
| Non-controlling interests | **0.2** | -0.6 |
| | **502.2** | 637.6 |

# CONSOLIDATED BALANCE SHEET

| | Note | **31.12.2019** *CHF m* | 31.12.2018 *CHF m* |
|---|---|---|---|
| **Assets** | | | |
| Cash | | **10,097.0** | 15,835.5 |
| Due from banks | | **7,082.5** | 9,228.8 |
| Loans | 27 | **48,427.3** | 45,323.2 |
| Financial assets measured at FVTPL | 9/26 | **13,776.2** | 8,415.6 |
| Derivative financial instruments | 25 | **1,630.7** | 2,128.5 |
| Financial assets designated at fair value | 26 | **305.0** | 298.8 |
| Financial assets measured at FVOCI | 10/27 | **13,166.2** | 14,587.6 |
| Investments in associates | 30 | **23.3** | 48.1 |
| Property and equipment | 11 | **612.9** | 352.8 |
| Goodwill and other intangible assets | 12 | **2,866.1** | 2,932.2 |
| Accrued income and prepaid expenses | | **397.0** | 392.4 |
| Deferred tax assets | 16 | **16.4** | 15.9 |
| Other assets | 18 | **3,634.5** | 3,339.0 |
| **Total assets** | | **102,035.2** | 102,898.3 |

| | Note | **31.12.2019** *CHF m* | 31.12.2018 *CHF m* |
|---|---|---|---|
| **Liabilities and equity** | | | |
| Due to banks | | **3,160.0** | 6,892.2 |
| Due to customers | | **72,913.1** | 71,506.4 |
| Financial liabilities measured at FVTPL | 9/26 | **613.8** | 132.5 |
| Derivative financial instruments | 25 | **2,120.8** | 1,719.3 |
| Financial liabilities designated at fair value | 14 | **13,281.1** | 13,703.6 |
| Debt issued | 15 | **1,893.0** | 1,503.3 |
| Accrued expenses and deferred income | | **746.1** | 767.4 |
| Current tax liabilities | | **205.3** | 201.1 |
| Deferred tax liabilities | 16 | **68.8** | 74.9 |
| Provisions | 17 | **201.3** | 24.6 |
| Other liabilities | 18 | **642.7** | 331.2 |
| Total liabilities | | **95,845.8** | 96,856.4 |
| Share capital | 19 | **4.5** | 4.5 |
| Retained earnings | | **6,557.4** | 6,474.7 |
| Other components of equity | | **-18.4** | -130.3 |
| Treasury shares | | **-363.2** | -308.9 |
| Equity attributable to shareholders of Julius Baer Group Ltd. | | **6,180.2** | 6,039.9 |
| Non-controlling interests | | **9.2** | 1.9 |
| Total equity | | **6,189.4** | 6,041.9 |
| **Total liabilities and equity** | | **102,035.2** | 102,898.3 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital *CHF m* | Retained earnings[1] *CHF m* | OCI related to equity instruments at FVOCI *CHF m* |
|---|---|---|---|
| At 1 January 2018 | 4.5 | 6,125.3 | 61.9 |
| Net profit | - | 735.4 | - |
| Items that may be reclassified to the income statement | - | - | - |
| Items that will not be reclassified to the income statement | - | 8.4 | 3.5 |
| Total other comprehensive income | - | 8.4 | 3.5 |
| Total comprehensive income | - | 743.8 | 3.5 |
| Changes in non-controlling interests | - | -80.6 | - |
| Dividends | - | -313.3[2] | - |
| Dividend income on own shares | - | 6.7 | - |
| Share-based payments expensed for the year | - | 78.4 | - |
| Share-based payments vested | - | -77.8 | - |
| Changes in derivatives on own shares | - | -12.4 | - |
| Acquisitions of own shares | - | - | - |
| Disposals of own shares | - | 4.6 | - |
| At 31 December 2018 | 4.5 | 6,474.7 | 65.3 |
| | | | |
| **At 1 January 2019** | **4.5** | **6,474.7** | **65.3** |
| Net profit | **-** | **464.8** | **-** |
| Items that may be reclassified to the income statement | **-** | **-** | **-** |
| Items that will not be reclassified to the income statement | **-** | **-74.7** | **66.6** |
| Total other comprehensive income | **-** | **-74.7** | **66.6** |
| Total comprehensive income | **-** | **390.1** | **66.6** |
| Changes in non-controlling interests | **-** | **-1.2** | **-** |
| Dividends | **-** | **-335.7**[3] | **-** |
| Dividend income on own shares | **-** | **8.0** | **-** |
| Share-based payments expensed for the year | **-** | **79.1** | **-** |
| Share-based payments vested | **-** | **-64.9** | **-** |
| Changes in derivatives on own shares | **-** | **2.0** | **-** |
| Acquisitions of own shares | **-** | **-** | **-** |
| Disposals of own shares | **-** | **5.2** | **-** |
| **At 31 December 2019** | **4.5** | **6,557.4** | **132.0** |

[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 1.40
[3] Dividend payment per share CHF 1.50

| Other components of equity | | | | | | |
|---|---|---|---|---|---|---|
| OCI related to debt instruments at FVOCI *CHF m* | OCI related to ECL changes on debt instruments at FVOCI *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* |
| -17.9 | 1.7 | -70.4 | -276.1 | 5,828.9 | 29.5 | 5,858.4 |
| - | - | - | - | 735.4 | -0.1 | 735.3 |
| -49.1 | 0.4 | -60.3 | - | -109.1 | -0.5 | -109.6 |
| - | - | - | - | 11.9 | -0.0 | 11.9 |
| -49.1 | 0.4 | -60.3 | - | -97.2 | -0.5 | -97.7 |
| -49.1 | 0.4 | -60.3 | - | 638.2 | -0.6 | 637.6 |
| - | - | - | - | -80.6 | -27.0 | -107.6 |
| - | - | - | - | -313.3 | - | -313.3 |
| - | - | - | - | 6.7 | - | 6.7 |
| - | - | - | - | 78.4 | - | 78.4 |
| - | - | - | 77.8 | - | - | - |
| - | - | - | -87.8 | -100.2 | - | -100.2 |
| - | - | - | -420.6 | -420.6 | - | -420.6 |
| - | - | - | 397.8 | 402.4 | - | 402.4 |
| -67.0 | 2.1 | -130.8 | -308.9 | 6,039.9 | 1.9 | 6,041.9 |
| | | | | | | |
| **-67.0** | **2.1** | **-130.8** | **-308.9** | **6,039.9** | **1.9** | **6,041.9** |
| **-** | **-** | **-** | **-** | **464.8** | **0.2** | **465.0** |
| **99.2** | **-0.8** | **-53.1** | **-** | **45.3** | **-0.0** | **45.3** |
| **-** | **-** | **-** | **-** | **-8.0** | **-** | **-8.0** |
| **99.2** | **-0.8** | **-53.1** | **-** | **37.2** | **-0.0** | **37.2** |
| **99.2** | **-0.8** | **-53.1** | **-** | **502.0** | **0.2** | **502.2** |
| **-** | **-** | **-** | **-** | **-1.2** | **8.8** | **7.5** |
| **-** | **-** | **-** | **-** | **-335.7** | **-1.7** | **-337.5** |
| **-** | **-** | **-** | **-** | **8.0** | **-** | **8.0** |
| **-** | **-** | **-** | **-** | **79.1** | **-** | **79.1** |
| **-** | **-** | **-** | **64.9** | **-** | **-** | **-** |
| **-** | **-** | **-** | **56.0** | **58.0** | **-** | **58.0** |
| **-** | **-** | **-** | **-394.7** | **-394.7** | **-** | **-394.7** |
| **-** | **-** | **-** | **219.5** | **224.7** | **-** | **224.7** |
| **32.1** | **1.3** | **-183.9** | **-363.2** | **6,180.2** | **9.2** | **6,189.4** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | **2019** CHF m | 2018 CHF m |
|---|---|---|
| Net profit | **465.0** | 735.3 |
| 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 | **100.0** | 38.5 |
| – Amortisation and impairment of intangible assets | **249.7** | 125.6 |
| – Change in loss allowance | **9.2** | 3.0 |
| – Income from investment in associates | **-0.7** | -1.9 |
| – Deferred tax expense/(benefit) | **-26.1** | 29.6 |
| – Net loss/(gain) from investing activities | **-23.3** | 56.8 |
| – Other non-cash income and expenses | **78.0** | 78.4 |
| Net increase/decrease in operating assets and liabilities: | | |
| – Net due from/to banks | **-3,409.9** | -561.6 |
| – Net financial assets measured at FVTPL and derivative financial instruments | **-3,980.1** | 3,827.2 |
| – Net loans/due to customers | **-428.7** | 5,172.6 |
| – Issuance and repayment of financial liabilities designated at fair value | **-1,705.3** | 1,845.4 |
| – Accrued income, prepaid expenses and other assets | **-296.3** | -2,133.4 |
| – Accrued expenses, deferred income, other liabilities and provisions | **68.1** | -25.6 |
| Adjustment for income tax expenses | **127.3** | 129.0 |
| Income taxes paid | **-121.3** | -142.5 |
| Cash flow from operating activities | **-8,894.5** | 9,176.2 |
| Dividend from associates | **0.7** | 1.9 |
| Purchase of property and equipment and intangible assets | **-164.7** | -177.1 |
| Disposal of property and equipment and intangible assets | **0.3** | 0.2 |
| Net (investment in)/divestment of financial assets measured at FVOCI | **2,029.0** | -2,114.6 |
| Acquisition of subsidiaries and businesses, net of cash and cash equivalents acquired | **-13.5** | -31.7 |
| Deferred payments of acquisition of subsidiaries and associates | **-33.4** | -34.5 |
| Cash flow from investing activities | **1,818.4** | -2,355.9 |
| Net movements in treasury shares and own equity derivative activity | **-103.9** | -111.7 |
| Dividend payments | **-335.7** | -313.3 |
| Changes in debt issued | **392.8**[1] | -271.1[1] |
| Changes in non-controlling interests | **-** | -107.6 |
| Dividend payment to non-controlling interests | **-1.7** | - |
| Cash flow from financing activities | **-48.6** | -803.7 |
| **Net (decrease)/increase in cash and cash equivalents** | **-7,124.7** | 6,016.6 |

[1] Includes changes in bonds and money market instruments

| | **2019** *CHF m* | 2018 *CHF m* |
|---|---|---|
| Cash and cash equivalents at the beginning of the year | **25,628.8** | 19,619.9 |
| Cash flow from operating activities | **-8,894.5** | 9,176.2 |
| Cash flow from investing activities | **1,818.4** | -2,355.9 |
| Cash flow from financing activities | **-48.6** | -803.7 |
| Effects of exchange rate changes on cash and cash equivalents | **62.0** | -7.8 |
| **Cash and cash equivalents at the end of the year** | **18,566.0** | 25,628.8 |

| | **31.12.2019** *CHF m* | 31.12.2018 *CHF m* |
|---|---|---|
| **Cash and cash equivalents are structured as follows:** | | |
| Cash | **10,097.0** | 15,835.5 |
| Debt instruments measured at fair value through other comprehensive income (original maturity of less than three months) | **1,485.2** | 985.3 |
| Due from banks (original maturity of less than three months) | **6,983.8** | 8,808.0 |
| **Total** | **18,566.0** | 25,628.8 |

| | **31.12.2019** *CHF m* | 31.12.2018 *CHF m* |
|---|---|---|
| **Additional information** | | |
| Interest received | **1,400.6** | 1,159.7 |
| Interest paid | **-746.7** | -451.9 |
| Dividends on equities received (including associates) | **206.0** | 186.9 |

| | **31.12.2019** *CHF m* | 31.12.2018 *CHF m* |
|---|---|---|
| **Leasing** | | |
| Cash payments – leases | **-59.3** | - |
| Cash payments – interest paid | **-6.6** | - |
| Short-term lease payments | **-4.3** | - |
| **Total** | **-70.2** | - |

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## BASIS OF ACCOUNTING

Julius Baer Group Ltd. is a Swiss corporation which is committed to the wealth management business. The consolidated financial statements as at 31 December 2019 comprise those of Julius Baer Group Ltd. and all its subsidiaries (the Group). The Board of Directors approved these financial statements on 31 January 2020. In addition, they are submitted for approval to the Annual General Meeting on 16 April 2020.

Amounts in the consolidated financial statements are stated in Swiss francs. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). Generally, the historical cost principle is applied, with the exception of financial assets measured at fair value through profit or loss or at fair value through other comprehensive income, derivative financial instruments, as well as certain financial liabilities, which are measured at fair value, and precious metals that are measured at fair value less costs to sell.

## USE OF ESTIMATES IN PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent liabilities. Actual results in future periods could differ from such estimates.

Estimates and assumptions are used mainly in the following areas of the consolidated financial statements and are in part discussed in the corresponding notes: determining fair values of financial instruments, assessment of the business model when classifying financial instruments, uncertainties in measuring provisions and contingent liabilities, loss allowances (measurement of expected credit losses), pension assets and liabilities (measurement of defined benefit obligation), income taxes (judgement regarding the interpretation of the applicable tax laws and the respective tax practice, such as transfer pricing or deductible versus non-deductible items, and anticipation of tax audit issues), share-based payments, goodwill and other intangible assets (determination in a business combination and measurement of recoverable amount) and contingent considerations.

## ACCOUNTING POLICIES

All Group companies apply uniform accounting and measurement principles, which have remained the same as in the previous year, except as outlined at the end of this summary of significant accounting policies addressing implemented changes in accounting policies.

**Business combinations**
In a business combination, the acquirer obtains control over one or more businesses. The business combination is accounted for using the acquisition method. This involves recognising the identifiable assets, including previously unrecognised intangible assets, and liabilities of the acquired business at acquisition-date fair value. Any excess of the consideration provided, such as assets or equity instruments issued and measured at acquisition-date fair value, over the identifiable net assets acquired, is recognised as goodwill. Transaction costs are expensed as incurred.

**Subsidiaries and associates**
Investees in which Julius Baer Group Ltd. exercises control are fully consolidated. The following three elements constitute control:

– power over the investee;
– exposure, or rights, to variable returns from involvement with the investee; and
– the ability to use power over the investee to affect the amount of the investor’s returns.

If the Group is exposed to all three elements, it controls an investee. The assessment is based on all facts and circumstances and is reassessed as conditions may change.

A complete list of these companies is provided in Note 30A. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control is transferred to the Group until the date that control ceases.

Companies in which Julius Baer Group Ltd. has the ability to exercise significant influence over the financial and operating policies are reported in the consolidated financial statements using the equity method. These associates are initially recorded at cost as of the date of acquisition. Subsequently, the carrying amount is adjusted for the post-acquisition change in the Group's share of the associate's net assets.

The effects of all intercompany transactions and balances are eliminated on consolidation. Gains and losses resulting from transactions with associates are recognised only to the extent of the unrelated investor's interest in the associate.

**Foreign currency translation**
The Group companies prepare their financial statements in their respective functional currency. The balance sheets of Group companies that are denominated in foreign currencies are translated into Swiss francs at the closing exchange rates on the balance sheet date. Average exchange rates for the reporting period are used for the income statements. Exchange differences arising from consolidation using closing and average exchange rates for the reporting period are recognised in other comprehensive income. When a foreign operation is disposed of such that control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the income statement as part of the gain or loss on disposal.

In the individual financial statements of the Group companies, income and expenses denominated in foreign currencies are translated at the exchange rate on the date of the respective transaction. Assets and liabilities are translated at the closing exchange rate on the balance sheet date. The resulting gains and losses on monetary assets and liabilities are recognised in the income statement as foreign exchange gains/losses.

The following exchange rates are used for the major currencies:

| | Year-end rates | | Average exchange rates for the year | |
|---|---|---|---|---|
| | **31.12.2019** | 31.12.2018 | **2019** | 2018 |
| USD/CHF | **0.9682** | 0.9857 | **0.9930** | 0.9770 |
| EUR/CHF | **1.0870** | 1.1269 | **1.1110** | 1.1505 |
| GBP/CHF | **1.2827** | 1.2555 | **1.2720** | 1.2995 |

**Revenue recognition**
The Group uses a model for the recognition of revenues which 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 Group recognises fee and commission income related to its wealth management-related services either at the time the service is performed, i.e. upon execution of a transaction, or in the corresponding periods over the life of a contract if services are provided over a certain period of time.

In all cases, the fees and commissions must be based on a legally enforceable contract. Income and income components that are based on performance are recognised to the extent that it is highly probable that a significant reversal will not occur.

**Financial instruments**
**Recognition**
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.

Foreign exchange, securities and derivatives transactions are recorded in the balance sheet on trade date. All other financial instruments are recorded on settlement date.

**Measurement**
Two criteria are used 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 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, credit risk, administration costs and a profit margin. 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 SPPI criterion.

The Group originates Lombard and mortgage loans related to its business with wealth management 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 SPPI criterion.

The Group acquires debt instruments (bonds, money market instruments) for its asset and liability management purposes, i.e. 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 assets 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, its derivatives and some financial instruments mandatorily measured at FVTPL.

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 Group applies this measurement principle to its amounts due to banks and customers (deposits) and its debt issued (bonds).

Financial liabilities may initially be designated as at fair value through profit or loss (the fair value option – see conditions above).

This fair value option for financial liabilities 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.

The Group applies the fair value option for its issued structured notes.

**Expected credit losses (ECL)**
*General ECL model:* An entity is required to recognise expected credit losses at initial recognition of any financial instrument 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.

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 the 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 a loss allowance equal to lifetime expected credit losses ('stage 2' ECL) or the debt instrument is 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 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).

*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 * EAD * LGD * IR

*Recognition of the loss allowance and write-offs:* The impairment loss recognised in the income statement (net impairment losses/[recoveries] on financial assets) 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 written off 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.

**Cash**
Cash includes notes and coins on hand, as well as balances held with central banks.

**Securities lending and borrowing transactions**
Securities lending and borrowing transactions are collateralised by securities or cash. The transactions are usually conducted under standard agreements employed by the market participants; the counterparties are subject to the Group's normal credit risk process.

Securities borrowed as well as securities received by the Group as collateral under securities lending transactions are only recorded in the balance sheet if the Group obtains control of the contractual rights (risks and rewards of ownership) associated with these securities. Similarly, securities lent as well as securities provided by the Group as collateral under securities borrowing transactions are only derecognised from the balance sheet if the Group relinquishes control of the contractual rights associated with these securities. Securities lent and securities provided as collateral that remain in the balance sheet are remeasured according to the respective position they are recorded in. The fair values of securities received or provided are monitored daily in order to provide or request additional collateral in accordance with the underlying agreements.

Cash collateral received is recognised with a corresponding obligation to return it, and cash collateral provided is derecognised and a corresponding receivable reflecting the Group's right to receive it back is recognised.

Fees received or paid in connection with securities lending and borrowing transactions are recognised as commission income or commission expenses on an accrual basis.

**Repurchase and reverse repurchase transactions**
Reverse repurchase transactions and repurchase transactions are considered secured financing transactions and are recorded at the value of the cash provided or received. The transactions are generally conducted under standard agreements employed by the market participants; the counterparties are subject to the Group's normal credit risk process.

Securities received and securities delivered are only recorded in the balance sheet or derecognised from the balance sheet if control of the contractual rights (risks and rewards of ownership) associated with these securities is relinquished as well. The fair values of the securities received or delivered are monitored daily in order to provide or request additional collateral in accordance with the underlying agreements.

Cash received is recognised with a corresponding obligation to return it, and cash provided is derecognised and a corresponding receivable reflecting the Group's right to receive it back is recognised.

Interest income from reverse repurchase transactions and interest expenses from repurchase transactions are accrued in the corresponding periods over the life of the underlying transactions in the respective interest positions.

**Derivative financial instruments and hedging**
Derivative financial instruments held for trading, including foreign exchange products, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (written options as well as purchased options), are recognised at fair value through profit or loss. In order to calculate the fair value, corresponding stock exchange prices, discounted cash flow models and option pricing models are employed. Derivatives are reported as an asset position if their fair value is positive and as a liability position if their fair value is negative. Changes in fair value on trading positions are recognised in net income from financial instruments measured at FVTPL.

The Group continues to apply IAS 39 for hedge accounting, as permitted by IFRS 9. The Group uses derivative financial instruments for hedging the fair values (fair value hedges) or the net investments in foreign operations (net investment hedges) when transactions meet the specified criteria to obtain the respective hedge accounting treatment. Derivatives categorised as serving such purposes on their trade date are treated as hedging instruments in the financial statements if they fulfil the following criteria:

- existence of documentation that specifies the underlying transaction (balance sheet item or cash flow), the hedging instrument as well as the hedging strategy/relationship;
- effective and reliably measurable elimination of the hedged risks through the hedging transaction during the entire reporting period; and
- sustained high effectiveness of the hedging transaction. A hedge is regarded as highly effective if actual results are within a range of 80% to 125%.

*Fair value hedges:* Changes in the fair value of derivatives that are designated and qualify as fair value hedges are reported in the income statement. The changes in the fair value of the hedged item that are attributable to the risk hedged with the derivative are reflected in an adjustment to the carrying value of the hedged item and are also recognised in the income statement.

When fair value hedge accounting is discontinued prospectively, any hedging adjustment made previously to a hedged financial instrument is amortised to the income statement over the remaining term to maturity of the hedged item.

*Net investment hedges:* Derivative instruments or non-derivative financial assets and liabilities may be used and designated as the hedging instrument in a hedge of a net investment in a foreign operation.

Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income and reported as translation differences within equity. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount recognised in OCI is fully or partially reclassified to profit or loss as a reclassification adjustment on disposal or partial disposal of the foreign operation.

*Economic hedges:* Certain derivative transactions represent financial hedging transactions and are in line with the risk management principles of the Group. However, in view of the strict and specific guidelines of IFRS, they do not fulfil the criteria to be treated as hedging relationships for accounting purposes. The derivatives are therefore reported as trading positions. Changes in fair value are recognised directly in the income statement in the corresponding period.

**Property and equipment**
Property and equipment includes bank premises, IT, communication systems, leasehold improvements as well as other equipment. They are carried at cost less accumulated depreciation and impairment losses. Items of property and equipment are depreciated over their estimated useful lives using the straight-line method.

Bank premises are depreciated over a period of 66 years. Leasehold improvements are depreciated over the shorter of the residual lease term or useful life. IT hardware is depreciated over three years and other items of property and equipment generally over five to ten years.

Leasehold improvements are investments made to customise buildings and offices occupied under lease contracts to make them suitable for the intended purpose. If a leased property must be returned to its original condition at the end of the lease term, the present value of the estimated reinstatement costs is capitalised as part of the total leasehold improvement costs. At the same time, a liability for reinstatement costs is recognised to reflect the obligation incurred. The reinstatement costs are recognised in the income statement through depreciation of the capitalised leasehold improvements over their useful life.

Subsequent expenditure on an item of property and equipment is recognised in the carrying value of the item if it is probable that the Group will profit from the future economic benefits of the investment. Current maintenance and servicing costs are recognised in general expenses.

On each balance sheet date, the items of property and equipment are reviewed for indications of impairment. If such indications exist, it is determined whether the carrying amount of the item is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

**Goodwill and intangible assets**
Goodwill and intangible assets are classified into the following categories:

*Goodwill:* In a business combination, the acquiree's identifiable assets and liabilities are recognised at their respective fair value at acquisition date. Goodwill is measured as the difference between the sum of the fair value of consideration transferred and the recognised amount of the identifiable assets acquired and liabilities assumed. Goodwill is not amortised; it is tested for impairment annually at the cash-generating-unit level, and an impairment loss is recognised if the recoverable amount is less than its carrying amount.

*Customer relationships:* This position comprises long-term customer relationship intangibles from recent business combinations that are initially recognised at fair value at the date of acquisition. Customer relationships are amortised over their estimated useful life not exceeding ten years, using the straight-line method.

*Software:* The Group capitalises costs relating to the acquisition, installation and development of software if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and that the costs of the asset can be identified and measured reliably. The capitalised software is amortised using the straight-line method over its useful life not exceeding ten years.

On each balance sheet date, the intangible assets with a finite life (customer relationships, software) are reviewed for indications of impairment. If such indications exist, it is determined whether the carrying amount of the intangible assets is fully recoverable, and an impairment loss is recognised if the carrying amount exceeds the recoverable amount.

**Provisions**
A provision is recognised if, as a result of a past event, the Group has a legal or constructive present obligation existing on the balance sheet date that will probably lead to an outflow of resources and whose amount can be reliably estimated. The amount recognised as a provision is the best estimate of the consideration required to settle the obligation as at the balance sheet date, taking into account the risks and uncertainties related to the obligation. The recognition and release of provisions are recorded in the income statement through general expenses.

Restructuring provisions are recognised if a constructive obligation is incurred, which requires commencement of an approved, detailed and formal restructuring plan or the announcement of its main features to the affected employees before the balance sheet date.

**Income taxes**
Income tax expense comprises current and deferred taxes. The Group is subject to income taxes in numerous countries. Current income taxes are calculated on the basis of the applicable tax laws of the respective countries and are recognised as expense in the financial year in which the related taxable income arises. Liabilities related to current taxes are recognised in the balance sheet as current tax liabilities.

Deferred tax assets and deferred tax liabilities are taken into account for the expected future tax consequences of all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding tax values.

Deferred tax assets arising from temporary differences and from loss carryforwards eligible for offsetting are capitalised if it is likely that sufficient taxable profits will be available against which those differences or loss carryforwards can be offset. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are calculated at tax rates expected to apply in the period in which the tax assets will be realised or the tax liabilities settled.

Current tax assets and tax liabilities are offset against each other when they refer to the same taxable entity, concern the same tax authority, and an enforceable right to offset exists. The same rule applies to deferred tax assets and liabilities.

Current and deferred taxes are credited or charged directly to equity if the taxes refer to items that are credited or charged directly to equity.

**Post-employment benefits**
For defined benefit plans, the net defined benefit liability recognised in other liabilities in the balance sheet is the present value of the defined benefit obligation less the fair value of the plan assets as of the reporting date. The Group applies the projected unit credit method to determine the present value of the defined benefit obligation and the current and past service cost. The corresponding calculations are carried out by independent qualified actuaries.

All changes in the present value of the defined benefit obligation and in the fair value of the plan assets are recognised in the financial statements immediately in the period they occur. Service costs, including past service costs, and net interest on the net defined benefit liability are recognised in the income statement in personnel expenses. The Group determines the net interest expense based on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation. The remeasurement of the net defined benefit liability which comprises movements in actuarial gains and losses and return on plan assets (excluding net interest cost) is recognised in other comprehensive income.

For defined contribution pension plans, the contributions are expensed when the employees render the corresponding service to the Group.

**Share-based payments**
The Group maintains various share-based payment plans in the form of share plans for its employees. When such payments are made to employees, the fair value of these payments at grant date serves as the basis for calculating the personnel expenses. Share-based payments that are not subject to any further conditions are expensed immediately at grant date. Share-based payments that are subject to the completion of a service period or to other vesting conditions are expensed over the respective vesting period starting at grant date. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related services and non-market performance vesting conditions are expected to be met.

Share-based payment plans that are settled in own equity instruments (i.e. Julius Baer Group Ltd. shares) result in a corresponding increase in equity and are not remeasured for subsequent changes in the fair value of the underlying equity instruments.

**Share capital**
The share capital comprises all issued, fully paid shares of Julius Baer Group Ltd.

**Treasury shares and contracts on treasury shares**
Shares of Julius Baer Group Ltd. held by the Group are classified in equity as treasury shares and accounted for at weighted average cost. The difference between the proceeds from sales of treasury shares and their cost (net of taxes, if any) is recognised in retained earnings.

Contracts on shares of Julius Baer Group Ltd. that require settlement in a fixed number of shares for a fixed amount are recognised in treasury shares. Upon settlement of such contracts, the proceeds received (net of costs and any taxes) are recognised in retained earnings.

Contracts on shares of Julius Baer Group Ltd. that must be settled net in cash or that offer a choice of settlement methods are treated as derivative instruments, with changes in fair value recognised in net income from financial instruments measured at FVTPL.

For physically settled written put option contracts, the discounted strike price is deducted from equity and recorded as a liability at initial recognition. The liability is subsequently increased during the term of the contract up to the strike price using the effective interest method. Upon settlement of the contract the liability is derecognised.

**Earnings per share (EPS)**
Basic consolidated earnings per share is calculated by dividing the net profit for the reporting period attributable to shareholders of Julius Baer Group Ltd. by the weighted average number of shares outstanding during the reporting period.

Diluted consolidated earnings per share is calculated using the same method as for basic consolidated earnings per share, with the determinants adjusted to reflect the potential dilution that could occur if outstanding options, warrants, convertible debt securities or other contracts to issue shares were converted or exercised into shares.

**Segment reporting**
Determination of the operating segments is based on the management approach. The management approach reflects the way in which management organises the entity for making operating decisions and for assessing performance, based on discrete financial information. Therefore, the adoption of the management approach results in the disclosure of information for segments in substantially the same manner as they are reported internally and used by the entity’s chief operating decision maker for purposes of evaluating performance and making resource allocation decisions.

**Contingent liabilities and irrevocable commitments**
Contingent liabilities and irrevocable commitments are not recognised in the balance sheet. However, if an outflow of resources becomes probable and is a present obligation from a past event that can be reliably measured, a respective liability is recognised.

## CHANGES IN ACCOUNTING POLICIES

As of 1 January 2019, the Group applied the following new standards for the first time:

**IFRS 16 – Leases**
The new standard introduces a single lessee accounting model and requires a lessee to recognise right-of-use assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make the respective lease payments during the lease term. A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability in the income statement.

The vast majority of lease contracts where the Group is the lessee relates to office leases, with a limited number of vehicle and other items leases. The Group does not apply the new standard to software or other intangible assets. Generally, non-lease components in the lease contract are excluded from the accounting under this standard.

As the implicit rate in leases is generally not available, the Group as a lessee applies its incremental borrowing rate. This rate is determined based on the Group's actual funding rate (by currency and term) provided by external sources to the Group on a regular basis.

On transition to the new standard, the Group applied the modified retrospective approach, meaning that the comparative information is not restated and a potential cumulative effect of the initial application is recognised in equity. The right-of-use assets were determined at an amount equal to the lease liability. Lease contracts expiring in the transitional year 2019 have been included in the calculation of the lease liability and the right-of-use asset as per 1 January 2019. Most lease contracts previously reported as operating leases have been recognised on the Group's balance sheet, with the exception of short-term leases (up to 12 months) and some low-value leases.

Upon adoption of the new standard, right-of-use assets (reported in property and equipment) and lease liabilities (reported in other liabilities) in the amount of CHF 302.5 million have been recognised. The expenses in 2019 for both the depreciation of the right-of-use asset (part of depreciation of property and equipment) in the amount of CHF 63.7 million and the interest expense (part of interest expense) on the lease liability in the amount of CHF 6.5 million are not materially different to the previously recognised operating lease expenses. The difference between the lease liability under IFRS 16 (i.e. CHF 302.5 million) and the previously reported operating lease commitments in the amount of CHF 352.2 million (as at 31 December 2019) is mainly based on the fact that the operating lease commitments were not discounted to their present value. There was no effect on equity due to the adoption of the new standard. The weighted average incremental borrowing rate of the Group applied at the date of transition was 3.15%.

The Group is lessor in a very limited number of lease contracts only, with all the leases qualifying as operating leases. The accounting for these contracts does not change under the new standard.

**IFRIC 23 – Uncertainty over Income Tax Treatment**
The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatment. An entity has to consider whether it is probable that the relevant tax authority will accept each tax treatment. If the entity concludes that it is not probable that a particular tax treatment will be accepted, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profit (or tax losses), tax bases, unused loss carryforwards and tax rates.

The adoption of the new interpretation had no material impact on the Group's financial statements, as the Group has already applied the respective accounting treatment in prior reporting periods.

**Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)**
When a change to a plan takes place, IAS 19 requires an entity to remeasure its net defined benefit liability or asset. The amendments clarify the requirement for the entity to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.

The amendment had no impact on the Group's financial statements.

## NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Certain new standards, revisions and interpretations of existing standards were published that must be applied in future financial periods. The Group plans not to adopt these in advance. A number of these changes may have an impact on the Group's consolidated financial statements, as outlined below.

The following amendments may be relevant to the Group:

**Definition of Material (Amendments to IAS 1 and IAS 8)**
The Amendments clarify the definition of 'material': Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements which provide financial information about a specific reporting entity. Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements as a whole.

The amended standards will be effective 1 January 2020 and are not expected to have a material impact on the Group's financial statements.

**Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)**
These first-phase amendments related to the interbank offered rates (IBOR) reform provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to the IBOR reform by modifying some specific hedge accounting requirements. More specifically, an entity shall assume that the interest rate benchmark is not altered as a result of the interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are mandatory and apply to all hedging relationships directly affected by uncertainties related to the IBOR reform.

The amended standards will be effective 1 January 2020. The amendments are not expected to have a material impact on the Group's financial statements as the Group will be able to retain its hedge accounting.

**Definition of a Business (Amendments to IFRS 3)**
The Amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amended standard will be effective 1 January 2020. The amendments are not expected to have a material impact on the Group's financial statements.

# COMMENT ON RISK MANAGEMENT

In pursuing its strategy and business, Julius Baer Group ('the Group') is exposed to risks, e.g. events which may have an impact on its financial, business, regulatory and reputational standing. Risk management as a result is an integral part of the Group's business model and is designed to protect its franchise and reputation.

## RISK MANAGEMENT FRAMEWORK

The Group's Risk Management Framework ('RMF'), comprising the governance, organisational structures, processes and methods, is used to define risk strategies and risk management measures. In addition, the RMF details the Group's approach to identify, assess, manage, monitor and report risks, as set out in the Group's respective policies and procedures.

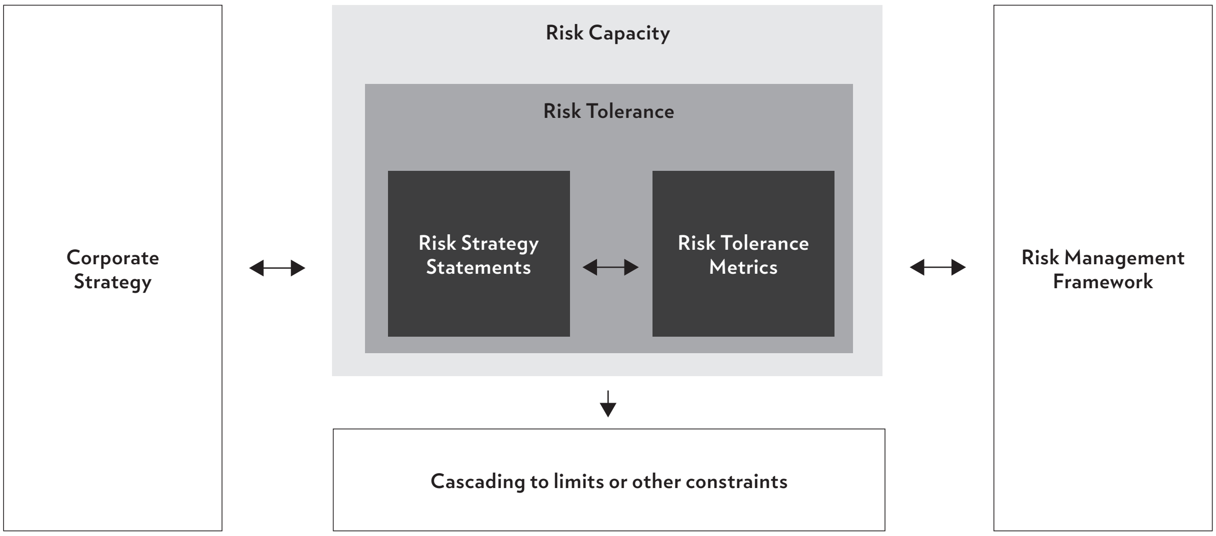
Risk management activities are structured according to the Group's Risk Categorisation which represents the material risks the organisation is exposed to. Beside credit, market and treasury risk, the Group has to handle non-financial risks, covering operational risk, compliance and legal risk, as well as strategic, business and reputational risk. For each material type of risk, the risk management process is tailored accordingly and limits are set to capture the respective risk exposure adequately.

## RISK TOLERANCE FRAMEWORK

Not all risks can be eliminated, fully controlled and mitigated at all times. However, the Group's Risk Tolerance Framework ('RTF') supports and ensures that risk-taking is in line with the strategic objectives, the capital and liquidity planning. The Group's risk tolerance is defined as the aggregate level and categories of risk that the Group is willing to accept or intends to avoid. It is established via a complementary set of qualitative statements and quantitative metrics. These statements concern the risk capacity and the risk tolerances, which are organised along the Group's key risks.

Risk capacity describes the maximum level of risk the Group can assume given the Group's capabilities and resources taking account of capital, earnings and liquidity constraints (financial risk capacity) as well as licencing requirements and the firm's reputational standing (regulatory and reputational risk capacity). The latter comprises the entire suite of applicable regulation and all relevant legal constraints in all relevant jurisdictions, which may go beyond jurisdictions where the Group is actively engaged.

The key components of the Group's RTF are illustrated by the following figure:




## RISK GOVERNANCE

The Group has established a robust Risk Governance, involving several stakeholders across the organisation and various committees, functions and business units.

The Board of Directors (BoD) is responsible for establishing the strategic course of the Group and the guiding principles for the Group's corporate culture. It approves the Group-wide RMF and RTF. This ensures that risks are managed effectively at Group level and that suitable processes are in place.

Regular reporting enables the BoD to monitor whether the risk tolerance, policies, instructions and mandates are being complied with and whether they remain appropriate, given the Group's business model, risk profile and strategy. In addition, the BoD regularly reviews reports analysing the Group's risk exposure.

The Board of Directors has established the following committees to supervise specific risk management-related areas and to prepare topics for consideration by the complete board.

| | |
|---|---|
| **Governance and Risk Committee** | • Developing and upholding principles of corporate governance as well as determining the overall concept and policy with regard to the Group's RMF<br>• Monitoring of financial risks (including compliance with the rules governing equity capital, concentration risks and liquidity) and general handling of legal, regulatory and reputational risks |
| **Audit Committee** | • Examining and assessing compliance with laws and regulations, articles of incorporation, internal regulations and policies<br>• Discussing the financial statements, the scope and quality of the audit work performed and the appropriateness of the internal control systems (financial and non-financial) |
| **Compensation Committee** | • Drawing up the remuneration principles, remuneration strategy and policies<br>• Annually reviewing compensation elements and sharing ownership programmes by considering possible impacts of regulatory developments and stakeholder feedback |
| **Nomination Committee** | • Reviewing and approval of the required profiles of the executive board members (other than the CEO), the CRO and the Head Internal Audit<br>• Assisting the BoD in the effective discharge of its responsibilities in accordance with applicable laws and regulations as well as principles of sound corporate governance |

For further details, please refer to the Board of Directors section of this report.

The Executive Board (EBG) is overall responsible to develop and maintain the RMF and the RTF. It defines specific instructions with regard to risk management, implements the RMF and enforces that the Group's risk management practices are sound and in accordance with the business model, strategy plan, risk tolerances and the defined mitigating actions set therein.

The following committees enable the Executive Board to delegate decision-making in the daily course of business.

| | |
|---|---|
| **Information Security Committee** | • Monitoring and supervising information security risks and related activities with the focus on confidentiality, integrity and availability of information<br>• Responsibility for information security, IT security, physical security and BCM |
| **Credit Committee** | • Measuring and supervising credit risk<br>• Developing of policies governing credit risk, passing resolutions of credit business and credit limits within its authorisation, delegating credit authority and sanctioning credit risk reports |
| **Business Conduct and Risk Committee** | • Reviewing and deciding on business conduct and risk standards, policies and procedures<br>• Ensuring appropriate measures are in place for businesses with increased reputational, regulatory or compliance risks |
| **Group Asset and Liability Management Committee** | • Pursuing the Group's aims to ensure adequate liquidity and funding of activities and to optimise net interest earnings and present value of future cash flows<br>• Steering, monitoring and developing management of the Group's financial assets and liabilities held in banking books or balance sheet in general |
| **Transformation Committee** | • Defining and overseeing and steering the Group's transformation roadmap<br>• Providing strategic steering of multiyear transformation programmes and significant individual projects as well as acting as escalation body for intraproject issues |
| **Sustainability Board** | • Defines, oversees and steers the overall Corporate Sustainability and Responsible Investment strategy and roadmap of JB<br>• Providing strategic guidance and ensure overall coordination, alignment and prioritisation of the Corporate Sustainability and Responsible Investment roadmap within the Group |

For further details, please refer to the Executive Board section of this report.

Overall responsibility for the implementation of the Group's RMF lies with those members of the Executive Board of Julius Baer Group Ltd. with designated independent risk management duties – the Chief Risk Officer (CRO), the Group General Counsel (GGC) and the Chief Financial Officer (CFO).

The CRO division develops and oversees the global framework for risk identification, assessment, management, monitoring and reporting within the risk tolerance for the various business activities for the Group, aiming at sustainable growth of the franchise. It accomplishes this mission by being an independent partner in constructively challenging the business activities from a risk management perspective.

The CRO division is responsible for the control of market risk (trading book and banking book), treasury risk (liquidity and financing risk of the banking book), operational risk as well as compliance and legal risk. Additionally, the CRO division oversees the interaction between risks and supports mitigation of risks together with other divisions. The CRO coordinates his activities with regard to legal risk (incl. regulatory risk) matters with the GGC.

The CFO division oversees the Group's financial reporting, budgeting and strategic business analysis, including the tools used by the business units for performance follow-up. It is also responsible for balance sheet, capital, funding and liquidity management and the management and oversight of credit risks. The CFO's duties thus include maintaining a sound ratio of eligible capital to risk-weighted positions and ensuring that sufficient liquidity is available. In doing so, the division maintains monitoring systems to ensure compliance with supervisory regulations on the above topics.

## RISK LANDSCAPE, STRESS TESTING AND RISK REPORTING

In order to make risks transparent and to put them into perspective, a Risk Landscape is compiled annually and is continuously maintained. This stress risk assessment strives to identify the major risks, to quantify the potential losses of these risks and to put them into relative perspective. By using a top-down as well as a bottom-up approach, impact and probability of occurrence of main risks are quantified, taking into account the effectiveness of underlying controls and mitigating measures. The Risk Landscape is used also within the strategic planning process of the Group.

Stress testing may be conducted regularly or ad hoc both on a singular business or risk level (to assess the exposure in certain areas of the business or in specific risk categories) as well as for single entities or Group-wide. It allows to estimate the potential impact on income, capital or liquidity (or other aspects if deemed relevant) resulting from significant changes in market conditions, credit environment, liquidity demands or other risk factors. All stress-testing activities are developed with input from a broad range of stakeholders, and results are integrated into management decision-making processes for capital, market risk limits, credit risk strategy and funding strategy. Group-wide stress testing is integrated with both the strategic and financial planning processes. There are three types of stress testing:

- Standardised stress testing procedures are applied to assess the viability of the business under less favourable conditions and are used as input for the formulation and implementation of preparative and contingency activities.
- Reverse stress testing aims to identify scenarios which might be particularly harmful for the Group. Whereas regular stress testing analyses the potential outcome of (historical or hypothetical) scenarios, reverse stress testing reveals potential causes of severe harm to the institution. Such reverse stress testing is performed at least annually in the context of the review of the Risk Landscape.
- Topical stress testing is being applied for a variety of specific topics to gain assurance that preventive, detective and responsive measures to defined scenarios are adequate.

The following financial risks are regularly stress-tested and are reported on a regular basis to the EBG and BoD:

- Credit risk: pledged portfolios (consisting of securities, precious metals, derivative exposures, OTC interest options/swaps, Foreign Exchange ['FX'] margins) are stress-tested twice a year to assess potential negative market impact on the Lombard credit book. The negative impact on the mortgage book is evaluated by reducing the assigned property market value and stressing additionally pledged assets (e.g. pledged insurance policies, pledged portfolios, etc.).
- Market risk: on a daily basis, a set of granular and standardised scenarios are calculated and the results are measured against a set of limits. Further, once per week, historical stress tests serve as a source for insight of the risks in the trading book.
- Treasury risk: on a daily basis, liquidity stress tests serve to assess the liquidity posture of the Group.

Stress testing of non-financial risks is performed at least annually as part of the Group Risk Landscape process.

- Operational risk, compliance and legal risk as well as strategic, business and reputational risk are assessed and reported within a structured process concentrating on the major risks relevant for the Group. The compilation of such risks follows a stress scenario assumption, e.g.

focusses on events which may happen, but only rarely, and whose severity, upon happening, is exceptionally high. In aiming to quantify the risks along the two dimensions 'probability of occurrence' and 'impact', a precedence of such risks is established allowing for focusing the discussion on the most relevant topics. In addition, the estimated losses are being used in reverse stress testing of the risk capacity.

As a key component of an effective risk framework, risk reporting is used to understand, monitor, manage and mitigate risks and escalate them to the senior management. It mainly aims at informing the respective levels of management up to the BoD and the EBG on the overall risk profile, particular risk exposures as well as the levels of the Group's financial ratios and capital and risk indicators. It takes place in the form of regular financial risk and key ratios reports prepared by the CRO and CFO throughout the year.

The frequency and depth of the reporting is defined, assessed and aligned where appropriate by the recipients of the reports depending on the size and complexity of the respective areas. They are generally catered to provide reassurance on the adherence to risk tolerance, to provide escalation on respective non-adherence and to provide early warnings for exposures to approach of risk levels, which may in turn exceed the Group's RTF.

The Governance & Risk Committee and the Audit Committee are periodically (at least quarterly) informed by EBG about the general risk situation through the Group Quarterly Risk Report prepared by the CRO. Once a year, the Group Quarterly Risk Report is also discussed in the BoD. Additionally, Management informs the BoD immediately in case of exceptional events. The Group allocates a sufficient level of resources to risk monitoring against approved risk limits. Processes are established for reporting changes in risks to the relevant management bodies and risk committees. This enables the BoD and the EBG to review their risk and crisis management frameworks early to implement new regulatory requirements, expand risk and crisis capabilities, and improve efficiency.

With regard to reporting of the adherence to risk tolerance thresholds, exposure reporting for risk tolerance metrics is integrated in the Quarterly Risk Report to the Governance & Risk Committee.

## RISK CULTURE

The Group recognises that successful risk management requires a combination of a sound risk culture, organisation and supporting processes as well as controls.

A sound risk culture consistently supports appropriate risk awareness, behaviours and judgements when dealing with risks within the RMF and RTF. A sound risk culture bolsters effective risk management, promotes sound risk-taking, and strives to ensure that emerging risks or risk-taking activities beyond the Group's risk tolerance are identified, assessed, escalated and addressed in a timely manner.

To support alignment of behaviour with the objectives of the Group, the Group focuses on four levers to shape the risk culture:

- Strong leadership and tone from the top: The Board and senior management communicate clear expectations in managerial standards with respect of risk-taking and management, as well as leadership culture, transparency, collaboration, responsibility and accountability on all levels. The Board of Directors and the EBG set the Group's Code of Business Conduct which outlines the principles of Care, Passion and Excellence to guide employee behaviour.
- Accountability and clear roles and responsibilities: The Group strives to ensure that clearly defined roles, responsibilities and accountability for specific risks and risk areas are in place in each of the three lines of defence (outlined in further detail below). The Group's governance structure supports the delivery of appropriate behaviour, accountability and effective management of risks.

- Effective communication and challenge: The Group fosters a culture of open communication and effective challenge in which decision-making processes encourage a range of views, allow for testing of current practices, stimulate a positive, critical attitude among employees and promote an environment of open and constructive engagement.
- Employee life cycle and incentives: Employees are rewarded for excellent performance as well as for ensuring regulatory compliance and exemplary behaviour that will promote the long-term sustainable success of the organisation.

To support good practices and reinforce a sound risk culture, clear consequences are defined through performance management, compensation and disciplinary actions should an employee's behaviour contribute to a financial loss, reputational damage, a breach of fiduciary duty or represent a policy infringement. In particular, relationship managers and wealth management team heads are subject to the Client and Conduct Excellence process, which supports the alignment of employee behaviour with the Group's target risk culture.

The procedures dealing with policy breaches by employees are defined in a separate policy and regulation breach process to ensure a standardised global approach to sanction non-compliant behaviour as well as policy and regulation infringements. The process aims to

- ensure quality of decision and fair treatment of all employees,
- conduct consolidated analyses and reports with the objective of identifying and preventing systemic risks,
- provide transparent information about the impact of non-compliant behaviour respectively policy and regulation breaches to employees, and
- ensure data protection and privacy.

Depending on the severity of the non-compliant behaviour, a variety of measures can be imposed, such as reprehension, reprimand, warning, promotion ban, financial sanction or termination of work contract.

The above-mentioned cultural principles serve as basis for the three core values, which are laid out in the 'Code of Business Conduct', the guiding principles for all people representing the Group:

- Care: The Group cultivates mutual respect, understanding and sustainable relationships with its clients, employees and the communities in which it does business.
- Passion: The Group is passionate about its business in all its facets and strives for continual betterment. It shapes a culture of openness, enthusiasm and curiosity that inspires diligent entrepreneurship.
- Excellence: The Group takes a client-centric approach in everything it does and provides best-in-class services. It empowers its employees and invests in their further development to foster a consistent level of excellence. As a result, it shall be the international reference in wealth management.

The Group has adopted the 'Three Lines of Defence' model as a guiding organisational framework for managing risk in the functions operating across the Group. This encompasses the Internal Control System ('ICS'), which is, amongst others, the sum of controls and processes that operate across the three lines of defence to ensure that risk is being incurred in a deliberate and disciplined manner.

The Group seeks to follow an approach of assigning clear accountability in identifying, assessing, managing, monitoring and reporting risks. In doing so, the Group has implemented and continues to strengthen the three lines of defence model across its global business operations.

The 'Three Lines of Defence' model is defined according to the following key principles:

**The 'Three Lines of Defence' model**

**Functions operating across the Group**

| First Line of Defence | Second Line of Defence | Third Line of Defence |
|---|---|---|
| • Comprises revenue-generating functions and other business units that incur risk<br>• Function heads are accountable for the risk that is being incurred in these functions<br>• Controls are operated to detect and prevent risk | • Comprises independent control functions<br>• Responsible for overseeing the activities of the business and providing challenge<br>• Reviews the performance of first-line controls and operates independent controls | • Comprises Internal Audit<br>• Responsible for performing periodic assurance to determine whether the first and second line are operating in accordance with their respective mandates<br>• Independent of first and second lines of defence |

Internal Control System

## CREDIT RISK

Credit risk is the risk of financial losses due to a client or a counterparty being either unable, or only partially able, to meet an obligation owed to the Group or to an individual Group company.

The Group's focus either is to lend money to its wealth management clients on a collateralised basis in form of Lombard lending or mortgages in combination with core business.

**Professional Counterparty Exposure**
The Group engages in transactions with banks, brokers and selected institutional clients on both a secured and unsecured basis. This involves individual risk limits and settlement limits being approved for each counterparty. The credit exposures arising from these transactions are monitored on a daily basis, and netting agreements and collateral agreements are used to mitigate exposures further. As a result, the vast majority of the replacement values of the exposure arising from trading transactions are covered by collateral. The Group places excess liquidity with central banks. It also makes short-term money-market placements with banks and invests in high quality, repo-eligible bonds and secured debt instruments issued by governments, public institutions, banks and corporations.

The Group has implemented a workflow system for managing and monitoring credit risks in the due from banks book. Several controls are incorporated in the system to ensure timely risk management and granting of credit facilities according to delegated credit approval authorities. Credit approvals are processed using a four-eye principle. Approval authorities are continuously kept up to date taking into consideration a number of factors such as risk type, counterparty risk rating and exposure. The credit risks associated with all the counterparties and issuers are subject to a wide range of rules and limits. These ensure that the Group's consolidated credit exposure, both on a single-counterparty and a counterparty-group basis,

- is not subject to concentration by exposure type
- is not disproportionate to the size, shareholders' equity and scale of business of the counterparty
- is clearly within the Group's risk capacity and the applicable regulatory limits.

The Group settles a substantial proportion of its trading and derivatives business indirectly through central counterparties (CCPs). The credit risks associated with CCPs are negligible, because the Group works through a variety of specialised service providers and therefore generally does not directly participate in the clearing systems concerned.

Given the focused nature of its activities, the Group is not exposed to any material correlation risk or wrong way risk (i.e. the risk which arises when exposure to a counterparty is negatively correlated to its credit quality). Furthermore, the Group holds cash collateral for the majority of the counterparty risk arising from its open derivatives positions. The Group's securities lending business policies explicitly prohibit transactions involving correlation risk.

The Group has a general policy of avoiding group-rating triggers in its collateral agreements for derivatives transactions. As a result, were its rating to decline below a given level, the Group would not be required to provide additional collateral.

**Lombard lending**

The Group has a policy of lending to wealth management clients on a collateralised basis. The credit risk results from lending activities as well as actual and future receivables due to the Group.

The Group uses credit risk models and frameworks to assess the riskiness of its portfolio in line with the respective lending policies. On that basis, conservative lending values are set as a percentage of the collateral market value. Advanceable rates can be determined or adjusted for a specific security or for individual clients.

Every counterparty with a credit line is assigned an internal credit rating. The risk rating reflects the underlying credit risk and primarily depends on the collateral provided by the counterparty, collateral concentration and client-specific conditions. In the case of the rating classes R1 to R6 (neither past due nor impaired), the outstanding balances are serviced; the advancable value of the collateral (at fair value) pledged for collateralised exposures equals or exceeds the balances, and repayment of the balance is not in doubt. Balances in rating class R7 are past due, but the exposure is still covered by collateral. For balances in rating classes R7 to R10, loss allowances are established on a case-by-case basis.

The risk rating for the counterparty's limit size also determines the approval authority level, the monitoring and review frequency.

The Group's objective is to achieve a growth in Lombard lending commensurate with the evolution of its wealth management business. To that end, the Board of Directors for example defines corridor values for credit penetration (the ratio of lending to assets under management). In addition, the Group has implemented a set of regularly reviewed limits for the ongoing management and systematic monitoring of various credit risk concentrations in the Lombard business in line with its risk strategy. This includes limits related to single asset collaterals, client groups, geographical (on country-of-risk level) or risk rating concentrations; all of these limits have the same significance and are adhered to equally. Any breach of the limits becoming apparent would be dealt with in line with the general risk governance policy described above. Furthermore, management triggers exist for these limits, which allows the management to take the necessary actions at an early stage in order that any potential breach can be avoided. However, none of the internal risk limits has been exceeded during the business years 2019 and 2018; moreover, the current exposures are well below the set limits for all risk concentrations.

Additionally, an internal guideline for the maximum loan-to-deposit ratio, which is reviewed and validated periodically, is in place. The maximum ratio has not been exceeded during the business years 2019 and 2018.

Regular and ad hoc stress testings are performed. These are calibrated to reflect the prevailing market and political situation. The results are reviewed by the credit-monitoring units and reported to the relevant decision-making committees. All distressed and non-performing loans are identified at an early stage and managed proactively. Collateral shortfalls (e.g. margin calls) are processed on a daily basis and prioritised according to their severity.

The Group has implemented a workflow system for managing and monitoring Lombard risks. The system draws the relevant position data from the bookkeeping systems of Group companies which grant loans. The system is able to enrich this data with credit-specific information and to consolidate it with data on client and counterparty positions from the various booking centres. Several controls are incorporated in these systems. All Lombard risks are monitored daily, as are current limit usage and the quality of the collateral pledged. In addition, for clients with derivatives positions whose exposure requires intraday monitoring, real-time systems are also available.

**Mortgages**

The Group grants mortgages to wealth management clients in Switzerland and in a limited number of international locations. The properties pledged are assessed and valued individually as part of the risk management process. These valuations are carried out based either on a factor model or by qualified internal and external appraisers. Maximum mortgage amounts are determined based on the characteristics of each property and client. An additional financial sustainability assessment is also carried out before a mortgage is granted.

In many cases, supplementary collateral in form of securities is required in addition to the pledged property itself. Every mortgage is assigned a risk rating. The rating reflects the underlying credit risk which primarily depends on the counterparty assessment and the property. The risk rating for the requested limit size also determines the approval level and review frequency. The Group tends to assign comparatively low mortgage values and adopt a relatively conservative approach to mortgage risk.

The Group conducts regular stress tests with different scenario size depending on the location and ad hoc portfolio analysis to assess potential negative market impacts on the Mortgage book. In addition, a set of limits is implemented to manage credit risk concentrations.

The Group has implemented workflow systems for monitoring and managing credit risks in the Mortgage book. Several controls are incorporated in these systems to ensure timely registration and collateral valuation, the granting of credit facilities according to delegated credit approval authorities, and formalised monitoring procedures.

## MARKET RISK

Market risk refers to the potential losses through changes in the valuation of its assets and liabilities because of changes in market prices, volatilities, correlations and other valuation-relevant factors.

It could be further separated into:

- Trading market risk, resulting from trading book transactions, being pursued with the intention of benefiting from actual or expected differences between the opening and closing price of proprietary positions, with the intention of benefiting from arbitrage profits, or with the intention of hedging risks from positions meeting aforementioned criteria.
- Non-trading market risk, resulting from the management of financial assets and liabilities held in the Group's banking books with exposures mainly to interest rate risk, currency risk, credit spread risk, and equity risk.

The Group assumes market risk exposure through activities of the divisions Markets (trading market risk) and CFO (non-trading and trading market risk in the Treasury department) as well as through the purchase of subsidiaries and associates and financial assets measured at FVOCI, triggered by the authorised body.

A control environment for market risk has been implemented and integrated into key business processes. The market risk function for the Group is assumed by an independent unit reporting to the Head Risk Management who reports to the Chief Risk Officer of the Group. Market risk functions of Group entities have a functional reporting line to the central market risk unit at Head Office to assure global risk aggregation and application of Group standards in all Group entities.

This ensures that products are approved in line with the strategy and risk tolerance, limits are in place and adhered to, front-to-back reconciliation processes are in place, and the valuation of positions follows a fair value approach.

Identification of trading and non-trading market risks is based on a strict product approval process including the assessment and validation of models, implementation in trading and risk systems to assure caption of all risk components. A regular review of positions and models in trading and banking books assures an ongoing identification of new risks or the need for changing models or processes.

All risk reports in the area of market risk are produced daily on a consolidated basis and reported to the responsible Executive Board members. On a monthly basis, an integrated market risk report is provided to the Executive Board and the Group's Asset Liability Committee. The Governance and Risk Committee of the Board of Directors is informed quarterly about market risk exposures.

Trading-book market risk is primarily measured by the position-keeping and risk management systems used by the trading department. In addition, these positions are also independently measured by the market risk function. This unit uses a central IT system which is continuously developed and expanded. The system supports the calculation of the market-risk and scenario-analysis metrics used. These results are analysed on a daily basis and limit controls are carried out. Any breach of these limits is investigated in a timely fashion. That system also forms the basis for the external regulatory reporting.

The interest rate and liquidity stress risk of the banking book is measured by a global risk management and reporting platform. Every day, the positions are independently measured in an IT system maintained by the Treasury Risk Control unit and reported back to the Group companies with substantial risks on their books. The local treasury and risk control units are responsible for local implementation and adherence to limits. The Group Treasurer has continuous access to the Group's consolidated positions and can manage them on a Group-wide basis. The relevant data is drawn from the bookkeeping systems for the Group companies' banking books. The system supports the calculation of the usual interest rate risk and liquidity stress metrics. These results are analysed on a daily basis, and limit controls are carried out. Any breach of these limits is investigated in a timely fashion.

The Group performs market risk portfolio analyses and stress testing on a regular basis as well as in relation to specific events. Efforts are made to ensure that the net effect under various stressed conditions is taken into account in the risk assessment and monitoring processes. The purpose of market risk stress testing is to

- assess the adequacy of the Group's financial resources for periods of severe stress and develop contingency plans for the Group if the need arises,
- promote risk identification and add further insight into the need for setting new limits, and
- serve as a supplement to the ongoing quality assurance for market risk management practices.

The stress-testing programme provides additional perspectives on market risk by applying multiple methodologies to scenarios with various degrees of severity. The complexity of the methodologies ranges from simple sensitivity analyses to complex scenario stress testing (as required to meet the purpose of the stress test).

Various policies and controls are in place to manage market risk. The Group uses a variety of metrics and models to measure and control market risk exposures. Limits are set using these models, reflecting the Group's risk tolerance, including:

- Value at risk limits
- Scenario and sensitivity limits
- Nominal/market value limits, sensitivity ('Greek') limits
- Stress scenario limits
- Stop loss limits and / or profit and loss volatility limits
- Intraday limits

The Group also develops and maintains internal models that are used for the pricing and risk management of financial products that cannot be valued directly or risk-managed on the basis of quoted market prices. These models are independently certified and regularly reviewed based on a risk-materiality assessment.

Non-trading market risk models are subject to regular reviews:

- Scenario model to assess the risk of losses caused by interest rate moves on balance sheet mismatch positions and/or model risk arising from assets or liabilities with no fixed maturity
- Scenario model to assess the risk of losses on the balance sheet FX exposure due to unfavourable currency movements
- Scenario model to assess the credit spread risk due to the change in credit risk premium required in the market for a given credit quality of an investment

Regulatory back-testing is performed daily to document the performance of the internal VaR model. Risk and pricing models are independently validated prior to implementation and are subject to formal periodic review.

## TREASURY RISK

Treasury risk consists of financing and liquidity risk.

Financing risk is the risk of the Group being unable to finance its existing or planned activities on an ongoing basis at acceptable prices. Liquidity risk, conversely, is the risk of the Group being unable to meet its payment obligations when they fall due.

The Treasury department of Bank Julius Baer & Co. Ltd. is responsible for the Group's liquidity and funding activities. This includes executing the funding plan and managing the liquidity reserve. Liquidity management is centralised and conducted on a consolidated basis to ensure regulatory compliance at the Group level and compliance with internal requirements.

The Market Risk and Product Control unit as part of the Risk Management department validates and challenges the models and assumptions used by the first line of defence for reporting risk measures.

Treasury risk is inherent in basic banking activities such as accepting deposits and providing loans and credits. The transformation of short-term deposits into long-term loans exposes banks to maturity mismatches that cannot be eliminated. The Group manages this liquidity risk by holding sufficient liquidity to meet its obligations and follow its strategies – in particular regulatory obligations, business plans and rating ambitions – even in stressed situations. In managing its financing risk, the Group aims to ensure that it has access to appropriate sources of financing at all times. At present, the Group's activities are largely financed by client sight deposits. Given its active participation in the interbank market, the Group would, however, quickly be able to access additional sources of refinancing at any time. In addition, the Group issues various bonds.

The Group manages its liquidity on a daily basis by using a combination of risk indicators, risk triggers and risk policy. The key elements of the liquidity and financing risk framework are:

- Measurement of risk by using appropriate models
- Liquidity ratios and limits
- Stress testing
- Fund transfer pricing system
- Reporting

To identify risks and assure adherence to the liquidity and financing risk framework, the Group follows:

- a new product approval process assuring that any new business or product is assessed by all stakeholders;
- a daily analysis of positions by risk management; and
- a regular review of models used in the measurement of liquidity and financing risks.

The assessment of liquidity and financing risks is primarily drawn from stress testing results. The Group has a liquidity stress testing model in place that runs regular liquidity stress tests and enhanced liquidity stress tests taking into consideration longer time periods, currency shocks or contingent liquidity risks. While the Group recognises that stress testing and the modelling of future cash flows are subject to model uncertainty, the liquidity stress testing approach captures both funding liquidity risk (e.g. 'bank run' scenarios where an entity may not be able to meet its short-term liabilities) and asset liquidity risk (e.g. the risk that assets valuations may be subject to large haircuts in value).

The Group's liquidity risk management includes incentive measures to maintain a sound balance of short-term liabilities vs. the size of its balance sheet. Furthermore, delegated to the Treasury department, liquidity risk management seeks to ensure that sufficiently large liquid assets are in place (and available for drawdown in normal markets and stressed markets).

Further, the Group's liquidity risk management arrangements set out an emergency plan which forms an integral part of its global crisis concept. This emergency plan includes an overview of alternative sources of financing and liquidity metrics, as well as a range of emergency measures.

The stress testing models and parameters are annually reviewed and approved by the Group's Asset Liability Committee.

Various policies and controls are in place to manage treasury risk. The Group Funding Liquidity Manual outlines the quantitative and qualitative methodologies for managing liquidity and funding risks at the Group, and complements the Group Liquidity Risk and Funding Policy. The manual contains the Group Liquidity Contingency Plan, which would be deployed in the event of a severe deterioration of the Group's liquidity situation. The contingency plan defines responsibilities and lists potential liquidity-generating measures to be evaluated on a case-to-case basis.

Additionally, Group subsidiaries and branches may have issued local Liquidity Manuals and Contingency Plans.

The risk management and measurement of liquidity and financing risks is based on the following risk metrics:

- Liquidity stress tests
- Liquidity Coverage Ratio (LCR). For additional information to the LCR, refer to the separate Basel III report, published in the regulatory Disclosure section of the www.juliusbaer.com website (this will be available at the end of April 2020)
- Net Stable Funding Ratio (NSFR)
- Funding gap analysis
- Funding concentration analysis
- Early warning indicators

## NON-FINANCIAL RISK

The Group is subject to various non-financial risks by providing services to clients and counterparties, by receiving services from third parties and by operating in a regulated industry.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, external events or fraud.

Compliance risk is the risk of financial loss or damage resulting from a breach of applicable laws and regulations or the non-adherence to internal or external rules and regulations or market practice. The loss or damage in such circumstances may take the form of fines and/or disgorgement imposed by regulatory and/or criminal authorities or other sanctions such as restrictions on business activities, the imposition of mandatory remedial measures (including monitoring) or even the loss of license.

Legal risk essentially comprises default and liability risk. Default risk is defined as the risk of loss or damage resulting from an entity being unable to enforce existing or anticipated rights against third parties. Liability risk, on the other hand, arises when an entity, or someone acting on its behalf, fails to meet an obligation owed to a third party or fails to respect the rights of a third party.

Strategic risk is defined as the risk of employing a strategy that fails to secure the adequate returns available from the capital employed in the long run. The Group is exposed to strategic risk in the pursuit of its growth strategy. It may arise from strategic decisions such as joint ventures, mergers and acquisitions, the pricing strategy and strategic recruiting or the lack of making timely decisions.

Business risk relates to the risk of unfavourable fiscal, economic, competitive, legal or regulatory changes in the markets. The Group is exposed to business risk in the pursuit of its business model of pure wealth management.

Reputational risk describes the risk that the reputation the Group has with its stakeholders (including regulators, shareholders, clients, employees and the general public) deteriorates and the trust in its franchise and brand value is negatively influenced. The reputation may deteriorate due to cases in which stakeholders' perception of the Group differs negatively from their expectations. Negative sentiment about an institution's business practices can involve any aspect of its operations, but usually relates to topics of business ethics and integrity, or quality of products and services. The Group considers its reputation as the most important asset and the hardest one to re-establish in case of an unwanted deterioration. Thus, the Group does not take extreme positions regarding tax, regulatory, political or suitability risks. Transactions that would compromise its reputation should it become public is, by definition, an unacceptable risk to the Group.

The Group has defined the underlying risk management processes for every risk type along a Risk Management Cycle.


The continuous identification (step 1) of relevant risks is a key risk management activity. This relates to both emerging threats/risks as well as to increasing risk profiles. New risks may arise by developing and launching new products and services, a change in the regulatory landscape or a change to the business model.

The assessment (step 2) of identified risks consists of the analysis and quantification of the inherent risk, the control risk and finally the residual risk along defined risk management principles and methods. It also includes the development, testing and validation of models to measure risks, as well as stress testing procedures to assess and measure risks in pre-defined scenarios.

The day-to-day risk management (step 3) has to ensure an adequate response to identified risks and the set risk tolerance. It includes all activities from risk evaluation to the definition of risk mitigation measures, which aim to prevent or reduce risks and damages, e.g. the setting of standards and controls, education and training, automation of processes, and the implementation of standards, limits and metrics.

Monitoring activities (step 4) include the performance of control activities or quality assurance procedures on implemented standards and controls to ensure that the risk profile and exposure is kept within the risk tolerance, e.g. via risk metrics (KRIs or KPIs) and limits.

The reporting (step 5) supports all hierarchy levels to have a transparent and accurate overview of the underlying risk profile and risk exposure. This includes also the timely escalation in case of breaches of set risk tolerances. The frequency and depth of the reporting is defined, assessed and aligned where appropriate by the recipients of the reports depending on the size and complexity of the respective areas.

# COMMENT ON CAPITAL MANAGEMENT

## MANAGEMENT OF CAPITAL INCLUDING REGULATORY CAPITAL

In managing its capital, the Group considers a variety of requirements and expectations. Sufficient capital must be in place to support current and projected business activities, according to both the Group's own internal assessment and the requirements of its regulators, in particular its lead regulator, the Swiss Financial Market Supervisory Authority (FINMA). Capital is also managed in order to achieve sound capital ratios and to ensure a strong external credit rating.

Ensuring compliance with minimum regulatory capital requirements and targeted capital ratios is central to capital adequacy management. In this ongoing process, the Group manages its capital on the basis of target capital ratios for common equity tier 1 capital and total capital. In the target-setting process, the Group takes into account the regulatory minimum capital requirements and regulatory expectations that the Group will hold additional capital above the minimum required for each capital category, the Group's internal assessment of aggregate risk exposure requiring equity capital provision, the views of rating agencies, and comparison to peer institutions based on the Group's business mix and market presence.

In 2019 (and 2018), the scope of consolidation used for the calculation of capital adequacy is identical to that applied for accounting purposes. Note 30A provides an overview of the Group's consolidated companies.

The Group's calculations of its risk-weighted assets published in the Annual Report are identical to those carried out for regulatory reporting purposes.

The Basel III international standard approach requires CET1 equivalent to at least 4.5% of risk-weighted assets, plus a CET1 capital buffer of 2.5%, plus 1.5% of additional tier 1 (AT1) capital (or better-quality capital), plus 2% of supplementary tier 2 capital (or better-quality capital). In aggregate, this amounts to an overall capital requirement of at least 10.5% of risk-weighted assets. FINMA minimum capital requirements for the Group are 7.8% for CET1, 1.8% for AT1 and 2.4% for tier 2, which puts its overall minimum capital requirement at 12% of risk-weighted assets. At present, the Group is also required to hold an anticyclical CET1 capital buffer for mortgages on residential properties in Switzerland and an additional anticyclical CET1 capital buffer for commitments outside Switzerland. Taken together, these add a further 0.4% to its minimum capital requirement of 12% of risk-weighted assets. The capital held by the Group at 31 December 2019 and at 31 December 2018 was sufficient to meet the relevant BIS and FINMA requirements and internal capital buffers set by the EBG and BoD.

## Capital ratios

| | **31.12.2019** *Basel III* *CHF m* | 31.12.2018 *Basel III* *CHF m* |
|---|---|---|
| **Risk-weighted positions** | | |
| Credit risk | **13,749.3** | 14,527.7 |
| Non-counterparty-related risk | **612.9** | 352.8 |
| Market risk | **670.8** | 1,245.1 |
| Operational risk | **5,461.7** | 5,212.8 |
| **Total** | **20,494.6** | 21,338.4 |
| **Eligible capital** | | |
| CET1 capital | **2,876.7** | 2,731.2 |
| Tier 1 capital | **4,420.9** | 3,933.0 |
| *of which hybrid tier 1 capital instruments*[1] | ***1,544.2*** | *1,201.8* |
| Tier 2 capital | **100.8** | 58.2 |
| Total capital | **4,521.7** | 3,991.2 |
| CET1 capital ratio | **14.0%** | 12.8% |
| Tier 1 capital ratio | **21.6%** | 18.4% |
| Total capital ratio | **22.1%** | 18.7% |

[1] The hybrid tier 1 instruments are tier 1 bonds issued by Julius Baer Group Ltd. in 2014, 2015, 2016, 2017 and 2019 (issued in June 2019).

Further details regarding tier 1 capital instruments can be found in the Capital Instruments section of www.juliusbaer.com. Also refer to debt issued, Note 15.

The principal adjustment to the Group's total equity under IFRS for the purpose of determining total eligible capital is the deduction of intangible assets. These and other capital components are shown in the following table. In addition to the table below, 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 31 December 2019. 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 of the composition of eligible regulatory capital and will be publicly available at the end of April 2020.

**Capital components**

| | **31.12.2019** *Basel III* *CHF m* | 31.12.2018 *Basel III* *CHF m* |
|---|---|---|
| Gross common equity tier 1 capital | **6,198.6** | 6,041.9 |
| *of which non-controlling interests* | ***9.2*** | *1.9* |
| Goodwill and other intangible assets | **-2,841.8** | -2,902.3 |
| Other deductions | **-480.1** | -408.4 |
| **Common equity tier 1 capital** | **2,876.7** | 2,731.2 |
| Tier 1 capital instruments | **1,544.2** | 1,201.8 |
| *of which tier 1 bonds (Basel III-compliant capital instruments)* | ***1,544.2*** | *1,201.8* |
| **Additional tier 1 capital** | **1,544.2** | 1,201.8 |
| Tier 1 capital | **4,420.9** | 3,933.0 |
| Tier 2 capital | **100.8** | 58.2 |
| *of which other tier 2 capital* | ***100.8*** | *58.2* |
| **Total capital** | **4,521.7** | 3,991.2 |

Required capital (see table below) for credit risks arising from amounts due from banks, loans, financial assets measured at FVOCI and derivative financial instruments accounts for more than 67% (2018: 68%) of the total required capital. Capital required for non-counterparty risk (2019: 3%; 2018: 2%) and market risk (2019: 3%; 2018: 6%) is of minor significance. The capital required to cover operational risk accounts for 27% of total required capital (2018: 24%).

**Minimum capital requirement**

| | **31.12.2019**<br>*Basel III*<br>*CHF m* | 31.12.2018<br>*Basel III*<br>*CHF m* |
|---|---|---|
| Credit risk | **1,099.9** | 1,162.2 |
| Non-counterparty-related risk | **49.0** | 28.2 |
| Market risk | **53.7** | 99.6 |
| Operational risk | **436.9** | 417.0 |
| **Total** | **1,639.6** | 1,707.1 |

## LEVERAGE RATIO

In addition to the existing requirement for banks to hold eligible capital proportionate to their risk-weighted assets, the leverage ratio is a non-risk-based metric. The leverage ratio is defined as the ratio between eligible (tier 1) core capital and total exposure. Total exposure encompasses all balance sheet and off-balance sheet positions, and the 'Leverage Ratio' circular defines how these are to be calculated. The minimum leverage ratio requirement is three percent for 2019 (and 2018).

Basel III regulations also require the publication of the leverage ratio. The relevant qualitative and quantitative information is contained in a separate disclosure report (Basel III Pillar 3 Report). The report will be published on the www.juliusbaer.com website and will be available at the end of April 2020.

# INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

## NOTE 1 NET INTEREST INCOME

| | **2019** *CHF m* | 2018[1] *CHF m* | Change *%* |
|---|---|---|---|
| Interest income on amounts due from banks | **62.4** | 66.1 | -5.6 |
| Interest income on loans | **949.5** | 882.9 | 7.5 |
| Interest income on debt instruments at FVOCI | **258.1** | 232.3 | 11.1 |
| Negative interest received on financial liabilities | **23.1** | 18.1 | 27.6 |
| Interest income on financial instruments measured at amortised cost or FVOCI | **1,293.1** | 1,199.5 | 7.8 |
| Interest expense on amounts due to banks | **28.1** | 27.6 | 1.9 |
| Interest expense on amounts due to customers | **370.1** | 251.9 | 46.9 |
| Interest expense on debt issued | **69.8** | 67.1 | 4.1 |
| Negative interest paid on financial assets | **26.4** | 47.6 | -44.6 |
| Interest expense on lease liabilities[2] | **6.5** | - | |
| Interest expense on financial instruments measured at amortised cost | **500.9** | 394.1 | 27.1 |
| **Total** | **792.2** | 805.3 | -1.6 |

[1] The 2018 numbers have been aligned to the improved structure of interest and dividend reporting related to financial instruments measured at FVTPL.
[2] In line with IFRS 16, which has been applied for the first time in 2019, interest expense on the lease liability is part of the net interest income.

## NOTE 2 NET COMMISSION AND FEE INCOME

| | **2019** *CHF m* | 2018 *CHF m* | Change *%* |
|---|---|---|---|
| Advisory and management fees | **1,429.3** | 1,420.6 | 0.6 |
| Brokerage commissions and income from securities underwriting | **609.5** | 622.9 | -2.1 |
| Commission income from credit-related activities | **9.4** | 7.6 | 22.7 |
| Commission and fee income on other services | **91.4** | 80.2 | 14.0 |
| Total commission and fee income | **2,139.6** | 2,131.3 | 0.4 |
| Commission expense | **216.6** | 228.5 | -5.2 |
| **Total** | **1,922.9** | 1,902.9 | 1.1 |

## NOTE 3 NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FVTPL

| | **2019** *CHF m* | 2018[1] *CHF m* | Change *%* |
|---|---|---|---|
| Net gains/(losses) from debt instruments and foreign exchange | **491.0** | 466.2 | 5.3 |
| Net gains/(losses) from equity instruments | **127.1** | 177.9 | -28.5 |
| *of which dividend income* | ***187.8*** | *178.1* | *5.5* |
| **Total** | **618.1** | 644.1 | -4.0 |

[1] The 2018 numbers have been aligned to the improved structure of interest and dividend reporting related to financial instruments measured at FVTPL.

## NOTE 4 OTHER ORDINARY RESULTS

| | **2019** *CHF m* | 2018 *CHF m* | Change *%* |
|---|---|---|---|
| Dividend income on equity instruments at FVOCI | **17.5** | 7.0 | 150.1 |
| Result from disposal of debt instruments at FVOCI | **9.9** | -11.0 | 189.4 |
| Income from investments in associates | **0.7** | 1.9 | -63.7 |
| Real estate income | **6.5** | 6.5 | 0.2 |
| Other ordinary income | **24.8** | 17.1 | 44.8 |
| Other ordinary expenses | **0.7** | 3.0 | -77.9 |
| **Total** | **58.7** | 18.5 | 217.1 |

## NOTE 5 PERSONNEL EXPENSES

| | **2019** *CHF m* | 2018 *CHF m* | Change *%* |
|---|---|---|---|
| Salaries and bonuses | **1,272.0** | 1,271.3 | 0.1 |
| Contributions to staff pension plans (defined benefits) | **82.5** | 78.2 | 5.5 |
| Contributions to staff pension plans (defined contributions) | **37.7** | 35.1 | 7.6 |
| Other social security contributions | **101.6** | 107.0 | -5.0 |
| Share-based payments | **79.1** | 78.4 | 0.9 |
| Other personnel expenses | **43.3** | 51.5 | -15.9 |
| **Total** | **1,616.2** | 1,621.4 | -0.3 |

## NOTE 6 GENERAL EXPENSES

| | **2019** *CHF m* | 2018 *CHF m* | Change % |
|---|---|---|---|
| Occupancy expense | **33.0**[1] | 96.8 | -65.9 |
| IT and other equipment expense | **82.2** | 76.9 | 6.9 |
| Information, communication and advertising expense | **189.9** | 196.5 | -3.4 |
| Service expense, fees and taxes | **316.2** | 294.8 | 7.3 |
| Provisions and losses | **213.9** | 15.7 | - |
| Other general expenses | **15.6** | 7.7 | 102.3 |
| **Total** | **850.8** | 688.5 | 23.6 |

[1] The decline in 2019 relates to the new accounting for leases (IFRS 16).

## NOTE 7 INCOME TAXES

| | **2019** *CHF m* | 2018 *CHF m* | Change % |
|---|---|---|---|
| Income tax on profit before taxes (statutory tax expense) | **124.6** | 196.7 | -36.7 |
| Effect of tax rate differences in foreign jurisdictions | **12.1** | -5.3 | - |
| Effect of domestic tax rate differences | **21.0** | 22.6 | - |
| Income subject to a reduced tax rate | **-77.1** | -63.9 | - |
| Effect of change in applicable tax rate on temporary differences | **-8.9** | - | - |
| Effect of utilisation of prior-year losses | **-3.5** | -3.5 | - |
| Effect from unrecognised tax losses | **6.8** | 16.5 | - |
| Adjustments related to prior years | **12.4** | -28.3 | - |
| Write-off of deferred tax assets | **1.6** | - | - |
| Non-deductible expenses | **12.3** | 23.9 | - |
| **Actual income tax expense** | **101.2** | 158.6 | - |

The basis for the above table is the statutory income tax rate of 22% (2018: 22%), which corresponds to the average Group tax rate in Switzerland.

Unrecognised accumulated loss carryforwards in the amount of CHF 277.6 million (2018: CHF 282.6 million) exist in the Group that do not expire.

The Group applies management judgement in identifying uncertainties related to income tax treatments and the respective interpretations by local tax authorities. The Group operates in an international tax environment which has become more complex and challenging in recent years because of multinational (e.g., Base Erosion and Profit Shifting project by OECD/G20) and unilateral initiatives. Among others, the Group applies transfer pricing arrangements among different Group entities due to its cross-border operations to correctly align taxable profits with value creation. Therefore, the Group subsidiaries' tax filings in different jurisdictions include deductions related to such transfer pricing arrangements and the local tax authorities may challenge the applied tax treatment. However, based on its ongoing analysis of the tax regulations and the respective application in the different locations as well as the benchmarking process, the Group is of the opinion that its transfer pricing arrangements will be accepted by the tax authorities. Moreover, the tax treatment of various items requires an interpretation of local tax law and practice in many jurisdictions to the best of the Group's knowledge. In addition, the Group books provisions where adequate to cover future potential tax liabilities such as in 2019 for the settlement of tax and related legal aspects in the context of ongoing discussions with Italian authorities about an alleged fiscal presence of Bank Julius Baer & Co. Ltd. in Italy. After considering the above, the Group is of the opinion that the tax expense and tax liabilities in the financial statements are adequate and based on reasonable judgements by tax professionals.

**Adoption of Swiss corporate tax reform**

On 19 May 2019, Swiss voters have approved the Federal Act on Tax Reform and AHV Financing ('TRAF'). It shall enter into force on 1 January 2020. The changes will not have a material impact on the tax liability in 2020 as the transformation of Julius Baer Group Ltd. out of the holding regime into the ordinary tax regime will be mostly absorbed by a general tax rate reduction in various Swiss cantons as well as new measures introduced as part of the TRAF. Additionally, the enacted tax rate reduction in certain cantons has been reflected in the deferred tax positions.

| | **2019** *CHF m* | 2018 *CHF m* | Change *%* |
|---|---|---|---|
| Domestic income taxes | **34.2** | 102.1 | -66.5 |
| Foreign income taxes | **67.0** | 56.5 | 18.6 |
| **Total** | **101.2** | 158.6 | -36.2 |

| | | | |
|---|---|---|---|
| Current income taxes | **127.3** | 129.0 | -1.3 |
| Deferred income taxes | **-26.1** | 29.6 | - |
| **Total** | **101.2** | 158.6 | -36.2 |

**Tax effects relating to components of other comprehensive income**

| | | | **2019** |
|---|---|---|---|
| | Before-tax amount *CHF m* | Tax (expense)/ benefit *CHF m* | Net-of-tax amount *CHF m* |
| **Items that may be reclassified to the income statement** | | | |
| Net unrealised gains/(losses) on debt instruments measured at FVOCI | 123.7 | -15.1 | 108.6 |
| Net realised (gains)/losses on debt instruments measured at FVOCI reclassified to the income statement | -10.3 | 0.9 | -9.4 |
| Net credit losses on debt instruments measured at FVOCI | -0.8 | - | -0.8 |
| Translation differences | -52.8 | - | -52.8 |
| Realised (gains)/losses on translation differences reclassified to the income statement | -0.2 | - | -0.2 |
| **Items that will not be reclassified to the income statement** | | | |
| Net unrealised gains/(losses) on equity instruments designated at FVOCI | 78.5 | -11.8 | 66.6 |
| Remeasurement of defined benefit obligation | -83.0 | 8.3 | -74.7 |
| **Other comprehensive income** | **54.9** | **-17.7** | **37.2** |

| | | | 2018 |
|---|---|---|---|
| | Before-tax amount *CHF m* | Tax (expense)/ benefit *CHF m* | Net-of-tax amount *CHF m* |
| Items that may be reclassified to the income statement | | | |
| Net unrealised gains/(losses) on debt instruments measured at FVOCI | -71.4 | 10.1 | -61.3 |
| Net realised (gains)/losses on debt instruments measured at FVOCI reclassified to the income statement | 13.3 | -1.1 | 12.2 |
| Net credit losses on debt instruments measured at FVOCI | 0.4 | - | 0.4 |
| Translation differences | -60.9 | - | -60.9 |
| Items that will not be reclassified to the income statement | | | |
| Net unrealised gains/(losses) on equity instruments designated at FVOCI | 4.8 | -1.1 | 3.8 |
| Net realised gains/(losses) on equity instruments designated at FVOCI reclassified to retained earnings | -0.3 | 0.1 | -0.3 |
| Remeasurement of defined benefit obligation | 10.6 | -2.5 | 8.1 |
| Other comprehensive income | -103.1 | 5.4 | -97.7 |

# INFORMATION ON THE CONSOLIDATED BALANCE SHEET

## NOTE 8 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

| | | | | | | **31.12.2019** |
|---|---|---|---|---|---|---|
| | Mandatory at FVTPL *CHF m* | Designated as at FVTPL *CHF m* | FVOCI – Debt instruments *CHF m* | FVOCI – Equity instruments *CHF m* | Amortised cost *CHF m* | **Total** *CHF m* |
| **Financial assets** | | | | | | |
| Cash | - | - | - | - | 10,097.0 | **10,097.0** |
| Due from banks | - | - | - | - | 7,082.5 | **7,082.5** |
| Lombard loans | - | - | - | - | 39,507.5 | **39,507.5** |
| Mortgages | - | - | - | - | 8,919.8 | **8,919.8** |
| Financial assets measured at FVTPL | 13,776.2 | - | - | - | - | **13,776.2** |
| Derivative financial instruments | 1,630.7 | - | - | - | - | **1,630.7** |
| Financial assets designated at fair value | - | 305.0 | - | - | - | **305.0** |
| Financial assets measured at FVOCI | - | - | 12,934.2 | 232.0 | - | **13,166.2** |
| Accrued income/other assets | - | - | - | - | 396.5 | **396.5** |
| **Total** | **15,406.9** | **305.0** | **12,934.2** | **232.0** | **66,003.3** | **94,881.5** |
| **Financial liabilities** | | | | | | |
| Due to banks | - | - | - | - | 3,160.0 | **3,160.0** |
| Due to customers | - | - | - | - | 72,913.1 | **72,913.1** |
| Financial liabilities measured at FVTPL | 613.8 | - | - | - | - | **613.8** |
| Derivative financial instruments | 2,120.8 | - | - | - | - | **2,120.8** |
| Financial liabilities designated at fair value | - | 13,281.1 | - | - | - | **13,281.1** |
| Debt issued | - | - | - | - | 1,893.0 | **1,893.0** |
| Accrued expense | - | - | - | - | 221.4 | **221.4** |
| Other liabilities | - | - | - | - | 28.7 | **28.7** |
| Deferred payments related to acquistions | 34.8 | - | - | - | - | **34.8** |
| **Total** | **2,769.4** | **13,281.1** | **-** | **-** | **78,216.3** | **94,266.7** |

| | | | | | | 31.12.2018 |
|---|---|---|---|---|---|---|
| | Mandatory at FVTPL *CHF m* | Designated as at FVTPL *CHF m* | FVOCI – Debt instruments *CHF m* | FVOCI – Equity instruments *CHF m* | Amortised cost *CHF m* | Total *CHF m* |
| Financial assets | | | | | | |
| Cash | - | - | - | - | 15,835.5 | 15,835.5 |
| Due from banks | - | - | - | - | 9,228.8 | 9,228.8 |
| Lombard loans | - | - | - | - | 35,902.4 | 35,902.4 |
| Mortgages | - | - | - | - | 9,420.8 | 9,420.8 |
| Trading assets | 8,415.6 | - | - | - | - | 8,415.6 |
| Derivative financial instruments | 2,128.5 | - | - | - | - | 2,128.5 |
| Financial assets designated at fair value | - | 298.8 | - | - | - | 298.8 |
| Financial assets measured at FVOCI | - | - | 14,442.2 | 145.3 | - | 14,587.6 |
| Accrued income/other assets | - | - | - | - | 380.5 | 380.5 |
| Total | 10,544.1 | 298.8 | 14,442.2 | 145.3 | 70,767.9 | 96,198.3 |
| Financial liabilities | | | | | | |
| Due to banks | - | - | - | - | 6,892.2 | 6,892.2 |
| Due to customers | - | - | - | - | 71,506.4 | 71,506.4 |
| Trading liabilities | 132.5 | - | - | - | - | 132.5 |
| Derivative financial instruments | 1,719.3 | - | - | - | - | 1,719.3 |
| Financial liabilities designated at fair value | - | 13,703.6 | - | - | - | 13,703.6 |
| Debt issued | - | - | - | - | 1,503.3 | 1,503.3 |
| Accrued expense | - | - | - | - | 240.6 | 240.6 |
| Other liabilities | - | - | - | - | 28.3 | 28.3 |
| Deferred payments related to acquistions | 54.0 | - | - | - | - | 54.0 |
| Total | 1,905.8 | 13,703.6 | - | - | 80,170.8 | 95,780.2 |

## NOTE 9 FINANCIAL ASSETS AND LIABILITIES MEASURED AT FVTPL

| | **31.12.2019** *CHF m* | 31.12.2018 *CHF m* | Change *CHF m* |
|---|---|---|---|
| **Financial assets measured at FVTPL** | | | |
| Trading securities – debt FVTPL | **2,407.7** | 2,078.6 | 329.1 |
| *of which quoted* | ***2,133.4*** | *1,742.1* | *391.2* |
| *of which unquoted* | ***274.3*** | *336.4* | *-62.1* |
| Trading securities – equity FVTPL | **11,199.0** | 6,337.0 | 4,862.0 |
| *of which quoted* | ***7,939.0*** | *5,240.1* | *2,698.9* |
| *of which unquoted* | ***3,259.9*** | *1,096.9* | *2,163.0* |
| Other securities mandatorily measured at FVTPL | **169.5** | - | 169.5 |
| **Total** | **13,776.2** | 8,415.6 | 5,360.6 |

| | **31.12.2019** *CHF m* | 31.12.2018 *CHF m* | Change *CHF m* |
|---|---|---|---|
| **Financial liabilities measured at FVTPL** | | | |
| Short positions – debt instruments | **143.9** | 10.2 | 133.8 |
| *of which quoted* | ***138.9*** | *10.2* | *128.7* |
| *of which unquoted* | ***5.1*** | *-* | *5.1* |
| Short positions – equity instruments | **469.8** | 122.3 | 347.5 |
| *of which quoted* | ***453.9*** | *108.1* | *345.8* |
| *of which unquoted* | ***16.0*** | *14.2* | *1.7* |
| **Total** | **613.8** | 132.5 | 481.3 |

## NOTE 10 FINANCIAL ASSETS MEASURED AT FVOCI

| | **31.12.2019**<br>*CHF m* | 31.12.2018<br>*CHF m* | Change<br>*CHF m* |
|---|---|---|---|
| Government and agency bonds | **5,016.6** | 3,291.0 | 1,725.7 |
| Financial institution bonds | **4,695.4** | 7,113.0 | -2,417.6 |
| Corporate bonds | **3,222.2** | 4,038.3 | -816.1 |
| **Debt instruments at FVOCI** | **12,934.2** | 14,442.2 | -1,508.0 |
| *of which quoted* | ***8,843.3*** | *10,394.6* | *-1,551.3* |
| *of which unquoted* | ***4,090.9*** | *4,047.6* | *43.3* |
| | | | |
| **Equity instruments at FVOCI** | **232.0** | 145.3 | 86.7 |
| *of which unquoted* | ***232.0*** | *145.3* | *86.7* |
| **Total** | **13,166.2** | 14,587.6 | -1,421.3 |

## NOTE 11 PROPERTY, EQUIPMENT AND LEASES

| | Bank premises *CHF m* | Leases *CHF m* | Other property and equipment *CHF m* | **Total property and equipment** *CHF m* |
|---|---|---|---|---|
| **Historical cost** | | | | |
| Balance on 01.01.2018 | 415.0 | - | 236.0 | 651.0 |
| Translation differences | - | - | -1.7 | -1.7 |
| Additions | 3.8 | - | 31.7 | 35.5 |
| Additions from business combinations | - | - | 0.1 | 0.1 |
| Disposals/transfers[1] | - | - | 32.4 | 32.4 |
| Balance on 31.12.2018 | 418.8 | - | 233.6 | 652.5 |
| Adoption of IFRS 16 | - | 302.5 | - | 302.5 |
| Balance on 01.01.2019 | 418.8 | 302.5 | 233.6 | 955.0 |
| Translation differences | - | - | -1.0 | -1.0 |
| Additions | 4.5 | 29.0 | 23.7 | 57.1 |
| Additions from business combinations | - | - | 0.6 | 0.6 |
| Disposals/transfers[1] | - | - | 15.1 | 15.1 |
| Balance on 31.12.2019 | 423.3 | 331.4 | 241.8 | 996.5 |
| | | | | |
| **Depreciation and impairment** | | | | |
| Balance on 01.01.2018 | 114.7 | - | 179.7 | 294.4 |
| Translation differences | - | - | -1.0 | -1.0 |
| Charge for the period | 11.7 | - | 26.8 | 38.5 |
| Disposals/transfers[1] | - | - | 32.2 | 32.2 |
| Balance on 31.12.2018 | 126.4 | - | 173.3 | 299.7 |
| Translation differences | - | -0.4 | -0.8 | -1.2 |
| Charge for the period | 11.1 | 63.7 | 25.2 | 100.0 |
| Disposals/transfers[1] | - | - | 14.8 | 14.8 |
| Balance on 31.12.2019 | 137.5 | 63.3 | 182.9 | 383.7 |
| | | | | |
| **Carrying value** | | | | |
| Balance on 31.12.2018 | 292.5 | - | 60.4 | 352.8 |
| **Balance on 31.12.2019** | **285.8** | **268.1** | **58.9** | **612.9** |

[1] Includes also derecognition of fully depreciated assets

The following information relates to the Group's lease activities:

| | **31.12.2019**<br>*CHF m* |
|---|---|
| **Amounts recognised in the income statement** | |
| Depreciation charge | **63.7** |
| Interest expense on lease liabilities | **6.5** |
| Expense related to short-term/low-value leases | **4.3** |
| **Total** | **74.6** |
| | |
| **Total cash outflows for leases (excluding short-term/low-value leases)** | **65.8** |
| | |
| **Maturity analysis – contractual undiscounted cash flows** | |
| Less than one year | **60.3** |
| One to five years | **186.2** |
| More than five years | **56.3** |
| **Total undiscounted lease liabilities** | **302.7** |

## NOTE 12 GOODWILL AND INTANGIBLE ASSETS

| | Goodwill *CHF m* | Customer relationships *CHF m* | Software *CHF m* | **Total intangible assets** *CHF m* |
|---|---|---|---|---|
| **Historical cost** | | | | |
| Balance on 01.01.2018 | 2,073.0 | 1,430.3 | 830.2 | 4,333.6 |
| Translation differences | -22.2 | -9.8 | -0.9 | -33.0 |
| Additions | - | - | 141.6 | 141.6 |
| Additions from business combinations | 42.0 | 30.6 | 0.1 | 72.8 |
| Disposals/transfers[1] | - | - | 35.3 | 35.3 |
| Balance on 31.12.2018 | 2,092.9 | 1,451.2 | 935.7 | 4,479.7 |
| Translation differences | -10.2 | -6.3 | -1.0 | -17.4 |
| Additions | - | - | 136.5 | 136.5 |
| Additions from business combinations | 34.2 | 26.8 | 0.2 | 61.2 |
| Disposals/transfers[1] | - | - | 10.7 | 10.7 |
| Balance on 31.12.2019 | 2,116.9 | 1,471.7 | 1,060.7 | 4,649.2 |
| **Amortisation and impairment** | | | | |
| Balance on 01.01.2018 | - | 1,077.5 | 383.7 | 1,461.2 |
| Translation differences | - | -3.5 | -0.4 | -3.9 |
| Charge for the period | | 73.8 | 51.8[2] | 125.6 |
| Disposals/transfers[1] | - | - | 35.3 | 35.3 |
| Balance on 31.12.2018 | - | 1,147.8 | 399.7 | 1,547.5 |
| Translation differences | - | -2.9 | -0.4 | -3.3 |
| Charge for the period | 99.2 | 81.2 | 69.3[3] | 249.7 |
| Disposals/transfers[1] | - | - | 10.7 | 10.7 |
| Balance on 31.12.2019 | 99.2 | 1,226.2 | 457.8 | 1,783.1 |
| **Carrying value** | | | | |
| Balance on 31.12.2018 | 2,092.9 | 303.3 | 536.0 | 2,932.2 |
| **Balance on 31.12.2019** | **2,017.7** | **245.5** | **602.9** | **2,866.1** |

[1] Includes also derecognition of fully amortised assets
[2] Includes impairment of CHF 1.5 million related to software not used anymore
[3] Includes impairment of CHF 4.6 million related to software not used anymore

| | Balance on 01.01.2019 CHF m | Additions CHF m | Impairment CHF m | Translation differences CHF m | **Balance on 31.12.2019 CHF m** |
|---|---|---|---|---|---|
| **Goodwill** | | | | | |
| Julius Baer Wealth Management | 1,636.7 | - | - | -2.7 | **1,634.0** |
| GPS/Reliance | 138.8 | - | - | -7.4 | **131.4** |
| Kairos | 317.3 | - | 99.2 | -0.0 | **218.1** |
| NSC Asesores | - | 34.2 | - | - | **34.2** |
| **Total** | 2,092.9 | 34.2 | 99.2 | -10.2 | **2,017.7** |

**Goodwill – Impairment testing**
To identify any indications of impairment on goodwill, the recoverable amount based on the value in use is determined for the respective cash-generating unit (i.e. for the smallest identifiable group of assets that generates cash inflows independently from other assets) and is subsequently compared to the carrying amount of that unit. Within the Group, cash inflows are not attributable to either any dimension (e.g. geographical areas, booking centres, clients or products) or group of assets. In addition, management makes operating decisions based on information on the Group level (see also Note 21 regarding the determination of the segments). Therefore, the goodwill is allocated to and tested on the level of the Group, except for the subsidiaries GPS, Reliance, Kairos and NSC Asesores, which are tested on a stand-alone basis. GPS/Reliance, Kairos and NSC Asesores are each regarded a cash-generating unit (CGU) as their cash inflows are generated independently from other assets.

The Group uses a proprietary model based on the discounted cash flow method to calculate the recoverable amount. The Group estimates the free cash flows expected to be generated from the continuing use of the cash-generating units based on its regular financial planning, taking into account the following key parameters and their single components which are relevant for all cash-generating units:

- assets under management;
- return on assets (RoA) on the average assets under management (driven by fees and commissions, trading income and net interest income);
- operating income and expenses; and
- tax rate applicable.

To each of these key parameters, reasonably expected growth assumptions are applied in order to calculate the projected cash flows for the next five years, whereof the first three years are based on the detailed budgeting and the remaining two years on the less detailed mid-term planning (particularly net new money). The Group expects in the medium and long term a favourable development of the wealth management activities which is reflected in the respective growth of the key parameters, although the Group cannot exclude short-term market disruptions. The Group also takes into consideration its relative strength as a pure wealth management provider vis-à-vis its peers, which should result in a better-than-average business development in the respective market. Additionally, the estimates of the expected free cash flows take into account the projected investments which are necessary to maintain the level of economic benefits expected to arise from the underlying assets in their current condition. The resulting free cash flows are discounted to present value, using a pre-tax discount rate of 8.8% (2018: 8.1%) for Julius Baer Wealth Management. For GPS/Reliance, the pre-tax discount rate used is 20.0% (2018: 22.3%), for Kairos, the pre-tax discount rate used is 12.5% (2018: 12.8%), for NSC Asesores, the pre-tax discount rate used is 18.3%. The discount rates used in the calculation represent the Group's specific risk-weighted rates for the respective cash-generating unit and are based, depending on the specific unit, on factors such as the risk-free rate, market risk premium, adjusted Beta, size premium and country risk premium.

The Group's approach to determine the key assumptions and related growth expectations is based on management's knowledge and reasonable expectations of future business, using internal and external market information, planned and/or started business initiatives and other reasonable intentions of management. For that purpose, the Group uses historical information by taking into consideration the current and expected market situations as well as the current and expected future relative market position of the Group vis-à-vis its respective competitors and in its industry. The long-term growth rate beyond management's planning horizon of five years for assets under management is assumed at 1% for all cash-generating units. This growth rate is considerably below the actual average rate of the last five years.

**Changes in key assumptions**
Deviations of future actual results achieved vs. forecast/planned key assumptions, as well as future changes of any of the key assumptions based on a future different assessment of the development of relevant markets, and/or businesses, may occur. Such deviations may result from changes in products and client mix, profitability, required types and intensity of personnel resources, general and company-specific personnel cost development and/or changes in the implementation of known or addition of new business initiatives and/or other internal and/or external factors. These changes may cause the value of the business to alter and therefore either increase or reduce the difference between the carrying value in the balance sheet and the unit's recoverable amount or may even lead to a partial impairment of goodwill.

Management has performed sensitivity analyses on the discount rates and growth rates applied to a forecast period. Under these scenarios, the reasonably possible changes in key assumptions (i.e. discount rate and growth rate) would not result in the carrying amount significantly exceeding the recoverable amounts for the CGUs Julius Baer Wealth Management, GPS/Reliance and NSC Asesores.

Therefore, no impairment resulted from the ordinary analyses for those CGUs. However, there remains a degree of uncertainty involved in the determination of these assumptions due to the general market and business-specific environment.

**Kairos goodwill impairment**
Kairos experienced underperformance in its funds in 2018 and a number of management departures in 2019 which caused outflows in the CGU's AuM. Based on the renewed business plan taking into account the above conditions, the value in use of the CGU dropped below the carrying value of the CGU. Hence, the Group recognised a partial impairment on the respective goodwill related to the CGU in the amount of EUR 90 million (CHF 99.2 million). The goodwill impairment has been recognised in the income statement line item amortisation and impairment of intangible assets. Notwithstanding the reduced AuM basis, Kairos continued to operate profitably in 2019. The Group implemented a fuller operational alignment and closer cooperation of Kairos with the other Group companies.

## NOTE 13 ASSETS PLEDGED OR CEDED TO SECURE OWN COMMITMENTS AND ASSETS SUBJECT TO RETENTION OF TITLE

| | | **31.12.2019** | | 31.12.2018 |
|---|---|---|---|---|
| | Carrying value *CHF m* | Effective commitment *CHF m* | Carrying value *CHF m* | Effective commitment *CHF m* |
| Securities | **1,379.0** | **1,379.0** | 863.2 | 863.2 |
| Other | **26.4** | **13.4** | 18.8 | 4.0 |
| **Total** | **1,405.4** | **1,392.4** | 882.0 | 867.3 |

The assets are mainly pledged for Lombard limits at central banks, stock exchange securities deposits and collateral in OTC derivatives trading.

## NOTE 14 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

| | 2020 *CHF m* | 2021 *CHF m* | 2022 *CHF m* | 2023 *CHF m* | 2024 *CHF m* | 2025–2029 *CHF m* | un-assigned *CHF m* | **31.12.2019** *CHF m* | 31.12.2018 *CHF m* |
|---|---|---|---|---|---|---|---|---|---|
| Fixed rate | 7,164.2 | 249.7 | 9.9 | 10.3 | - | - | - | **7,434.1** | 9,446.0 |
| Interest rates (ranges in %) | 0.1–57.16 | 1.7–22.5 | 3.0–6.8 | 2.0–5.75 | - | - | - | **-** | - |
| Floating rate | 1,107.3 | 648.1 | 167.6 | 519.8 | 375.6 | 329.5 | 2,528.4 | **5,847.0** | 4,257.6 |
| **Total** | **8,271.5** | **897.7** | **177.5** | **530.2** | **375.6** | **329.5** | **2,528.4** | **13,281.1** | 13,703.6 |

The Group issues to its wealth management clients structured notes for investment purposes. The table above indicates the maturities of the structured debt issues of Bank Julius Baer & Co. Ltd. with fixed interest rate coupons ranging from 0.1% up to 57.16%. The high and low coupons generally relate to structured debt issues prior to the separation of embedded derivatives. As a result, the stated interest rate generally does not reflect the effective interest rate paid to service the debt after the embedded derivative has been separated.

As the redemption amount on the structured debt issues is linked to changes in stock prices, indices, currencies or other assets, the Group cannot determine the difference between the carrying amount and the amount the Group would be contractually required to pay at maturity to the holder of the structured debt issues.

Changes in the fair value of financial liabilities designated at fair value are attributable to changes in the market risk factors of the embedded derivatives. The credit rating of the Bank had no material impact on the fair value changes of these liabilities.

# NOTE 15 DEBT ISSUED

| | **31.12.2019** *CHF m* | 31.12.2018 *CHF m* |
|---|---|---|
| Money market instruments | **145.8** | 101.0 |
| Bonds | **1,747.3** | 1,402.4 |
| **Total** | **1,893.0** | 1,503.3 |

**Bonds**

| Issuer/Year of issue | Stated interest rate % | | Currency | Notional amount m | **31.12.2019** Carrying value[1] *CHF m* | 31.12.2018 Carrying value[1] *CHF m* |
|---|---|---|---|---|---|---|
| **Julius Baer Group Ltd.** | | | | | | |
| 2014[2] | 4.25 | Perpetual tier 1 subordinated bond | CHF | 350.0 | **344.1** | 345.5 |
| **Julius Baer Group Ltd.** | | | | | | |
| 2015[3] | 5.90 | Perpetual tier 1 subordinated bond | SGD | 450.0 | **326.6** | 328.7 |
| **Julius Baer Group Ltd.** | | | | | | |
| 2016[4] | 5.75 | Perpetual tier 1 subordinated bond | SGD | 325.0 | **235.6** | 234.2 |
| **Julius Baer Group Ltd.** | | | | | | |
| 2017[5] | 4.75 | Perpetual tier 1 subordinated bond | USD | 300.0 | **294.1** | 293.4 |
| **Julius Baer Group Ltd.** | | | | | | |
| 2017[6] | 0.375 | Domestic senior unsecured bond | CHF | 200.0 | **203.1** | 200.6 |
| **Julius Baer Group Ltd.** | | | | | | |
| 2019[7] | 2.375 | Perpetual tier 1 subordinated bond | CHF | 350.0 | **343.8** | - |
| **Total** | | | | | **1,747.3** | 1,402.4 |

1 The Group applies fair value hedge accounting for certain bonds based on specific interest rate swaps. The changes in the fair value that are attributable to the hedged risk are reflected in an adjustment to the carrying value of the bond.
2 Own bonds of CHF 5.5 million are offset with bonds outstanding (2018: CHF 3.2 million).
The effective interest rate amounts to 4.41%.
3 No own bonds are offset with bonds outstanding (2018: none).
The effective interest rate amounts to 6.128%.
4 No own bonds are offset with bonds outstanding (2018: none).
The effective interest rate amounts to 5.951%.
5 No own bonds are offset with bonds outstanding (2018: none).
The effective interest rate amounts to 4.91%.
6 No own bonds are offset with bonds outstanding (2018: none).
The effective interest rate amounts to 0.32361%.
7 Own bonds of CHF 4.4 million are offset with bonds outstanding.
The effective interest rate amounts to 2.487%.

**Perpetual tier 1 subordinated bonds**

The maturities of the perpetual tier 1 subordinated bonds issued by Julius Baer Group Ltd. are essentially perpetual. These bonds are unsecured, subordinate to all borrowings (with the exception of the remainder of the tier 1 capital), fully paid up, capable of sustaining losses and devoid of any voting rights. The bonds can first be redeemed, at the Issuer's discretion, five to seven years after their issue date, and at yearly or half-yearly intervals thereafter, provided the regulator approves such redemption. In addition, the bonds may also be redeemed upon a regulatory event or tax event, as described in the prospectus. In the case of a viability event occurring, i.e. at a point in time where there is a threat of insolvency ('Point of non-viability' or 'PONV'), as described in Article 29 of the Capital Adequacy Ordinance of the Swiss Financial Market Supervisory Authority FINMA (CAO), all monies (including par value and any interest) due on the bonds will automatically cease to be payable and the bonds will be completely written off (i.e. their value will be written down to zero). Should a trigger event occur – i.e. should tier 1 common equity (under Basel III) fall below 5.125% (2012 and 2014 issues) or 7.0% (2015, 2016 and 2017 issues) – the value of the bonds will be written down to ensure that the Write-Down Threshold Ratio which originally triggered the event is restored to a level equal to or exceeding its trigger level. Here, too, in a worst-case scenario all monies due on the bonds will cease to be payable in their entirety. In the event of the monies payable on the bonds ceasing to be payable either in part or in full, no subsequent increase in the value of the bonds is envisaged or permitted. From the issue date to the reset date the bonds will pay interest at a fixed rate. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate and a margin. Interest on the bonds is payable, in arrears on a 30/360-day basis, until the bonds have either been redeemed or fully written off. Interest payments on the bonds are prohibited in the event of this being ordered by the regulator (FINMA) or should there be insufficient retained earnings on the balance sheet of Julius Baer Group Ltd. to finance the payment of interest on tier 1 capital and to make any distributions already planned in respect of the previous financial year. Once suspended, any interest payments will permanently cease to be payable. Such interest payments are not cumulative, nor will they be paid at any future date. In the event of interest payments on the bonds being suspended, the Board of Directors of Julius Baer Group Ltd. will not be permitted to recommend any dividend payments to the Annual General Meeting until such time as interest payments on the bonds are resumed. Moreover, in the event of interest payments on the bonds being suspended, Julius Baer Group Ltd. will not repurchase any of its own shares, neither directly nor indirectly.

*2014 issue*

The perpetual tier 1 subordinated bond was issued by Julius Baer Group Ltd. on 5 June 2014. The bonds can first be redeemed, at the Issuer's discretion, six years after their issue date (i.e. on 5 June 2020). From the issue date to the reset date (5 June 2020) the bonds will pay interest at a fixed rate of 4.25% per annum. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate (i.e. the five-year mid-market CHF swap rate) and a margin of 3.7625%. Interest on the bonds is payable annually in arrears on 5 June in each year.

*2015 issue*

The perpetual tier 1 subordinated bond, which is denominated in SGD, was issued by Julius Baer Group Ltd. on 18 November 2015. The bonds can first be redeemed, at the Issuer's discretion, five years after their issue date (i.e. on 18 November 2020). From the issue date to the reset date (18 November 2020) the bonds will pay interest at a fixed rate of 5.9% per annum. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate (i.e. the five-year SGD swap offer rate) and a margin of 3.32%. Interest on the bonds is payable semi-annually in arrears on 18 May and 18 November in each year.

*2016 issue*

The perpetual tier 1 subordinated bond, which is denominated in SGD, was issued by Julius Baer Group Ltd. on 20 October 2016. The bonds can first be redeemed, at the Issuer's discretion, on 20 April 2022. From the issue date to the reset date (20 April 2022) the bonds will pay interest at a fixed rate of 5.75% per annum. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate (i.e. the five-year SGD swap offer rate) and a margin of 3.915%. Interest on the bonds is payable semi-annually in arrears on 20 April and 20 October in each year.

*2017 issue*
The perpetual tier 1 subordinated bond, which is denominated in USD, was issued by Julius Baer Group Ltd. on 12 September 2017. The bonds can first be redeemed, at the Issuer's discretion, on 12 September 2024 and on every semi-annual interest payment date thereafter. From the issue date to the first reset date (12 September 2024) the bonds will pay interest at a fixed rate of 4.75% per annum. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate (i.e. the five-year USD constant maturity treasury rate) and a margin of 2.844%. Interest on the bonds is payable semi-annually in arrears on 12 March and 12 September in each year.

*2019 issue*
The perpetual tier 1 subordinated bond, which is denominated in CHF, was issued by Julius Baer Group Ltd. on 25 June 2019. The bonds can be redeemed at the Issuer's discretion anytime in the three months prior to and including the first reset date (25 September 2025) and on every annual interest payment date thereafter. From the issue date to the first reset date (25 September 2025) the bonds will pay an annual interest at a fixed rate of 2.375% on 25 September of each year (first long coupon on 25 September 2020). Thereafter, the interest payable on the bonds will be refixed for the next five years equal to the sum of the benchmark rate (i.e. the five-year CHF mid-market swap rate) and a margin of 2.861%. Interest on the bonds is payable annually on 25 September of each year.

**Senior unsecured issue**
The senior unsecured bond, which is denominated in CHF, was issued by Julius Baer Group Ltd. on 6 December 2017. The bonds have a final maturity on 6 December 2024 and pay interest at a fixed rate of 0.375% per annum paid annually on 6 December in each year.

## NOTE 16A DEFERRED TAX ASSETS

| | **31.12.2019** *CHF m* | 31.12.2018 *CHF m* |
|---|---|---|
| Balance at the beginning of the year | **15.9** | 28.8 |
| Income statement – credit | **5.2** | 1.4 |
| Income statement – charge | **-2.2** | -13.5 |
| Recognised directly in OCI | **0.0** | -0.2 |
| Translation differences and other adjustments | **-2.5** | -0.7 |
| **Balance at the end of the year** | **16.4** | 15.9 |

The components of deferred tax assets are as follows:

| | | |
|---|---|---|
| Pension liabilities | **24.0** | 15.5 |
| Operating loss carryforwards | **9.0** | 15.8 |
| Employee compensation and benefits | **12.3** | 8.1 |
| Financial assets measured at FVOCI | **-** | 1.9 |
| Property and equipment | **1.5** | 0.4 |
| Other | **0.7** | 2.0 |
| Deferred tax assets before set-off[1] | **47.4** | 43.7 |
| Offset | **-31.0** | -27.8 |
| **Total** | **16.4** | 15.9 |

[1] For balance sheet purposes, the Group recognises either a deferred tax asset or a deferred tax liability as per consolidated entity if that entity is allowed to net its deferred tax assets and deferred tax liabilities in line with the local tax rules. Disaggregation of these net balances (in this case deferred tax assets) into the single components may result in negative amounts (in this case deferred tax liabilities) which are disclosed as offsetting amounts.

Deferred tax assets related to operating loss carryforwards are assessed at each year-end with regard to their sustainability based on the actual three-year business forecast.

## NOTE 16B DEFERRED TAX LIABILITIES

| | **31.12.2019** *CHF m* | 31.12.2018 *CHF m* |
|---|---|---|
| Balance at the beginning of the year | **74.9** | 59.9 |
| Income statement – charge | **8.6** | 20.0 |
| Income statement – credit | **-31.7** | -2.4 |
| Acquisition of subsidiaries | **2.1** | 4.7 |
| Recognised directly in OCI | **17.7** | -5.6 |
| Translation differences and other adjustments | **-2.8** | -1.7 |
| **Balance at the end of the year** | **68.8** | 74.9 |

The components of deferred tax liabilities[1] are as follows:

| | | |
|---|---|---|
| Provisions | **3.4** | 3.5 |
| Property and equipment | **29.7** | 33.3 |
| Financial assets measured at FVOCI | **38.7** | 23.7 |
| Intangible assets | **24.3** | 33.3 |
| Other | **3.7** | 8.9 |
| Deferred tax liability before set-off[2] | **99.8** | 102.7 |
| Offset | **-31.0** | -27.8 |
| **Total** | **68.8** | 74.9 |

[1] The temporary differences associated with investments in subsidiaries do not lead to deferred tax liabilities, as the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

[2] For balance sheet purposes, the Group recognises either a deferred tax asset or a deferred tax liability as per consolidated entity if that entity is allowed to net its deferred tax assets and deferred tax liabilities in line with the local tax rules. Disaggregation of these net balances (in this case deferred tax liabilities) into the single components may result in negative amounts (in this case deferred tax assets) which are disclosed as offsetting amounts.

## NOTE 17 PROVISIONS

| | Legal risks CHF m | Other CHF m | **2019** **Total** CHF m | 2018 Total CHF m |
|---|---|---|---|---|
| Balance at the beginning of the year | **20.9** | **3.7** | **24.6** | 44.9 |
| Utilised during the year | **-22.4** | **-1.0** | **-23.3** | -24.4 |
| Recoveries | **0.1** | **-** | **0.1** | - |
| Provisions made during the year | **203.8** | **1.0** | **204.9** | 12.3 |
| Provisions reversed during the year | **-2.7** | **-** | **-2.7** | -7.9 |
| Translation differences | **-2.1** | **-0.1** | **-2.2** | -0.2 |
| **Balance at the end of the year** | **197.6** | **3.7** | **201.3** | 24.6 |

| **Maturity of provisions** | | | | |
|---|---|---|---|---|
| Up to one year | **185.5** | **1.1** | **186.6** | 8.3 |
| Over one year | **12.1** | **2.6** | **14.7** | 16.3 |

**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 and procedures from authorities and other third parties (e.g. related to conflicting laws, sanctions etc.) 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 acknowledgement 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 31 December 2019. 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'), the latter having served 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 in principle 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 has 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 in principle 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. 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 decision, and in February 2019, the Court of Appeal has reversed the decision by the Bankruptcy Court. The Bank and other defendants are currently seeking a review of the decision of the Court of Appeal by the Supreme Court. In the proceedings initiated by the Liquidators, the Bankruptcy Court in New York has decided on certain aspects in December 2018, which have been appealed by the Liquidators.

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, the mandate structures to which the Court decisions might be applicable and the documentation as well as the impact of respective waivers and communicated bandwidths having been introduced some years ago, and has implemented appropriate measures to address the matter.

Bank Julius Baer & Co. Ltd. is confronted with a claim by the liquidator of a Lithuanian corporation arguing that the Bank did not prevent two of its clients from embezzling assets of such corporation. In this context, the liquidator as of 2013 presented draft complaints with different claim amounts for a potential Swiss proceeding and initiated payment orders ('Betreibungsbegehren') against the Bank in the amount of CHF 422 million (plus accrued interest from 2009). On 8 February 2017, the Bank was served with a claim from said Lithuanian corporation in liquidation in the amount of EUR 306 million. The court proceeding against the Bank was initiated in Lithuania. The Lithuanian court of last instance on 19 October 2018 definitively rejected local jurisdiction, thereby terminating the litigation against the Bank in Lithuania. On 1 July 2019, the Bank was served with a conciliation request from the liquidator representing the assets of the Lithuanian corporation in liquidation filed with the first instance court in Geneva, related to a claim of EUR 335 million plus accrued interest since 2011. On 8 January 2020, the Bank has been served with the corresponding claim in the amount of EUR 335 million plus 5% interest since December 2011. The Bank is continuing to contest the claim whilst taking appropriate measures to defend its interests.

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, which, on 17 January 2019, partially approved the appeal and rejected the case back to the Zurich Court of Appeal for reassessment. On 3 December 2019, the Zurich Court of Appeal has confirmed the claim in the amount of CHF 97 million plus accrued interests since 2009. Both parties have appealed the decision by the Zurich Court of Appeal to the Swiss Federal Supreme Court. As an appeal does not have a suspensive effect, in December 2019, the Bank booked a provision in the amount of CHF 153 million. 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 amount of a potential fine accordingly was reimbursed to the Bank. However, in July 2017 the same amount was deposited again as a new investigatory procedure with respect to the same matter has been initiated against the Bank with the Prosecutor applying for the filing of a related indictment with the Court. 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. In October 2016, the Bank was served with another claim by additional 15 claimants, claiming a total amount of CHF 4.5 million plus accrued interest. On 3 September 2019, the first instance court rejected the claims. The claimants have appealed this decision but for a reduced claimed amount of CHF 7.1 million plus accrued interest. The Bank continues 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), which has been renewed yearly thereafter. 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) and Petróleos de Venezuela S.A. (PDVSA) in Switzerland and the USA. These requests in particular 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 and in the indictment United States of America v. Francisco Convit Guruceaga, et al. of 23 July 2018. 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. In particular, FINMA had opened an enforcement procedure into Julius Baer related to the FIFA/PDVSA matters the conclusion of which is expected in due course. The Bank continues to support other inquiries related to these matters and cooperates with the competent authorities. Related to the PDVSA matter, in November 2019, a former employee has filed a labour law-based claim in the amount of USD 34.1 million in Venezuela against several Julius Baer companies combined with a respective precautionary seizure request in the double amount. The Bank is contesting the claim and seizure request whilst taking appropriate measures to defend its interests.

The UK Financial Conduct Authority ('FCA') is investigating Julius Baer International Ltd., UK ('JBINT') in respect of its compliance with certain of the FCA's Principles for Businesses and underlying regulatory rules in the context of two legacy matters. JBINT is fully cooperating with the FCA in its investigative work.

Bank Julius Baer & Co. Ltd. is confronted with a Swiss court procedure in which a client, in the context of a mature loan arrangement, requests the release of certain assets, which have been blocked by the Bank and third-party custodians and their sub-custodians under Office of Foreign Assets Control (OFAC) sanctions. The procedure relates to questions of applicability and enforceability of international sanctions and orders under local Swiss law. The Bank is defending its position in the context of its regulatory duties to respect international orders and sanctions and abide by its contractual agreements with third-party custody banks. In addition, against the recent political and regulatory intensification of the topic of international sanctions, the Bank has addressed this issue with the U.S. OFAC with which it is also in resumed discussion to resolve certain open issues with regard to historic compliance with OFAC regulations.

## NOTE 18A OTHER ASSETS

| | **31.12.2019** *CHF m* | 31.12.2018 *CHF m* |
|---|---|---|
| Precious metals (physical) | **1,444.3** | 1,921.4 |
| Tax receivables | **1,982.9** | 1,264.4 |
| Accounts receivable | **29.1** | 21.4 |
| Deposits | **16.1** | 17.4 |
| Other | **162.1** | 114.4 |
| **Total** | **3,634.5** | 3,339.0 |

## NOTE 18B OTHER LIABILITIES

| | **31.12.2019** *CHF m* | 31.12.2018 *CHF m* |
|---|---|---|
| Lease liability | **272.8**[1] | - |
| Pension liability | **143.3** | 81.9 |
| Other tax payable | **58.3** | 53.5 |
| Accounts payable | **28.7** | 28.3 |
| Deferred payments related to acquisitions | **34.8** | 54.0 |
| Other | **104.7** | 113.4 |
| **Total** | **642.7** | 331.2 |

[1] In line with IFRS 16 which has been applied for the first time in 2019, a lease liability related to the qualifying leases is part of other liabilities.

## NOTE 19 SHARE CAPITAL

| | Registered shares (CHF 0.02 par) | |
|---|---|---|
| | *Number* | *CHF m* |
| Balance on 01.01.2018 | 223,809,448 | 4.5 |
| *of which entitled to dividends* | *223,809,448* | *4.5* |
| Balance on 31.12.2018 | 223,809,448 | 4.5 |
| *of which entitled to dividends* | *223,809,448* | *4.5* |
| **Balance on 31.12.2019** | 223,809,448 | **4.5** |
| *of which entitled to dividends* | *223,809,448* | ***4.5*** |

# ADDITIONAL INFORMATION

## NOTE 20 EARNINGS PER SHARE AND SHARES OUTSTANDING

| | **2019** | 2018 |
|---|---|---|
| **Basic earnings per share** | | |
| Net profit attributable to shareholders of Julius Baer Group Ltd. (CHF m) | **464.8** | 735.4 |
| Weighted average number of shares outstanding | **216,973,692** | 217,953,484 |
| Basic earnings per share (CHF) | **2.14** | 3.37 |

| | | |
|---|---|---|
| **Diluted earnings per share** | | |
| Net profit attributable to shareholders of Julius Baer Group Ltd. (CHF m) | **464.8** | 735.4 |
| Less (profit)/loss on equity derivative contracts (CHF m) | **-3.6** | 2.0 |
| Net profit attributable to shareholders of Julius Baer Group Ltd. for diluted earnings per share (CHF m) | **461.1** | 737.4 |
| Weighted average number of shares outstanding | **216,973,692** | 217,953,484 |
| Dilution effect | **43,669** | 23,910 |
| Weighted average number of shares outstanding for diluted earnings per share | **217,017,361** | 217,977,394 |
| Diluted earnings per share (CHF) | **2.12** | 3.38 |

| | **31.12.2019** | 31.12.2018 |
|---|---|---|
| **Shares outstanding** | | |
| Total shares issued at the beginning of the year | **223,809,448** | 223,809,448 |
| Share buy-back programme | **755,000** | - |
| Less treasury shares | **6,125,662** | 5,839,110 |
| **Total** | **216,928,786** | 217,970,338 |

## NOTE 21 REPORTING BY SEGMENT

The Group engages exclusively in wealth management activities primarily in Switzerland, Europe, Asia and South America. This focus on pure-play wealth management includes certain internal supporting functions which serve entirely the core business activities. Revenues from wealth management activities primarily encompass commissions charged for servicing and advising wealth management clients as well as net interest income on financial instruments.

The Group's external segment reporting is based on the internal reporting to the chief operating decision maker, which is responsible for allocating resources and assesses the financial performance of the business. The Executive Board of the Group has been identified as the chief operating decision maker, as this board is responsible for the implementation of the overall strategy and the operational management of the whole Group. In 2018 and 2019, the Executive Board of the Group is composed of the Chief Executive Officer, Chief Financial Officer, Chief Communications Officer, Chief Risk Officer, Chief Operating Officer and General Counsel.

Various management reports with discrete financial information are prepared at regular intervals for various management levels. However, the Executive Board of the Group reviews and uses for its management decisions the consolidated financial reports on the level of the Group only.

In accordance with the applicable rules and based on the analysis of the relevant factors determining segments, the Group consists of a single reportable segment. This is in line with the strategy and business model of the Group and reflects the management structure and the use of information by management in making operating decisions. Although GPS/Reliance, Kairos and NSC Asesores represent separate cash-generating units for the purpose of the goodwill impairment testing (refer to Note 12 for details), they do not constitute segments on their own.

Therefore, the Group does not disclose separate segment information, as the external reporting provided in these financial statements reflects the internal management accounting.

**Entity-wide disclosures**

| | **31.12.2019**<br>Total assets<br>*CHF m* | 31.12.2018<br>*CHF m* | **2019**<br>Operating income<br>*CHF m* | 2018<br>*CHF m* | **2019**<br>Investments<br>*CHF m* | 2018<br>*CHF m* |
|---|---|---|---|---|---|---|
| Switzerland | **85,845** | 85,167 | **1,832** | 2,014 | **189** | 117 |
| Europe (excl. Switzerland) | **40,349** | 38,274 | **700** | 602 | **16** | 10 |
| Americas | **938** | 1,138 | **113** | 113 | **6** | 74 |
| Asia and other countries | **27,941** | 27,604 | **893** | 792 | **16** | 49 |
| Less consolidation items | **53,038** | 49,286 | **154** | 152 | | |
| **Total** | **102,035** | 102,898 | **3,383** | 3,368 | **226** | 250 |

The information about geographical areas is based on the domicile of the reporting entity. This geographical information does not reflect the way the Group is managed.

## NOTE 23 PENSION PLANS AND OTHER EMPLOYEE BENEFITS

The Group maintains various defined contribution and defined benefit pension plans in Switzerland and abroad. The pension plans in Switzerland have been set up on the basis of the Swiss method of defined contributions under the Swiss pension law. Employees and pensioners or their survivors receive statutorily determined benefits upon leaving the Group or retiring as well as in the event of death or invalidity. These benefits are the result of the conversion rate applied on the accumulated balance of the individual plan participant's pension account at the retirement date. The accumulated balance equals the sum of the regular employer's and employee's contribution that have been made during the employment period, including the accrued interest on these amounts. However, these plans do not fulfil all the criteria of a defined contribution pension plan according to IAS 19 and are therefore treated as defined benefit pension plans for the purpose of the Group's financial statements.

The pension obligations are largely covered through pension plan assets of pension funds that are legally separated and independent from the Group. In case the plans become significantly underfunded over an extended time period according to the Swiss pension law basis, the Group and the employees share the risk of additional payments into the pension fund. The pension funds are managed by a board of trustees consisting of representatives of the employees and the employer. Management of the pension funds includes the pursuit of a medium- and long-term consistency and sustainability between the pension plans' assets and liabilities, based on a diversified investment strategy correlating with the maturity of the pension obligations. The organisation, management, financing and investment strategy of the pension plans comply with the legal requirements, the foundation charters and the applicable pension regulations.

| | 2019<br>CHF m | 2018<br>CHF m |
|---|---|---|
| **1. Development of pension obligations and assets** | | |
| Present value of defined benefit obligation at the beginning of the year | **-2,907.2** | -2,921.8 |
| Current service cost | **-76.7** | -77.4 |
| Employees' contributions | **-45.9** | -44.9 |
| Interest expense on defined benefit obligation | **-27.4** | -19.6 |
| Past service cost, curtailments, settlements, plan amendments | **-4.5** | 13.9 |
| Benefits paid (including benefits paid directly by employer) | **137.3** | 74.5 |
| Transfer payments in/out | **-1.0** | 0.4 |
| Experience gains/(losses) on defined benefit obligation | **-78.7** | -37.1 |
| Actuarial gains/(losses) arising from change in demographic assumptions | **1.0** | 0.7 |
| Actuarial gains/(losses) arising from change in financial assumptions | **-230.6** | 98.8 |
| Translation differences | **-0.7** | 5.3 |
| Present value of defined benefit obligation at the end of the year | **-3,234.3** | -2,907.2 |
| *whereof due to active members* | ***-2,145.5*** | *-1,948.1* |
| *whereof due to deferred members* | ***-59.7*** | *-50.7* |
| *whereof due to pensioners* | ***-1,029.1*** | *-908.5* |
| Fair value of plan assets at the beginning of the year | **2,825.3** | 2,808.6 |
| Acquisitions | **-** | - |
| Interest income on plan assets | **27.4** | 18.9 |
| Employees' contributions | **45.9** | 44.9 |
| Employer's contributions | **102.9** | 98.6 |
| Curtailments, settlements, plan amendments | **-0.2** | -12.9 |
| Benefits paid by fund | **-136.2** | -74.2 |
| Transfer payments in/out | **1.0** | -0.4 |
| Administration cost (excluding asset management cost) | **-1.1** | -1.0 |
| Return on plan assets (excluding interest income) | **224.7** | -52.4 |
| Translation differences | **1.2** | -4.7 |
| Fair value of plan assets at the end of the year | **3,091.0** | 2,825.3 |

| | 31.12.2019<br>CHF m | 31.12.2018<br>CHF m |
|---|---|---|
| **2. Balance sheet** | | |
| Fair value of plan assets | **3,091.0** | 2,825.3 |
| Present value of defined benefit obligation | **-3,227.5** | -2,902.1 |
| Present value of unfunded benefit obligation | **-6.8** | -5.1 |
| Net defined benefit asset/(liability) | **-143.3** | -81.9 |

| 3. Income statement | 2019 CHF m | 2018 CHF m |
|---|---|---|
| Current service cost | **-76.7** | -77.4 |
| Interest expense on defined benefit obligation | **-27.4** | -19.6 |
| Past service cost, curtailments, settlements, plan amendments | **-4.7** | 0.9 |
| Interest income on plan assets | **27.4** | 18.9 |
| Administration cost (excluding asset management cost) | **-1.1** | -1.0 |
| Defined benefit cost recognised in the income statement | **-82.5** | -78.2 |
| *whereof service cost* | ***-82.5*** | *-77.5* |
| *whereof net interest on the net defined benefit/(liability) asset* | ***-0.0*** | *-0.7* |

| 4. Movements in defined benefit liability | 2019 CHF m | 2018 CHF m |
|---|---|---|
| Net defined benefit asset/(liability) at the beginning of the year | **-81.9** | -113.2 |
| Translation differences | **0.4** | 0.6 |
| Defined benefit cost recognised in the income statement | **-82.5** | -78.2 |
| Benefits paid by employer | **1.1** | 0.3 |
| Employer's contributions | **102.9** | 98.6 |
| Remeasurements of the net defined benefit liability/(asset) | **-83.5** | 10.0 |
| **Amount recognised in the balance sheet** | **-143.3** | -81.9 |

| Remeasurements of the net defined benefit liability/(asset) | 2019 CHF m | 2018 CHF m |
|---|---|---|
| Actuarial gains/(losses) of defined benefit obligation | **-308.2** | 62.4 |
| Return on plan assets (excluding interest income) | **224.7** | -52.4 |
| **Total recognised in other comprehensive income** | **-83.5** | 10.0 |

| 5. Composition of plan assets | 2019 CHF m | 2018 CHF m |
|---|---|---|
| Cash | **128.7** | 131.3 |
| Debt instruments | **906.1** | 781.7 |
| Equity instruments | **1,060.4** | 942.6 |
| Real estate | **494.3** | 445.1 |
| Alternative investments | **358.9** | 334.8 |
| Other | **142.5** | 189.9 |
| **Total** | **3,091.0** | 2,825.3 |

| | **2019** *in %* | 2018 *in %* |
|---|---|---|
| **6. Aggregation of plan assets – quoted market prices in active markets** | | |
| Cash | **4.2** | 4.7 |
| Debt instruments | **28.1** | 26.3 |
| Equity instruments | **34.3** | 33.4 |
| Real estate | **7.3** | 6.9 |
| Other | **5.9** | 8.0 |
| **Total** | **79.8** | 79.3 |

| | **2019** *CHF m* | 2018 *CHF m* |
|---|---|---|
| **7. Sensitivities** | | |
| Decrease of discount rate -0.25% | | |
| Effect on defined benefit obligation | **-108.0** | -77.9 |
| Effect on service cost | **-4.7** | -2.7 |
| | | |
| Increase of discount rate +0.25% | | |
| Effect on defined benefit obligation | **90.5** | 73.6 |
| Effect on service cost | **3.0** | 2.6 |
| | | |
| Decrease of salary increase -0.25% | | |
| Effect on defined benefit obligation | **10.8** | 9.5 |
| Effect on service cost | **1.0** | 0.9 |
| | | |
| Increase of salary increase +0.25% | | |
| Effect on defined benefit obligation | **-11.1** | -9.7 |
| Effect on service cost | **-1.0** | -0.9 |
| | | |
| Life expectancy | | |
| Increase in longevity by one additional year | **-72.6** | -57.5 |

**Actuarial calculation of pension assets and obligations**
The latest actuarial calculation was carried out as at 31 December 2019. The actuarial assumptions are based on local economic conditions and are as follows for Switzerland, which accounts for about 96% (2018: 97%) of all benefit obligations and plan assets:

| | **2019** | 2018 |
|---|---|---|
| Discount rate | **0.25%** | 0.90% |
| Average future salary increases | **0.50%** | 0.50% |
| Future pension increases | **0.00%** | 0.00% |
| Duration (years) | **15** | 15 |

**Investment in Julius Baer Group Ltd. shares**
The pension plan assets are invested in accordance with local laws and do not include shares of Julius Baer Group Ltd.

**Expected employer contributions**
The expected employer contributions for the 2020 financial year related to defined benefit plans are estimated at CHF 87.8 million.

**Outstanding liabilities to pension plans**
The Group had outstanding liabilities to various pension plans in the amount of CHF 11.2 million (2018: CHF 7.7 million).

**Defined contribution pension plans**
The Group maintains a number of defined contribution pension plans, primarily outside Switzerland. In the case of defined contribution pension plans, the pension expenses are charged to the income statement in the corresponding financial year. The expenses for contributions to these pension plans amounted to CHF 37.7 million for the 2019 financial year (2018: CHF 35.1 million).

# NOTE 24 SECURITIES TRANSACTIONS

**Securities lending and borrowing transactions / repurchase and reverse repurchase transactions**

| | **31.12.2019** *CHF m* | 31.12.2018 *CHF m* |
|---|---|---|
| **Receivables** | | |
| Receivables from cash provided in securities borrowing transactions | **94.2** | 213.2 |
| *of which recognised in due from banks* | ***94.2*** | *213.2* |
| **Obligations** | | |
| Obligations to return cash received in securities lending transactions | **309.3** | 304.2 |
| *of which recognised in due to banks* | ***309.3*** | *304.2* |
| Obligations to return cash received in repurchase transactions | **20.2** | 134.0 |
| *of which recognised in due to banks* | ***20.2*** | *134.0* |
| **Securities collateral** | | |
| Own securities lent as well as securities provided as collateral for borrowed securities under securities borrowing and repurchase transactions | **1,359.7** | 1,628.2 |
| *of which securities the right to pledge or sell has been granted without restriction* | ***1,359.7*** | *1,628.2* |
| *of which recognised in financial assets measured at FVTPL* | ***1,219.9*** | *672.4* |
| *of which recognised in financial assets measured at FVOCI* | ***139.8*** | *955.8* |
| Securities borrowed as well as securities received as collateral for loaned securities under securities lending and reverse repurchase transactions | **1,815.8** | 3,062.5 |
| *of which repledged or resold securities* | ***1,639.3*** | *2,988.6* |

The Group enters into fully collateralised securities borrowing and securities lending transactions and repurchase and reverse repurchase agreements that may result in credit exposure in the event that the counterparty may be unable to fulfil the contractual obligations. Generally, the transactions are carried out under standard agreements employed by market participants (e.g. Global Master Securities Lending Agreements or Global Master Repurchase Agreements). The related credit risk exposures are controlled by daily monitoring and adjusted collateralisation of the positions. The financial assets which continue to be recognised on the balance sheet are typically transferred in exchange for cash or other financial assets. The related liabilities can therefore be assumed to be approximately the same as the carrying amount of the transferred financial assets.

# NOTE 25 DERIVATIVE FINANCIAL INSTRUMENTS

## Derivatives held for trading

| | Contract/ Notional amount *CHF m* | Positive replacement value *CHF m* | Negative replacement value *CHF m* |
|---|---|---|---|
| **Foreign exchange derivatives** | | | |
| Forward contracts | 87,691.7 | 536.8 | 614.9 |
| Futures | 183.3 | 0.0 | 3.1 |
| Cross-currency swaps | 1,985.7 | 17.3 | 22.4 |
| Options (OTC) | 31,738.2 | 222.9 | 187.3 |
| **Total foreign exchange derivatives 31.12.2019** | **121,599.0** | **776.9** | **827.6** |
| Total foreign exchange derivatives 31.12.2018 | 109,036.2 | 948.0 | 781.0 |
| **Interest rate derivatives** | | | |
| Swaps | 20,219.5 | 91.9 | 130.7 |
| Futures | 353.9 | 0.7 | 0.6 |
| Options (OTC) | 299.5 | 8.8 | 7.0 |
| **Total interest rate derivatives 31.12.2019** | **20,872.8** | **101.5** | **138.4** |
| Total interest rate derivatives 31.12.2018 | 15,272.6 | 108.2 | 97.5 |
| **Precious metals derivatives** | | | |
| Forward contracts | 2,364.9 | 34.5 | 32.4 |
| Futures | 335.7 | 0.2 | 1.7 |
| Options (OTC) | 6,593.0 | 91.7 | 71.6 |
| Options (traded) | 1,091.4 | - | 60.7 |
| **Total precious metals derivatives 31.12.2019** | **10,385.0** | **126.4** | **166.4** |
| Total precious metals derivatives 31.12.2018 | 6,022.3 | 186.0 | 88.3 |
| **Equity/indices derivatives** | | | |
| Futures | 1,020.4 | 20.5 | 7.0 |
| Options (OTC) | 13,417.3 | 246.4 | 231.3 |
| Options (traded) | 16,049.8 | 324.0 | 706.3 |
| **Total equity/indices derivatives 31.12.2019** | **30,487.5** | **591.0** | **944.5** |
| Total equity/indices derivatives 31.12.2018 | 19,456.0 | 849.7 | 707.0 |
| **Other derivatives** | | | |
| Futures | 148.9 | 0.7 | 4.8 |
| **Total other derivatives 31.12.2019** | **148.9** | **0.7** | **4.8** |
| Total other derivatives 31.12.2018 | 233.1 | 23.2 | 0.9 |

## Derivatives held for trading (continued)

| | Contract/ Notional amount *CHF m* | Positive replacement value *CHF m* | Negative replacement value *CHF m* |
|---|---|---|---|
| **Credit derivatives** | | | |
| Credit default swaps | 281.3 | 1.8 | 3.0 |
| Total return swaps | 842.7 | 0.9 | 20.7 |
| **Total credit derivatives 31.12.2019** | **1,123.9** | **2.7** | **23.7** |
| Total credit derivatives 31.12.2018 | 362.2 | 3.6 | 6.7 |
| **Total derivatives held for trading 31.12.2019** | **184,617.1** | **1,599.2** | **2,105.5** |
| Total derivatives held for trading 31.12.2018 | 150,382.4 | 2,118.7 | 1,681.4 |

## Derivatives held for hedging

| | | | |
|---|---|---|---|
| **Derivatives designated in net investment hedges** | | | |
| Foreign exchange forward contracts | 96.8 | - | 0.6 |
| **Derivatives designated as fair value hedges** | | | |
| Interest rate swaps | 2,079.1 | 31.5 | 14.7 |
| **Total derivatives held for hedging 31.12.2019** | **2,175.9** | **31.5** | **15.3** |
| Total derivatives held for hedging 31.12.2018 | 2,204.2 | 9.8 | 37.9 |
| **Total derivative financial instruments 31.12.2019** | **186,793.0** | **1,630.7** | **2,120.8** |
| Total derivative financial instruments 31.12.2018 | 152,586.6 | 2,128.5 | 1,719.3 |

# NOTE 26A FINANCIAL INSTRUMENTS – FAIR VALUES

## Financial assets

| | 31.12.2019 Carrying value CHF m | 31.12.2019 Fair value CHF m | 31.12.2018 Carrying value CHF m | 31.12.2018 Fair value CHF m |
|---|---|---|---|---|
| **Financial assets measured at amortised cost** | | | | |
| Cash | **10,097.0** | **10,097.0** | 15,835.5 | 15,835.5 |
| Due from banks | **7,082.5** | **7,085.8** | 9,228.8 | 9,236.7 |
| Loans | **48,427.3** | **48,979.7** | 45,323.2 | 45,799.4 |
| Accrued income/other assets | **396.5** | **396.5** | 380.5 | 380.5 |
| **Total** | **66,003.3** | **66,559.0** | 70,767.9 | 71,252.1 |
| **Financial assets measured at FVTPL** | | | | |
| Financial assets measured at FVTPL | **13,776.2** | **13,776.2** | 8,415.6 | 8,415.6 |
| Derivative financial instruments | **1,630.7** | **1,630.7** | 2,128.5 | 2,128.5 |
| Financial assets designated at fair value | **305.0** | **305.0** | 298.8 | 298.8 |
| **Total** | **15,711.9** | **15,711.9** | 10,842.9 | 10,842.9 |
| **Financial assets measured at FVOCI** | | | | |
| Financial assets measured at FVOCI | **13,166.2** | **13,166.2** | 14,587.6 | 14,587.6 |
| **Total** | **13,166.2** | **13,166.2** | 14,587.6 | 14,587.6 |
| **Total financial assets** | **94,881.5** | **95,437.1** | 96,198.3 | 96,682.5 |

## Financial liabilities

| | 31.12.2019 Carrying value CHF m | 31.12.2019 Fair value CHF m | 31.12.2018 Carrying value CHF m | 31.12.2018 Fair value CHF m |
|---|---|---|---|---|
| **Financial liabilities at amortised costs** | | | | |
| Due to banks | **3,160.0** | **3,160.0** | 6,892.2 | 6,904.3 |
| Due to customers | **72,913.1** | **72,956.3** | 71,506.4 | 71,554.4 |
| Debt issued | **1,893.0** | **1,900.7** | 1,503.3 | 1,475.9 |
| Accrued expenses | **221.4** | **221.4** | 240.6 | 240.6 |
| Other liabilities | **28.7** | **28.7** | 28.3 | 28.3 |
| **Total** | **78,216.3** | **78,267.1** | 80,170.8 | 80,203.5 |
| **Financial liabilities measured at FVTPL** | | | | |
| Financial liabilities measured at FVTPL | **613.8** | **613.8** | 132.5 | 132.5 |
| Derivative financial instruments | **2,120.8** | **2,120.8** | 1,719.3 | 1,719.3 |
| Financial liabilities designated at fair value | **13,281.1** | **13,281.1** | 13,703.6 | 13,703.6 |
| Deferred payments related to acquisitions | **34.8** | **34.8** | 54.0 | 54.0 |
| **Total** | **16,050.4** | **16,050.4** | 15,609.4 | 15,609.4 |
| **Total financial liabilities** | **94,266.7** | **94,317.6** | 95,780.2 | 95,812.8 |

The following methods are used in measuring the fair value of financial instruments:

**Short-term financial instruments**
Financial instruments measured at amortised cost with a maturity or a refinancing profile of one year or less are generally classified as short-term. This includes the balance sheet items cash and, depending on the maturity, due from banks, loans, due to banks, due to customers and debt issued. For short-term financial instruments which do not have a market price published by a recognised stock exchange or notable market (referred to hereinafter as a market price), the carrying value generally approximates the fair value.

**Long-term financial instruments**
Financial instruments measured at amortised cost with a maturity or refinancing profile of over one year are included in the following balance sheet items: due from banks, loans, due to banks, due to customers and debt issued. The fair value of these long-term financial instruments which do not have a market price is derived by using the net present value method. For loans, generally, the Libor rate is used to calculate the net present value of the loans, as these assets are fully collateralised and therefore the specific counterparty risk has no material impact on the fair value measurement. For amounts due to banks and due to customers, a Libor-based internal rate is used. For debt issued, the quoted prices of the bonds determine the fair value.

**Financial assets and liabilities measured at FVTPL, financial assets measured at fair value through other comprehensive income, derivative financial instruments and financial liabilities designated at fair value**
Refer to Note 26B for details regarding the valuation of these instruments.

## NOTE 26B FINANCIAL INSTRUMENTS – FAIR VALUE DETERMINATION

For financial instruments measured at FVTPL as well as for financial assets measured at fair value through other comprehensive income, the fair values are determined as follows:

**Level 1**
For financial instruments for which prices are quoted in an active market, the fair value is determined directly form the quoted market price.

**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, the vast majority of the Group's issued structured notes 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.

*Financial assets measured at FVTPL* and *financial assets measured at FVOCI:* The Group holds a limited number of shares in companies in adjacent business areas, which are measured at fair value through profit or loss. Additionally, the Group holds shares in service providers such as SIX Swiss Exchange, Euroclear and SWIFT, which are required for the operation of the Group and are reported as financial assets measured at FVOCI, with changes in the fair value recognised in other comprehensive income. The determination of the fair value of these financial instruments is based on the reported or 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 2019, dividends related to these investments in the amount of CHF 17.5 million (2018: CHF 7.0 million) have been recognised in the income statement.

*Financial instruments designated at fair value:* The Group issues to its wealth management clients a limited number of 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.

*Deferred payments related to acquisitions:* Payments related to the deferred purchase price portion of acquisitions may be dependent on certain conditions to be achieved and also contingent on future growth rates of the businesses. As these fair value inputs are not observable, the outstanding balances are reported in level 3.

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

| | | | | **31.12.2019** |
|---|---|---|---|---|
| | 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 at FVTPL | 2,150.3 | 209.1 | 48.4 | 2,407.7 |
| Trading – equity instruments at FVTPL | 7,939.0 | 3,259.9 | - | 11,199.0 |
| Other securities mandatorily measured at FVTPL | 2.2 | 35.8 | 131.5 | 169.5 |
| **Total financial assets measured at FVTPL** | **10,091.5** | **3,504.8** | **179.9** | **13,776.2** |
| Foreign exchange derivatives | 0.5 | 776.4 | - | 776.9 |
| Interest rate derivatives | 0.7 | 132.2 | - | 133.0 |
| Precious metal derivatives | 0.2 | 126.3 | - | 126.4 |
| Equity/indices derivatives | 20.5 | 570.4 | - | 591.0 |
| Credit derivatives | - | 2.7 | - | 2.7 |
| Other derivatives | 0.7 | - | - | 0.7 |
| **Total derivative financial instruments** | **22.7** | **1,608.0** | **-** | **1,630.7** |
| **Financial assets designated at fair value** | **19.6** | **69.9** | **215.5** | **305.0** |
| Debt instruments at FVOCI | 9,720.4 | 3,213.8 | - | 12,934.2 |
| Equity instruments at FVOCI | - | - | 232.0 | 232.0 |
| **Total financial assets measured at FVOCI** | **9,720.4** | **3,213.8** | **232.0** | **13,166.2** |
| **Total assets** | **19,854.2** | **8,396.5** | **627.4** | **28,878.2** |
| Short positions – debt instruments | 143.9 | - | - | 143.9 |
| Short positions – equity instruments | 453.9 | 16.0 | - | 469.8 |
| **Total financial liabilities measured at FVTPL** | **597.8** | **16.0** | **-** | **613.8** |
| Foreign exchange derivatives | 6.3 | 821.9 | - | 828.2 |
| Interest rate derivatives | 0.6 | 152.5 | - | 153.1 |
| Precious metal derivatives | 1.7 | 164.7 | - | 166.4 |
| Equity/indices derivatives | 7.0 | 937.6 | - | 944.5 |
| Credit derivatives | - | 23.7 | - | 23.7 |
| Other derivatives | 4.8 | - | - | 4.8 |
| **Total derivative financial instruments** | **20.4** | **2,100.4** | **-** | **2,120.8** |
| **Financial liabilities designated at fair value** | **-** | **12,983.4** | **297.7** | **13,281.1** |
| **Deferred payments related to acquistions** | **-** | **-** | **34.8** | **34.8** |
| **Total liabilities** | **618.2** | **15,099.7** | **332.5** | **16,050.4** |

| | 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 | 31.12.2018 Total CHF m |
|---|---|---|---|---|
| Financial assets and liabilities measured at fair value | | | | |
| Trading – debt instruments at FVTPL | 1,964.3 | 114.3 | - | 2,078.6 |
| Trading – equity instruments at FVTPL | 5,240.1 | 1,082.6 | 14.3 | 6,337.0 |
| Total financial assets measured at FVTPL | 7,204.4 | 1,196.8 | 14.3 | 8,415.6 |
| Foreign exchange derivatives | 2.7 | 945.3 | - | 948.0 |
| Interest rate derivatives | 5.4 | 112.6 | - | 118.0 |
| Precious metal derivatives | 0.1 | 185.9 | - | 186.0 |
| Equity/indices derivatives | 17.8 | 831.9 | - | 849.7 |
| Credit derivatives | - | 3.6 | - | 3.6 |
| Other derivatives | 23.2 | - | - | 23.2 |
| Total derivative financial instruments | 49.3 | 2,079.2 | - | 2,128.5 |
| Financial assets designated at fair value | 19.4 | 81.5 | 197.9 | 298.8 |
| Debt instruments at FVOCI | 10,665.6 | 3,776.6 | - | 14,442.2 |
| Equity instruments at FVOCI | - | - | 145.3 | 145.3 |
| Total financial assets measured at FVOCI | 10,665.6 | 3,776.6 | 145.3 | 14,587.6 |
| Total assets | 17,938.7 | 7,134.2 | 357.5 | 25,430.4 |
| Short positions – debt instruments | 10.2 | - | - | 10.2 |
| Short positions – equity instruments | 108.1 | 14.2 | - | 122.3 |
| Total financial liabilities measured at FVTPL | 118.2 | 14.2 | - | 132.5 |
| Foreign exchange derivatives | 3.0 | 777.9 | - | 781.0 |
| Interest rate derivatives | 0.5 | 134.9 | - | 135.4 |
| Precious metal derivatives | 2.0 | 86.3 | - | 88.3 |
| Equity/indices derivatives | 13.9 | 693.1 | - | 707.0 |
| Credit derivatives | - | 6.7 | - | 6.7 |
| Other derivatives | 0.9 | - | - | 0.9 |
| Total derivative financial instruments | 20.4 | 1,698.9 | - | 1,719.3 |
| Financial liabilities designated at fair value | - | 13,413.0 | 290.6 | 13,703.6 |
| Deferred payments related to acquistions | - | - | 54.0 | 54.0 |
| Total liabilities | 138.6 | 15,126.1 | 344.6 | 15,609.4 |

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

| | 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* | **31.12.2019** **Total** *CHF m* |
|---|---|---|---|---|
| **Financial assets and liabilities disclosed at fair value** | | | | |
| Cash | 10,097.0 | - | - | 10,097.0 |
| Due from banks | - | 7,085.8 | - | 7,085.8 |
| Loans | - | 48,979.7 | - | 48,979.7 |
| Accrued income/other assets | - | 396.5 | - | 396.5 |
| **Total assets** | **10,097.0** | **56,461.9** | **-** | **66,559.0** |
| Due to banks | - | 3,160.0 | - | 3,160.0 |
| Due to customers | - | 72,956.3 | - | 72,956.3 |
| Debt issued | 1,900.7 | - | - | 1,900.7 |
| Accrued expenses | - | 221.4 | - | 221.4 |
| **Total liabilities** | **1,900.7** | **76,337.7** | **-** | **78,238.4** |

| | 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* | 31.12.2018 Total *CHF m* |
|---|---|---|---|---|
| Financial assets and liabilities disclosed at fair value | | | | |
| Cash | 15,835.5 | - | - | 15,835.5 |
| Due from banks | - | 9,236.7 | - | 9,236.7 |
| Loans | - | 45,799.4 | - | 45,799.4 |
| Accrued income/other assets | - | 380.5 | - | 380.5 |
| Total assets | 15,835.5 | 55,416.6 | - | 71,252.1 |
| Due to banks | - | 6,904.3 | - | 6,904.3 |
| Due to customers | - | 71,554.4 | - | 71,554.4 |
| Debt issued | 1,475.9 | - | - | 1,475.9 |
| Accrued expenses | - | 240.6 | - | 240.6 |
| Total liabilities | 1,475.9 | 78,699.3 | - | 80,175.2 |

## NOTE 26C FINANCIAL INSTRUMENTS – TRANSFERS BETWEEN FAIR VALUE LEVEL 1 AND LEVEL 2

| | **31.12.2019** *CHF m* | 31.12.2018 *CHF m* |
|---|---|---|
| **Transfers from level 1 to level 2** | | |
| Financial assets measured at FVTPL | 195.5 | 5.7 |
| Financial assets measured at FVOCI | 39.0 | 35.3 |
| **Transfers from level 2 to level 1** | | |
| Financial assets measured at FVTPL | 10.6 | 39.6 |
| Financial assets measured at FVOCI | 122.7 | 99.0 |
| Financial assets designated at fair value | - | 3.6 |

The transfers between level 1 and 2, and vice versa, occurred due to changes in the direct availability of quoted market prices. Transfers between the levels are deemed to have occurred at the end of the reporting period.

## NOTE 27A FINANCIAL INSTRUMENTS – EXPECTED CREDIT LOSSES

An entity is required to recognise expected credit losses at initial recognition of any financial instrument 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. Refer to the comment on risk management/credit risk section and the summary of significant accounting policies for the relevant background information related to the recognition of expected credit losses.

**Expected credit loss (ECL) stage allocation**
Credit exposure is classified in one of the three ECL stages. At initial recognition, the Group classifies all financial assets in stage 1, as it does not acquire or originate credit-impaired debt instruments. If a significant risk increase 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.

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 a counterparty moving from R1 to R2 would not trigger a significant increase in credit risk, whereas a counterparty moving from R1 to R5 would.

In addition, and to supplement this quantitative criterion, qualitative criteria based on other available internal data are applied to identify increased risk situations. These qualitative criteria are specific to the respective financial asset types (Lombard loans, mortgages, due from banks, debt instruments). For example if payments are 30 days past due, the counterparty is moved 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 counterparty 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. These ratings are applied to positions with high credit risk; they are carried in the Group's internal list of exposures which are in a loss position. Such positions show objective evidence of impairment and are referred to as defaulted. Generally, Lombard loans and mortgages are moved to these rating classes if the respective position is not fully covered anymore, i.e. the market value of the collateral is lower than the credit exposure.

**ECL measurement**
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). 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.

Wherever the Group uses scenarios in the ECL calculation process, three different settings are applied to take future market situations into account: a baseline, an upside and a downside scenario. Expected probabilities are allocated to the respective scenario, which are based on the Group

Economic Research's view regarding their probability of occurrence. The weightings used for the current year's ECL calculation are 70% for the baseline scenario, 15% for the downside scenario and 15% for the upside scenario. However, the calculation of the ECL is mostly driven by the downside scenario, whereas the baseline and upside scenarios have only limited impact on the measurement of the ECL due to the Group's credit policy (fully collateralised portfolios). Therefore, an increase in the weighting of the downside scenario would consequently increase the ECL in stage 1 and 2.

To apply the expected future economic conditions in the models, the Group determined the forecast world gross domestic product (GDP) as the main economic input factor for the expected credit losses on its financial asset portfolios, as the counterparties have fully collateralised Lombard loans or mortgages with the Group or the portfolios consist of investment grade debt instruments. Other forward-looking main macroeconomic factors proved to be of lesser relevance for the Group's portfolios as a whole. A decrease in the expected GDP would have a negative impact on the ECL in stage 1 and 2.

In addition, for each portfolio, supplementary product-specific factors are used as outlined in the following paragraphs. These scenario factors are based on the assessment of the credit department and the risk department for current and expected market developments in the respective product areas. These factors are updated and confirmed on a regular basis by the Group's ECL committee, which comprises officers from the risk, credit risk and treasury departments.

**Due from banks**
For due-from-banks 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 one-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.

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.

**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. 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 (based on data from the internal credit supervision system comprising the following credit exposures: cash exposure, derivative exposure, contingent liabilities and reservations) and b) the lower of the lending value or approved limit. The Group therefore assumes the highest possible risk (i.e. the highest outstanding) in determining the EAD, including any unused credit commitments. Consequently, even if no exposure is drawn under the limit, an ECL is calculated.

Loss Given Default: For Lombard loans the LGDs are formula-based, including the market value of the collateral on a client pledge group level. Scenario calculations on the market value of the collateral are performed, resulting in different LGDs per scenario. Three scenarios (base, up and down), including the probability of the respective scenario, are applied in the process.

**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 behaviour of the counterparty 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. 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.

**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 (one-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 one year are derived from the available one-year PDs by linear reduction.

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.

## Credit quality analysis

The following tables provide an analysis of the Group's exposure to credit risk by credit quality and expected credit loss stage; they are based on the Group's internal credit systems.

### Exposure to credit risk by credit quality

| | Moody's rating | 12-month ECL (Stage 1) CHF m | Lifetime ECL not credit-impaired (Stage 2) CHF m | Lifetime ECL credit-impaired (Stage 3) CHF m | 31.12.2019 Total CHF m |
|---|---|---|---|---|---|
| **Due from banks, at amortised cost** | | | | | |
| R1–R4: Low to medium risk | | 6,758.5 | - | - | **6,758.5** |
| R5–R6: Increased risk | | 324.1 | - | - | **324.1** |
| R7–R10: Impaired | | - | - | - | **-** |
| Total | | 7,082.6 | - | - | **7,082.6** |
| Loss allowance | | -0.1 | - | - | **-0.1** |
| **Carrying amount** | | **7,082.5** | **-** | **-** | 7,082.5 |
| **Lombard loans, at amortised cost** | | | | | |
| R1–R4: Low to medium risk | | 37,568.0 | 83.1 | - | **37,651.2** |
| R5–R6: Increased risk | | 1,444.5 | 312.3 | - | **1,756.8** |
| R7–R10: Impaired | | - | - | 141.0 | **141.0** |
| Total | | 39,012.5 | 395.5 | 141.0 | **39,548.9** |
| Loss allowance | | -4.4 | -0.6 | -36.5 | **-41.4** |
| **Carrying amount** | | **39,008.1** | **394.9** | **104.5** | 39,507.5 |
| **Mortgages, at amortised cost** | | | | | |
| R1–R4: Low to medium risk | | 8,264.2 | 513.0 | - | **8,777.2** |
| R5–R6: Increased risk | | 94.2 | 25.8 | - | **120.0** |
| R7–R10: Impaired | | - | - | 28.1 | **28.1** |
| Total | | 8,358.4 | 538.8 | 28.1 | **8,925.3** |
| Loss allowance | | -2.1 | -0.7 | -2.7 | **-5.5** |
| **Carrying amount** | | **8,356.3** | **538.1** | **25.3** | 8,919.8 |
| **Debt instruments, at FVOCI** | | | | | |
| R1–R4: Low to medium risk | Aaa – Baa3 | 12,917.3 | - | - | **12,917.3** |
| R5–R6: Increased risk | Ba1 – B3 | - | 16.9 | - | **16.9** |
| R7–R10: Impaired | Caa1 – C | - | - | - | **-** |
| **Carrying amount** | | **12,917.3** | **16.9** | **-** | 12,934.2 |
| Loss allowance | | -1.3 | -0.1 | - | **-1.3** |

| | Moody's rating | 12-month ECL (Stage 1) CHF m | Lifetime ECL not credit-impaired (Stage 2) CHF m | Lifetime ECL credit-impaired (Stage 3) CHF m | 31.12.2018 Total CHF m |
|---|---|---|---|---|---|
| Due from banks, at amortised cost | | | | | |
| R1–R4: Low to medium risk | | 8,879.5 | - | - | 8,879.5 |
| R5–R6: Increased risk | | 349.5 | - | - | 349.5 |
| R7–R10: Impaired | | - | - | - | - |
| Total | | 9,229.0 | - | - | 9,229.0 |
| Loss allowance | | -0.3 | - | - | -0.3 |
| Carrying amount | | 9,228.8 | - | - | 9,228.8 |
| Lombard loans, at amortised cost | | | | | |
| R1–R4: Low to medium risk | | 33,185.0 | 813.7 | - | 33,998.7 |
| R5–R6: Increased risk | | 1,788.0 | 73.5 | - | 1,861.5 |
| R7–R10: Impaired | | - | - | 61.5 | 61.5 |
| Total | | 34,973.0 | 887.2 | 61.5 | 35,921.7 |
| Loss allowance | | -5.9 | -0.2 | -13.2 | -19.3 |
| Carrying amount | | 34,967.2 | 887.0 | 48.3 | 35,902.4 |
| Mortgages, at amortised cost | | | | | |
| R1–R4: Low to medium risk | | 8,708.3 | 514.6 | - | 9,222.9 |
| R5–R6: Increased risk | | 144.2 | 34.0 | - | 178.2 |
| R7–R10: Impaired | | - | - | 31.7 | 31.7 |
| Total | | 8,852.5 | 548.6 | 31.7 | 9,432.8 |
| Loss allowance | | -3.3 | -1.6 | -7.1 | -12.1 |
| Carrying amount | | 8,849.2 | 547.0 | 24.6 | 9,420.8 |
| Debt instruments, at FVOCI | | | | | |
| R1–R4: Low to medium risk | Aaa – Baa3 | 14,425.6 | - | - | 14,425.6 |
| R5–R6: Increased risk | Ba1 – B3 | - | 16.7 | - | 16.7 |
| R7–R10: Impaired | Caa1 – C | - | - | - | - |
| Carrying amount | | 14,425.6 | 16.7 | - | 14,442.2 |
| Loss allowance | | -2.0 | -0.2 | - | -2.1 |

## Expected credit losses

The following tables present the development of the Group's expected credit losses by stage; they are based on the Group's internal credit systems:

| | 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** | | | | |
| Balance at 1 January 2019 | 0.3 | - | - | **0.3** |
| Net remeasurement of loss allowance | -0.0 | - | - | **-0.0** |
| New/increase financial assets | 0.0 | - | - | **0.0** |
| Financial assets that have been derecognised | -0.2 | - | - | **-0.2** |
| Changes in models/risk parameters | 0.0 | - | - | **0.0** |
| **Balance at 31 December 2019** | **0.1** | **-** | **-** | **0.1** |
| **Lombard loans, at amortised cost** | | | | |
| Balance at 1 January 2019 | 5.9 | 0.2 | 13.2 | **19.3** |
| Transfer to/(from) 12-month ECL | 0.0 | -0.0 | - | **-** |
| Transfer to/(from) lifetime ECL not credit-impaired | -0.1 | 0.1 | - | **-** |
| Transfer to/(from) lifetime ECL credit-impaired | -0.0 | -0.0 | 0.0 | **-** |
| Net remeasurement of loss allowance | -0.4 | 0.4 | 17.3 | **17.3** |
| New/increase financial assets | 1.5 | 0.1 | 7.5[1] | **9.2** |
| Financial assets that have been derecognised | -2.6 | -0.2 | -0.2 | **-3.0** |
| Write-offs | - | - | -0.5 | **-0.5** |
| Recoveries of amounts previously written-off | - | - | -0.2 | **-0.2** |
| Changes in models/risk parameters | 0.1 | 0.0 | 0.0 | **0.1** |
| Foreign exchange and other movements | - | - | -0.7 | **-0.7** |
| **Balance at 31 December 2019** | **4.4** | **0.6** | **36.5** | **41.4** |

[1] Including outstanding accumulated interest.

| | 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* |
|---|---|---|---|---|
| **Mortgages, at amortised cost** | | | | |
| Balance at 1 January 2019 | 3.3 | 1.6 | 7.1 | **12.1** |
| Transfer to/(from) lifetime ECL not credit-impaired | -0.1 | 0.1 | - | **-** |
| Transfer to/(from) lifetime ECL credit-impaired | - | -0.0 | 0.0 | **-** |
| Net remeasurement of loss allowance | -0.2 | -0.4 | 0.3 | **-0.4** |
| New/increase financial assets | 0.2 | - | 0.1 | **0.3** |
| Financial assets that have been derecognised | -1.4 | -0.7 | -4.1 | **-6.1** |
| Write-offs | - | - | -0.6 | **-0.6** |
| Changes in models/risk parameters | 0.2 | 0.1 | 0.0 | **0.3** |
| Foreign exchange and other movements | - | - | -0.0 | **-0.0** |
| **Balance at 31 December 2019** | **2.1** | **0.7** | **2.7** | **5.5** |

| | 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* |
|---|---|---|---|---|
| **Debt instruments, at FVOCI** | | | | |
| Balance at 1 January 2019 | 2.0 | 0.2 | - | **2.1** |
| Net remeasurement of loss allowance | -0.2 | -0.1 | - | **-0.3** |
| New financial assets purchased | 0.6 | - | - | **0.6** |
| Financial assets that have been derecognised | -1.0 | - | - | **-1.0** |
| Changes in models/risk parameters | -0.0 | -0.0 | - | **-0.0** |
| Foreign exchange and other movements | -0.0 | -0.0 | - | **-0.0** |
| **Balance at 31 December 2019** | **1.3** | **0.1** | **-** | **1.3** |

| | 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 | | | | |
| Balance at 1 January 2018 | 0.2 | - | - | 0.2 |
| Net remeasurement of loss allowance | 0.0 | - | - | 0.0 |
| New/increase financial assets | 0.3 | - | - | 0.3 |
| Financial assets that have been derecognised | -0.2 | - | - | -0.2 |
| Changes in models/risk parameters | -0.0 | - | - | -0.0 |
| Balance at 31 December 2018 | 0.3 | - | - | 0.3 |
| | | | | |
| Lombard loans, at amortised cost | | | | |
| Balance at 1 January 2018 | 7.3 | 0.1 | 6.0 | 13.4 |
| Transfer to/(from) 12-month ECL | 0.0 | -0.0 | - | - |
| Transfer to/(from) lifetime ECL credit-impaired | -0.0 | - | 0.0 | - |
| Net remeasurement of loss allowance | -2.6 | 0.2 | 4.6 | 2.3 |
| New/increase financial assets | 6.4 | 0.0 | 1.3 | 7.7 |
| Financial assets that have been derecognised | -5.2 | -0.1 | -0.8 | -6.1 |
| Write-offs | - | - | -0.9 | -0.9 |
| Foreign exchange and other movements | -0.1 | - | 3.0 | 2.9 |
| Balance at 31 December 2018 | 5.9 | 0.2 | 13.2 | 19.3 |
| | | | | |
| Mortgages, at amortised cost | | | | |
| Balance at 1 January 2018 | 4.0 | 1.0 | 11.4 | 16.4 |
| Transfer to/(from) lifetime ECL not credit-impaired | -0.2 | 0.2 | - | - |
| Net remeasurement of loss allowance | -0.1 | 0.6 | 0.9 | 1.4 |
| New/increase financial assets | 0.3 | 0.1 | - | 0.5 |
| Financial assets that have been derecognised | -0.9 | -0.0 | -1.9 | -2.7 |
| Changes in models/risk parameters | 0.2 | -0.2 | - | -0.0 |
| Foreign exchange and other movements | - | - | -3.4 | -3.4 |
| Balance at 31 December 2018 | 3.3 | 1.6 | 7.1 | 12.1 |
| | | | | |
| Debt instruments, at FVOCI | | | | |
| Balance at 1 January 2018 | 1.4 | 0.3 | - | 1.7 |
| Net remeasurement of loss allowance | -0.2 | -0.2 | - | -0.3 |
| New financial assets purchased | 1.2 | - | - | 1.2 |
| Financial assets that have been derecognised | -0.5 | - | - | -0.5 |
| Changes in models/risk parameters | -0.0 | -0.0 | - | -0.0 |
| Foreign exchange and other movements | 0.0 | 0.0 | - | 0.0 |
| Balance at 31 December 2018 | 2.0 | 0.2 | - | 2.1 |

# NOTE 27B FINANCIAL INSTRUMENTS – CREDIT RISK ANALYSIS

**Maximum exposure to credit risk**
The following table shows the Group's theoretical maximum exposure to credit risk as of the balance sheet date, which represents the exposure in the event of other parties failing to perform their obligations, without taking account of any collateral held or other credit enhancements. For financial assets, these exposures are typically the carrying amount.

**Maximum exposure to credit risk**

| | **31.12.2019** Gross maximum exposure *CHF m* | 31.12.2018 Gross maximum exposure *CHF m* |
|---|---|---|
| Due from banks | **7,082.5** | 9,228.8 |
| Loans | **48,427.3** | 45,323.2 |
| Financial assets measured at FVTPL | **2,407.7** | 2,078.6 |
| Derivative financial instruments | **1,630.7** | 2,128.5 |
| Financial assets designated at fair value | **305.0** | 298.8 |
| Financial assets measured at FVOCI | **12,934.2** | 14,442.2 |
| Accrued income/other assets | **396.5** | 380.5 |
| Total[1] | **73,184.0** | 73,880.5 |
| **Off-balance sheet** | | |
| Irrevocable commitments[2] | **492.8** | 705.1 |
| **Total maximum exposure to credit risk** | **73,676.7** | 74,585.6 |

[1] Cash, including balances held with central banks, is not considered a credit risk and hence excluded from all credit risk analysis.
[2] These amounts reflect the maximum payments the Group is committed to making.

Refer to the comment on risk management/credit risk section for discussions on concentration of credit risk.

# NOTE 27C FINANCIAL INSTRUMENTS – COLLATERAL ANALYSIS

**Collateral analysis**

For Lombard loans, the principal types of collateral are readily marketable debt and equity securities as well as other eligible assets; for mortgages, residential properties serve as main collateral. The following table provides information regarding the Loan-to-Value (market value) ratio for the respective credit products.

| | **31.12.2019** | 31.12.2018 |
|---|---|---|
| | *CHF m* | *CHF m* |
| **Loan-to-Value ratio (LTV)** | | |
| **Lombard loans** | | |
| Less than 50% | 21,482.6 | 17,745.5 |
| 51–70% | 11,739.9 | 10,031.7 |
| 71–90% | 5,413.1 | 7,063.5 |
| 91–100% | 679.2 | 904.9 |
| More than 100% | 88.2 | 108.5 |
| **Total** | **39,403.0** | **35,854.1** |
| **Mortgages** | | |
| Less than 50% | 4,413.4 | 4,556.0 |
| 51–70% | 3,808.7 | 3,949.7 |
| 71–90% | 655.8 | 777.2 |
| 91–100% | 16.6 | 113.2 |
| More than 100% | - | - |
| **Total** | **8,894.4** | **9,396.1** |
| **Credit-impaired Lombard loans** | | |
| Less than 50% | - | - |
| 51–70% | - | - |
| 71–100% | 53.1 | - |
| More than 100% | 51.4 | 48.3 |
| **Total** | **104.5** | **48.3** |
| **Credit-impaired mortgages** | | |
| Less than 50% | - | 6.7 |
| 51–70% | 17.8 | 16.6 |
| 71–100% | 7.5 | 1.4 |
| More than 100% | - | - |
| **Total** | **25.3** | **24.6** |

## NOTE 27D FINANCIAL INSTRUMENTS – OFFSETTING

As a wealth manager, the Group enters into securities transactions and derivative financial instruments. In order to control the credit exposure and reduce the credit risk related to these transactions, the Group applies credit mitigation strategies in the ordinary course of business. The Group enters into master netting agreements with counterparties to mitigate the credit risk of securities lending and borrowing transactions, repurchase and reverse repurchase transactions and over-the-counter derivative transactions. Such arrangements include Global Master Securities Lending Agreements or Global Master Repurchase Agreements, as well as ISDA Master Agreements for derivatives.

The majority of exposures to securities transactions and over-the-counter derivative financial instruments are collateralised, with the collateral being prime financial instruments or cash.

However, under IFRS, to be able to offset transactions with the same counterparty on the balance sheet, the right of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable for all counterparties in the event of default, insolvency or bankruptcy. As the Group's arrangements may not fulfil the strict offsetting criteria as required by IFRS, the Group does not offset the respective amounts related to these transactions on the balance sheet. Consequently, the remaining credit risk on securities lending and borrowing as well as on repurchase and reverse repurchase transactions is fully mitigated.

*Securities transactions:* As the Group does not apply netting on its balance sheet, the cash collateral provided in securities borrowing and reverse repurchase transactions in the amount of CHF 94.2 million (2018: CHF 213.2 million) and the cash collateral received in securities lending and repurchase transactions in the amount of CHF 329.5 million (2018: CHF 438.2 million) as disclosed in Note 24 are not offset with the respective counterparty positions in the balance sheet.

*Derivative financial instruments:* The derivative financial instruments consist of over-the-counter as well as exchange-traded derivatives. The majority of over-the-counter derivatives in the total amount of CHF 1,284.5 million (positive replacement values) and CHF 1,336.5 million (negative replacement values) are subject to an enforceable netting agreement. Transactions with other banks are generally collateralised with other financial instruments (derivatives) which are recognised on the Group's balance sheet. With non-banking counterparties, the collateral recognised is generally cash balances. None of these balances related to the derivatives transactions are offset on the balance sheet. Additionally, there are derivative financial instruments in the amount of CHF 1,645.8 million (2018: CHF 1,670.2 million) which could be offset with the corresponding outstanding amount.

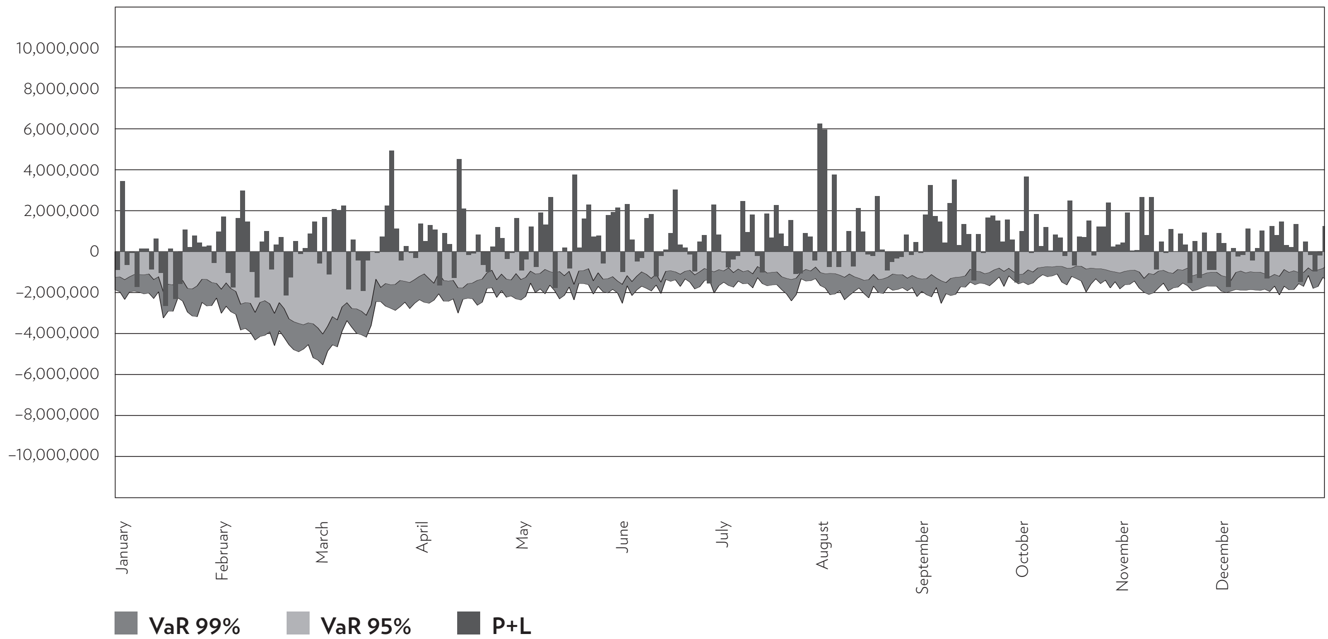
## NOTE 28 MARKET RISK MEASURES

Market risk refers to the potential losses through changes in the valuation of its assets and liabilities because of changes in market prices, volatilities, correlations and other valuation-relevant factors. Refer to the comment on risk management/market risk section for the relevant background information related to the Group's market risk.

**Market risk measurement, market risk limitation, back testing and stress testing**

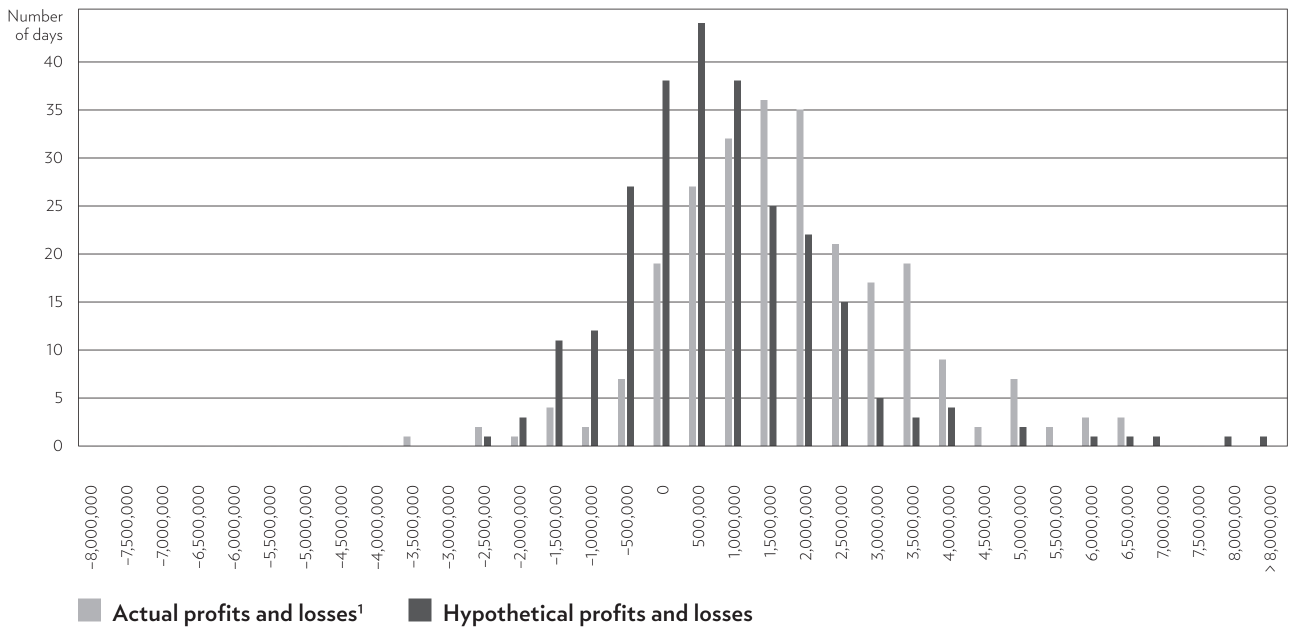
The following methods are used to measure and limit market risk: value at risk (VaR) limits, sensitivity or concentration limits (delta, vega, basis-point and nominal limits as well as scenario analysis), and country limits for trading positions. VaR, the key risk figure, measures the magnitude of the loss on a portfolio that, under normal circumstances and for a specific probability (confidence interval), will not be exceeded during the observed holding period. The VaR of the Group amounted to CHF 0.78 million on 31 December 2019 and CHF 1.24 million on 31 December 2018 (one-day holding period, 95% confidence interval). The maximum VaR recorded in 2019 amounted to CHF 4.01 million; the minimum was CHF 0.65 million (CHF 5.26 million and CHF 0.71 million in 2018). 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 2019 (at confidence intervals of 95% and 99% and for a one-day holding period) compared with these hypothetical gains or losses. A back-testing excession occurs when the change in overall position value resulting from the back-testing simulation is negative and its absolute value is greater than the VaR (at a confidence interval of 99%) for the relevant day's closing positions.

**Back testing of Julius Baer Group trading book positions in 2019 (CHF)**



The following chart compares these hypothetical gains and losses with the actual profit and loss generated by the trading operations of the Group. To ensure comparability, pure commission income has been removed from these income statement results.

**Distribution of daily revenues from trading activities of Julius Baer Group for 2019 (CHF)**




[1] Pure trading revenues excluding commissions and fees

Whereas VaR forecasts identify potential losses during normal market conditions, daily stress tests are carried out in order to estimate the consequences of extreme market swings. Limits are set for both these risk metrics, and their utilisation is monitored on a daily basis. The daily stress tests are periodically complemented by additional tests based on historical scenarios. Additional stress tests, reflecting specific market and political situations, are also carried out.

At the beginning of 2019, the preceding 12-month period contained one back-testing violation, which was caused by an increased market volatility at the end of October 2018. This violation fell out of the observation period during the course of 2019. At the beginning of July 2019, a new back-testing violation occurred, caused by an outdated gold lease rate in the risk management system.

At the end of 2019, the total number of back-testing violations stands at one. As a result, the number of statistically permissible back-testing violations during the period was not exceeded.

All back-testing violations are examined individually and each is reported to the Chief Executive Officer, the Chief Risk Officer, the internal and external auditors and the Swiss Financial Market Supervisory Authority (FINMA).

**VaR method and regulatory capital**

For its VaR calculation, the Group uses historical simulation with complete revaluation of all trading positions in each instance. The historical simulation is based on empirically observed changes in market parameters (prices, yield curves, volatilities) over the last 300-trading-day period. As a result, correlation is taken into account implicitly, without having to draw on calculations and assumptions based on a correlation matrix. The risk management platform and the internal market risk models of the Group fulfil the relevant regulatory requirements and have been approved by FINMA for use in determining the capital requirement for market risks in the trading book.

In addition to the normal VaR calculations detailed above, a so-called stress-based VaR calculation is also carried out. Instead of the historical prices observed over the last 300 trading days, this stress-based VaR calculation uses those observed during a highly volatile period in the past (the stress period). The Group's stress-based VaR amounted to CHF 1.10 million on 31 December 2019 and CHF 2.56 million on 31 December 2018 (for a one-day holding period and a 95% confidence interval). The maximum stress-based VaR recorded in 2019 amounted to CHF 4.44 million; the minimum was CHF 0.85 million (CHF 5.67 million and CHF 0.99 million in 2018). Under FINMA regulations, the capital requirement for market risk is the sum of the normal VaR and the stress-based VaR.

FINMA applies a multiplier to the capital requirement for market risk. Every back-testing violation over and above the statistically based maximum permitted number of violations (four over a period of 250 trading days) results in an increase in the multiplier applied to the capital requirement for market risk. There was one back-testing violation to report by the end of 2019. For additional information regarding the calculation of the Group's minimum regulatory capital requirements under Basel III Pillar 3, refer to the separate Basel III Pillar 3 Report published in the Regulatory Disclosures section of the www.juliusbaer.com website (this will be available at the end of April 2020).

Given the limited materiality of the positions concerned, the specific risk of the Group's fixed-income trading positions is calculated according to the standard method. The incremental risk charge and comprehensive risk-capital charge requirements are not applicable.

The following table is a summary of the VaR positions of the Group's trading portfolios:

**Market risk – VaR positions by risk type**

| | At 31 December<br>*CHF m* | Average<br>*CHF m* | Maximum<br>*CHF m* | **2019**<br>Minimum<br>*CHF m* |
|---|---|---|---|---|
| Equities | **-0.4** | **-0.5** | **-2.0** | **0.0** |
| Interest rates | **-0.9** | **-0.8** | **-1.2** | **-0.5** |
| Foreign exchange/precious metals | **-0.1** | **-0.5** | **-1.3** | **-0.0** |
| Effects of correlation | **0.7** | | | |
| **Total** | **-0.8** | **-1.3** | **-4.0** | **-0.7** |

| | At 31 December<br>*CHF m* | Average<br>*CHF m* | Maximum<br>*CHF m* | 2018<br>Minimum<br>*CHF m* |
|---|---|---|---|---|
| Equities | -1.4 | -1.5 | -7.2 | -0.1 |
| Interest rates | -0.7 | -0.7 | -0.8 | -0.5 |
| Foreign exchange/precious metals | -0.5 | -0.6 | -1.4 | -0.0 |
| Effects of correlation | 1.4 | | | |
| Total | -1.2 | -2.2 | -5.3 | -0.7 |

## NOTE 29 INTEREST RATE RISK MEASURES

One measure of interest rate risk can be provided by showing the impact of a positive change of 1% (+100 basis points) in the entire yield curve in the respective currency. The table below, broken down according to maturity bands and currencies, shows the results of such a scenario as at 31 December 2019. Negative values under this scenario reflect a potential drop in fair value within the respective maturity band; positive values reflect a potential increase in fair value. This risk measure is also used to carry out scenario analyses on a regular basis. As there are no material option structures in the banking book, a negative change of 1% in the yield curves would result in scenario values of similar magnitude but with the opposite sign, though such outcomes are mitigated by the fact that the yield curves for the markets in which the Group carries out most of its activities are currently close to zero.

**Interest-rate-sensitive positions**

| | Within 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | **Total** *CHF m* |
|---|---|---|---|---|---|---|
| **Interest sensitivity by time bands and 100 bp parallel increase** | | | | | | |
| **CHF** | | | | | | |
| **2019** | **7.3** | **1.7** | **28.2** | **35.7** | **-11.9** | **61.0** |
| 2018 | 3.4 | -4.8 | 22.4 | 53.9 | -35.7 | 39.3 |
| **USD** | | | | | | |
| **2019** | **5.2** | **-4.9** | **-2.5** | **55.3** | **0.1** | **53.1** |
| 2018 | 11.5 | -0.6 | 4.6 | 17.2 | 9.2 | 42.0 |
| **EUR** | | | | | | |
| **2019** | **7.1** | **-7.7** | **-14.8** | **58.8** | **-13.2** | **30.1** |
| 2018 | 10.5 | -5.7 | -0.4 | 62.4 | -7.8 | 58.9 |
| **Other** | | | | | | |
| **2019** | **1.1** | **-5.0** | **0.2** | **30.6** | **-0.0** | **26.9** |
| 2018 | 2.3 | -3.8 | -1.5 | 35.9 | 0.0 | 32.9 |

In addition, the effect on interest earnings resulting from a parallel shift of 1% in the yield curve is measured. In this gap analysis, the interest-bearing assets and liabilities are offset within maturity bands. The impact of the yield curve shift on the residual exposure over the time horizon from the next repricing date to a point 12 months ahead is measured. Based on the assumptions described above, and further assuming that the Group took no mitigating action, the modelled effect on interest earnings would have been CHF -100.4 million at the end of 2019 (2018: CHF -133.0 million).

**Fair value hedges of interest rate risk**

The Group hedges part of its interest rate exposure from fixed rate CHF denominated mortgages to changes in fair value by using interest rate swaps on a portfolio basis. Such portfolio hedges are based on mortgages with similar maturities, and the hedge relationships are rebalanced on a monthly basis. The amount of fair value hedge adjustments remaining in the balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses are amortised over the remaining terms to maturity of the hedged items using the straight-line method.

In addition, different interest rate swaps are used to hedge the interest rate risks of some of the bonds issued by the Group which are denominated in USD, CHF or SGD, as well as a very limited number of mortgages. The fixed legs of these swaps are in correspondence to the respective (fixed rate) bonds and mortgages. As such, the interest rate risk of each financial instrument is substantially reduced to the interest rate risk of the floating rate leg of the respective swap.

The counterparties of the swaps transactions used for portfolio hedges as well as those used for single hedges are investment grade counterparties. However, the Group does not incur any credit risk with these derivative instruments as all credit risk is eliminated due to clearing or collateral agreements in place. Prior to committing to a hedge relationship, an assessment takes place in order to justify that the fair value of the hedged item and the hedging instrument do offset their interest rate risks and that the economic hedge relationships meet the hedge accounting criteria. Besides this qualitative assessment, regular quantitative assessments are carried out based on prospective (i.e. forward looking, using regression analysis) as well as retrospective effectiveness tests. These tests allow assessing whether the hedging instrument is expected to be or has been highly effective in offsetting changes in the fair value of the hedged item. Hedge ineffectiveness may arise from minor differences in the core data of the bond and swap fixed leg, or the interest rate sensitivities of the floating leg of the swap.

| | Hedges of bond issues (single hedges) *CHF m* | Hedges of mortgages (single hedges) *CHF m* | **31.12.2019** Hedges of mortgages (portfolio hedges) *CHF m* |
|---|---|---|---|
| **Hedged items** | | | |
| Amortised cost value | **898.5** | **20.7** | **1,166.0** |
| Accumulated amount of fair value hedge adjustment on the hedged item included in the carrying amount of the hedged item | **13.9** | **0.4** | **41.8** |
| **Carrying amount hedged items** | **912.4** | **21.1** | **1,207.8** |
| **Hedging instruments – interest rate swaps** | | | |
| Notional amount (overall average fixed interest rate: 1.88%) | **901.1** | | |
| *– whereof remaining maturity 1–5 years (average fixed interest rate: 2.53%)* | ***324.0*** | | |
| *– whereof remaining maturity > 5 years (average fixed interest rate: 1.51%)* | ***577.1*** | | |
| Notional amount (overall average fixed interest rate: -0.31%) | | **18.0** | |
| *– whereof remaining maturity > 5 years (average fixed interest rate: -0.31%)* | | ***18.0*** | |
| Notional amount (overall average fixed interest rate: 0.38%) | | | **1,160.0** |
| *– whereof remaining maturity < 1 year (average fixed interest rate: 0.72%)* | | | ***50.0*** |
| *– whereof remaining maturity 1–5 years (average fixed interest rate: 0.43%)* | | | ***1,010.0*** |
| *– whereof remaining maturity > 5 years (average fixed interest rate: -0.25%)* | | | ***100.0*** |
| Positive replacement value | **14.2** | **0.3** | **17.0**[1] |
| *– related notional amount* | ***901.1*** | ***18.0*** | ***455.0*** |
| Negative replacement value | | | **-14.7**[1] |
| *– related notional amount* | | | ***705.0*** |
| **Hedge effectiveness testing and related ineffectiveness** | | | |
| Change in fair value of hedged item used for calculation of hedge ineffectiveness | **-13.9** | **0.4** | **-4.1** |
| Change in fair value of interest rate swaps used for calculation of hedge ineffectiveness | **14.2** | **0.3** | **4.4**[1] |
| **Amount of hedge ineffectiveness recognised in the income statement** | **0.3** | **0.7** | **0.3** |
| **Termination of hedge relationship** | | | |
| Accumulated amount of fair value hedge adjustments remaining in the balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses | - | - | **45.9** |

[1] The change in fair value of the interest rate swaps used for the calculation of the hedge effectiveness for the portfolio hedges reflects the changes in the fair value of the latest hedge period only, whereas the sum of the positive and negative replacement values reflects the differences in fair values of the interest rate swaps between inception and reporting date.

| | Hedges of bond issues (single hedges) *CHF m* | Hedges of mortgages (single hedges) *CHF m* | 31.12.2018 Hedges of mortgages (portfolio hedges) *CHF m* |
|---|---|---|---|
| **Hedged items** | | | |
| Amortised cost value | -905.0 | 20.9 | 1,307.1 |
| Accumulated amount of fair value hedge adjustment on the hedged item included in the carrying amount of the hedged item | -5.0 | -0.6 | 39.3 |
| **Carrying amount hedged items** | -910.0 | 20.4 | 1,346.4 |
| | | | |
| **Hedging instruments – interest rate swaps** | | | |
| Notional amount (overall average fixed interest rate: 1.88%) | 906.2 | | |
| *– whereof remaining maturity 1–5 years (average fixed interest rate: 2.24%)* | *558.3* | | |
| *– whereof remaining maturity > 5 years (average fixed interest rate: 1.30%)* | *347.9* | | |
| Notional amount (overall average fixed interest rate: -0.31%) | | 18.0 | |
| *– whereof remaining maturity > 5 years (average fixed interest rate: -0.31%)* | | *18.0* | |
| Notional amount (overall average fixed interest rate: 0.39%) | | | 1,280.0 |
| *– whereof remaining maturity < 1 year (average fixed interest rate: 0.44%)* | | | *120.0* |
| *– whereof remaining maturity 1–5 years (average fixed interest rate: 0.47%)* | | | *985.0* |
| *– whereof remaining maturity > 5 years (average fixed interest rate: -0.13%)* | | | *175.0* |
| Positive replacement value | 5.4 | 1.3 | 3.1[1] |
| *– related notional amount* | *541.3* | *18.0* | *250.0* |
| Negative replacement value | -0.6 | | -37.3[1] |
| *– related notional amount* | *364.8* | | *1,030.0* |
| | | | |
| **Hedge effectiveness testing and related ineffectiveness** | | | |
| Change in fair value of hedged item used for calculation of hedge ineffectiveness | -5.0 | -0.6 | 3.8 |
| Change in fair value of interest rate swaps used for calculation of hedge ineffectiveness | 4.8 | 1.3 | -3.0[1] |
| **Amount of hedge ineffectiveness recognised in the income statement** | -0.3 | 0.7 | 0.7 |
| | | | |
| **Termination of hedge relationship** | | | |
| Accumulated amount of fair value hedge adjustments remaining in the balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses | - | - | 35.5 |

[1] The change in fair value of the interest rate swaps used for the calculation of the hedge effectiveness for the portfolio hedges reflects the changes in the fair value of the latest hedge period only, whereas the sum of the positive and negative replacement values reflects the differences in fair values of the interest rate swaps between inception and reporting date.

**Net investment hedges**
As of 2019, the Group started to apply net investment hedge accounting on part of the foreign currency risks related to its foreign operations. A net investment hedge is a specific type of a foreign currency cash flow hedge used to eliminate the foreign currency exposures arising from translating the Group's net investment in a foreign operation (with a different functional currency than the CHF) into the Group's functional currency CHF. Upon consolidation of the net investment in a foreign operation into the Group financial statements the foreign currency gain or loss is recognised in other comprehensive income (OCI) under the respective accounting treatment.

The Group uses rolling FX forwards as hedging instrument in line with IAS 39 applying the forward rate method, which means the full marked to market on the hedge is booked to OCI provided the hedge is effective.

The amount of net investment hedges designated to hedge the foreign currency investment should for each hedging period be less or equal the hedged item at the end date of the hedged period. This critical term matching is proven on a prospective and retrospective period for each month-end. Hedges are allocated to specific foreign currency net investments at inception of the hedge. Ineffectiveness is recognised only to the extent that the periodic change in the fair value of the derivative instrument exceeds the periodic change in the FX translation ('overhedge'). Given that only a fraction of foreign currency investments are hedged, hedge effectiveness should be obtained at all times.

The following table relates to FX forwards used for net investment hedges in foreign operations and the related amounts recognised in OCI:

| | **31.12.2019**<br>*CHF m* |
|---|---|
| Positive replacement values of FX forwards | - |
| Negative replacement values of FX forwards | **0.6** |
| Nominal value of FX forwards | **96.8** |
| | |
| OCI on foreign currency operations | **-23.0** |
| OCI on net investment hedges | **-0.6** |

## Liquidity analysis

The following table shows an analysis of the Group's financial liabilities by remaining contractual maturities as of the balance sheet date. Contrary to the balance sheet presentation, these amounts include the total of contractual undiscounted interest payments related to these financial liabilities. Liabilities without a stated maturity, i.e. that can be called for repayment at any time, are classified as on demand. All derivative financial instruments held for trading are classified as on demand, as there are no single derivatives or classes of derivatives for which the contractual maturities are relevant for the timing of the total cash flows of the Group.

**Remaining contractual maturities of financial liabilities**

| | On demand *CHF m* | Due within 3 months *CHF m* | Due within 3 to 12 months *CHF m* | Due within 12 months to 5 years *CHF m* | Due after 5 years *CHF m* | **Total** *CHF m* |
|---|---|---|---|---|---|---|
| **Financial liabilities recognised on balance sheet** | | | | | | |
| Due to banks | 3,125.3 | 34.2 | 0.2 | 0.3 | - | **3,160.0** |
| Due to customers | 59,161.2 | 13,058.3 | 751.7 | - | - | **72,971.2** |
| Financial liabilities measured at FVTPL | 613.8 | - | - | - | - | **613.8** |
| Derivative financial instruments | 2,087.1 | 0.2[1] | 0.5[1] | 29.6[1] | 3.2[1] | **2,120.8** |
| Financial liabilities designated at fair value | 2,528.4 | 5,675.2 | 2,736.8 | 1,990.8 | 500.2 | **13,431.4** |
| Debt issued | - | 152.6 | 739.1 | 839.1 | 355.9 | **2,086.8** |
| Accrued expenses | - | 221.4 | - | - | - | **221.4** |
| Other liabilities | | 28.7 | | | | **28.7** |
| Deferred payments related to acquisitions | - | 5.7 | 1.7 | 27.5 | - | **34.8** |
| **Total 31.12.2019** | 67,515.8 | 19,176.5 | 4,230.0 | 2,887.3 | 859.3 | **94,668.9** |
| Due to banks | 6,688.6 | 202.3 | 25.0 | 0.5 | - | 6,916.4 |
| Due to customers | 57,505.9 | 12,763.1 | 1,306.3 | - | - | 71,575.3 |
| Financial liabilities measured at FVTPL | 132.5 | - | - | - | - | 132.5 |
| Derivative financial instruments | 1,678.4 | - | 0.7[1] | 36.7[1] | 3.5[1] | 1,719.3 |
| Financial liabilities designated at fair value | 1,888.0 | 7,701.7 | 2,584.0 | 1,275.2 | 438.7 | 13,887.6 |
| Debt issued | 101.0 | 7.0 | 55.4 | 1,042.4 | 508.9 | 1,714.6 |
| Accrued expenses | - | 240.6 | - | - | - | 240.6 |
| Other liabilities | | 28.3 | | | | 28.3 |
| Deferred payments related to acquistions | - | 13.8 | 16.3 | 23.9 | - | 54.0 |
| Total 31.12.2018 | 67,994.4 | 20,956.7 | 3,987.8 | 2,378.7 | 951.1 | 96,268.7 |
| **Financial liabilities not recognised on balance sheet** | | | | | | |
| Irrevocable commitments[2] | 464.3 | 10.3 | 11.8 | 5.9 | 0.5 | **492.8** |
| **Total 31.12.2019** | 464.3 | 10.3 | 11.8 | 5.9 | 0.5 | **492.8** |
| Total 31.12.2018 | 666.6 | 5.7 | 22.3 | 6.9 | 3.4 | 705.1 |

[1] These derivatives are not held for trading but for hedging purposes.

[2] These amounts reflect the maximum payments the Group is committed to making.

# NOTE 30A COMPANIES CONSOLIDATED

**Listed company which is consolidated**

| | Place of listing | Head Office | Currency | Share capital m | Capitalisation as at 31.12.2019 m |
|---|---|---|---|---|---|
| Julius Baer Group Ltd. | SIX Swiss Exchange | Zurich | CHF | 4.5 | 11,175 |
| Swiss securities number: 10 248 496, Ticker symbol: BAER | | | | | |

**Unlisted operational companies which are consolidated as at 31 December 2019**

| | Head Office | Currency | Share capital m | Equity interest % |
|---|---|---|---|---|
| Bank Julius Baer & Co. Ltd. | Zurich | CHF | 575.000 | 100 |
| *Branches in Basle, Berne, Crans-Montana, Geneva, Guernsey,* | | | | |
| *Hong Kong, Kreuzlingen, Lausanne, Lucerne, Lugano,* | | | | |
| *Singapore, Sion, St. Gallen, St. Moritz, Verbier, Zug, Zurich* | | | | |
| *Representative Offices in Abu Dhabi, Istanbul, Johannesburg,* | | | | |
| *Mexico City, Moscow, Panama City, Santiago de Chile, Shanghai, Tel Aviv* | | | | |
| *including* | | | | |
| *Bank Julius Baer Nominees (Singapore) Pte. Ltd.* | *Singapore* | *SGD* | *0.000* | *100* |
| *Arpese SA* | *Lugano* | *CHF* | *0.400* | *100* |
| | | | | |
| Bank Julius Bär Deutschland AG | Frankfurt | EUR | 15.000 | 100 |
| *Branches in Berlin, Duesseldorf, Hamburg, Hanover, Kiel,* | | | | |
| *Mannheim, Munich, Stuttgart, Würzburg* | | | | |
| *including* | | | | |
| *Julius Bär Capital GmbH* | *Frankfurt* | *EUR* | *0.026* | *100* |
| | | | | |
| Bank Julius Baer Europe S.A. | Luxembourg | EUR | 93.165 | 100 |
| *Branch in Dublin* | | | | |
| | | | | |
| Bank Julius Baer (Monaco) S.A.M. | Monaco | EUR | 105.000 | 100 |
| | | | | |
| Julius Baer Bank (Bahamas) Limited | Nassau | CHF | 20.000 | 100 |

| | Head Office | Currency | Share capital<br>*m* | Equity interest<br>*%* |
|---|---|---|---|---|
| Fransad Gestion SA | Geneva | CHF | 1.000 | 100 |
| Julius Baer Investment Ltd. | Zurich | CHF | 0.100 | 100 |
| *including* | | | | |
| *Julius Baer Trust Company (Singapore) Limited* | *Singapore* | *SGD* | *2.812* | *100* |
| JB Funding (Hong Kong) Limited | Hong Kong | USD | 0.000 | 100 |
| Julius Baer Family Office Brasil Ltda. | São Paulo | BRL | 762.016 | 100 |
| *including* | | | | |
| *Reliance Capital Participações Ltda. (Reliance Group)* | *São Paulo* | *BRL* | *1.462* | *100* |
| *GPS Investimentos Financeiros e Participações S.A.* | *São Paulo* | *BRL* | *7.280* | *100* |
| *including* | | | | |
| *CFO Administração de Recursos Ltda.* | *São Paulo* | *BRL* | *0.064* | *100* |
| *GPS Planejamento Financeiro Ltda.* | *São Paulo* | *BRL* | *0.207* | *100* |
| *Branches in Belo Horizonte, Rio de Janeiro* | | | | |
| JB Participations Ltd. | Zurich | CHF | 15.000 | 100 |
| Julius Baer Advisory S.A.E. | Cairo | EGP | 12.847 | 100 |
| Julius Baer Advisory (Uruguay) S.A. | Montevideo | UYU | 0.087 | 100 |
| Julius Baer Agencia de Valores, S.A.U. | Madrid | EUR | 0.902 | 100 |
| *Branch in Barcelona* | | | | |
| Julius Baer (Chile) SpA | Santiago de Chile | CLP | 498.928 | 100 |
| Julius Baer CIS Ltd. | Moscow | RUB | 18.000 | 100 |
| Julius Baer Family Office & Trust Ltd. | Zurich | CHF | 0.100 | 100 |
| Julius Baer Fiduciaria S.p.A. | Milan | EUR | 0.100 | 100 |
| Julius Baer Financial Services (Channel Islands) Limited | Jersey | GBP | 0.025 | 100 |
| Julius Baer Financial Services (Israel) Ltd. | Tel Aviv | ILS | 11.000 | 100 |
| Julius Baer Gestión, SGIIC, S.A.U. | Madrid | EUR | 2.100 | 100 |
| Julius Baer International Advisory (Uruguay) S.A. | Montevideo | USD | 1.600 | 100 |
| Julius Baer International Limited | London | GBP | 135.200 | 100 |
| *Branches in Belfast, Edinburgh, Leeds, Manchester* | | | | |

| | Head Office | Currency | Share capital<br>*m* | Equity interest<br>*%* |
|---|---|---|---|---|
| JULIUS BAER INTERNATIONAL SHARED SERVICES CENTER (URUGUAY) S.A. | Montevideo | UYU | 1.340 | 100 |
| Julius Baer Investment Advisory GesmbH | Vienna | EUR | 0.050 | 100 |
| Julius Baer Investments (Panama) S.A. | Panama City | USD | 22.630 | 100 |
| Julius Bär Lizenzverwertungsgesellschaft AG | Zug | CHF | 0.100 | 100 |
| Julius Baer Trust Company (Channel Islands) Limited | Guernsey | CHF | 0.065 | 100 |
| Julius Baer (Singapore) Pte. Ltd. | Singapore | USD | 10.000 | 100 |
| Julius Baer (South Africa) Proprietary Limited | Johannesburg | ZAR | 22.357 | 100 |
| Julius Baer Wealth Advisors (India) Private Limited | Mumbai | INR | 10,081.410 | 100 |
| *Branches in Bangalore, Chennai, Hyderabad, Kolkata, New Delhi* | | | | |
| *including* | | | | |
| *Julius Baer Capital (India) Private Limited* | *Mumbai* | *INR* | *2,334.350* | *100* |
| *Branch in New Delhi* | | | | |
| Julius Bär Nomura Wealth Management Ltd. | Zurich | CHF | 5.700 | 60 |
| *Branch in Tokyo* | | | | |
| Julius Baer Wealth Management (Monaco) S.A.M. | Monaco | EUR | 0.465 | 100 |
| Julius Baer (Bahrain) B.S.C. (c) | Manama | BHD | 1.000 | 100 |
| Julius Baer (Lebanon) S.A.L. | Beirut | LBP | 2,000.000 | 100 |
| Julius Baer (Middle East) Ltd. | Dubai | USD | 22.000 | 100 |
| Kairos Investment Management S.p.A. | Milan | EUR | 2.355 | 100 |
| *including* | | | | |
| *KAIROS ASSET MANAGEMENT SA* | *Lugano* | *CHF* | *0.600* | *100* |
| *Kairos Investment Management B.V.* | *Amsterdam* | *EUR* | *1.000* | *100* |
| *– including Kairos Investment Management Limited* | *London* | *GBP* | *5.884* | *100* |
| *Kairos Partners SGR S.p.A.* | *Milan* | *EUR* | *5.084* | *100* |
| *– Representative Offices in Rome, Turin* | | | | |

| | Head Office | Currency | Share capital *m* | Equity interest % |
|---|---|---|---|---|
| NSC Asesores, S.C., Asesor en Inversiones Independiente | Mexico City | MXN | 1.903 | 70 |
| NSC Objetivos, S.A.P.I. de C.V. | Mexico City | MXN | 0.001 | 70 |
| PINVESTAR AG | Zug | CHF | 0.100 | 100 |
| Wergen & Partner Vermögensverwaltungs Ltd | Zurich | CHF | 0.100 | 100 |
| LOTECO Foundation | Zurich | CHF | 0.100 | 100 |

**Major changes in the companies consolidated (2019):**

- NSC Asesores, Mexico, new
- Aktiengesellschaft formerly Waser Söhne & Cie, Werdmühle Altstetten, merged into Bank Julius Baer & Co. Ltd, Zurich
- Julius Baer (Netherlands) B.V., Amsterdam, sold
- JB Participações Brasil Ltda., São Paulo, renamed into Julius Baer Family Office Brasil Ltda., São Paulo

# NOTE 30B INVESTMENTS IN ASSOCIATES

| | Head Office | Currency | Share capital *m* | Equity interest *%* |
|---|---|---|---|---|
| **Associates** | | | | |
| SCB-Julius Baer Securities Co., Ltd. | Bangkok | THB | 1.800 | 40 |

| | **31.12.2019** *CHF m* | 31.12.2018 *CHF m* |
|---|---|---|
| Balance at the beginning of the year | **48.1** | 28.2 |
| Additions | **2.4** | 19.7 |
| Disposals | **-29.1** | - |
| Income | **1.3** | 1.9 |
| Dividend paid | **-0.7** | -1.9 |
| Translation differences | **1.3** | 0.2 |
| **Balance at the end of the year** | **23.3** | 48.1 |

**SCB-Julius Baer Securities Co., Ltd. (2018)**
In March 2018, the Group signed a strategic agreement with Siam Commercial Bank (SCB) that establishes a jointly formed entity focusing on bringing the most relevant and impactful advice and solutions to the growing Thai wealth management market and its increasingly sophisticated clients. The entity seamlessly combines 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 complements SCB's existing wealth management capabilities whilst opening access for the Group to the fast-growing Thai wealth management market.

The entity operates via domestic and international companies in Thailand and Singapore, respectively, and provides a unique and holistic global wealth management proposition tailored to the needs of its Thai client base. The Group holds 40% in the entity and therefore treats it as an associate; its initial equity share of CHF 19.7 million has been contributed in 2018 in cash, an additional CHF 2.4 million in 2019. The Group holds an option to increase its share to 49% step-by-step over time, with the option being exercisable at the equity value of the entity at the times of exercise.

The entity has taken up its full operations after the necessary approvals and licences to operate in Thailand have been received end of April 2019.

## NOTE 30C UNCONSOLIDATED STRUCTURED ENTITIES

The Group is involved in the set-up and operation of a limited number of structured entities such as segregated portfolio companies, private equity feeder funds, umbrella funds and similar vehicles in the legal form of limited partnerships (L.P.), which are invested in segregated portfolios or feeder funds. All the L.P. serve as investment vehicles for the Group's clients. The Group generally acts as investment manager and custodian bank and also holds the management shares of the L.P. These shares are equipped with voting rights, but do not provide any participating rights in the underlying investments. The Group receives a market-based fixed fee for its services and has no interests in the underlying segregated portfolios or feeder funds. Therefore, due to the missing exposure, or rights, to variable returns from its involvement with the segregated portfolios or feeder funds, the Group does not have control over the underlying investments, but only consolidates the limited partnerships.

# NOTE 31 ACQUISITIONS AND DISPOSALS

The following transactions were executed:

**NSC Asesores (2019/2015)**
On 6 November 2015, the Group acquired 40% of the Mexico City-based NSC Asesores, S.C., Asesor en Inversiones Independiente, which is specialised in discretionary portfolio management and advisory services for high net worth individuals. The Group paid half of the consideration in the amount of CHF 14.5 million in cash for this interest, which was fully funded by existing excess capital of the Group. The Group agreed on two additional payments of CHF 7.1 million each on 6 November 2016 and 2017, respectively, for the outstanding purchase price, which were both performed as agreed. The Group also received two options to acquire additional interests of 30% per option in NSC Asesores at a predetermined relative price. The first option was executed in March 2019, the second option will be exercisable in 2021.

With the exercise of the first option, the Group has increased its overall participation to 70% and therefore consolidates NSC Asesores as of 1 March 2019. 80% of the first half of the purchase price of CHF 11.1 million has been paid in cash and the remaining 20% in listed shares of the Group at their fair value as of the date of the transaction. The second half of the purchase price will be paid in cash in two equal tranches at the first and the second anniversary of the transaction date. As part of the transaction, the Group realised a net gain in the amount of CHF 0.6 million (net of negative foreign exchange impact of CHF -0.6 million) on the revaluation to fair value (derived from the purchase price of the additional 30% interest) of the 40% interest previously held as an investment in associates, which was recognised in other ordinary results in 2019.

Since its acquisition on 1 March 2019, NSC Asesores has contributed CHF 11.7 million operating income and CHF 5.0 million net profit to the Group's results.

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

| | Fair value<br>*CHF m* |
|---|---|
| **Purchase price** | |
| Cash and Julius Baer Group Ltd. shares | 11.1 |
| Contribution of the previously held 30% interest (at fair value) | 29.6 |
| Deferred purchase price (liabilities) | 11.1 |
| **Total** | 51.9 |
| | |
| Due from banks | 1.5 |
| All other assets | 2.4 |
| **Assets acquired** | 3.9 |
| | |
| Deferred tax liabilities | 2.1 |
| All other liabilities | 3.5 |
| **Liabilities assumed** | 5.6 |
| | |
| **Goodwill and other intangible assets** | |
| Goodwill | 34.2 |
| Customer relationships | 26.8 |
| Non-controlling interests | 7.5 |
| **Total** | 53.5 |

**Reliance Capital Participações Ltda. (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 to be achieved and the tranches also 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.

The assets and liabilities of Reliance have been recorded as follows (unchanged since 2018):

| | Fair value<br>*CHF m* |
|---|---|
| **Purchase price** | |
| Cash | 33.8 |
| 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.

**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. Kairos continues to operate under its brand.

The difference between the amount of the former non-controlling interests (NCI) recognised on the balance sheet and the fair value of the consideration paid is recognised directly in equity (retained earnings). In addition, no changes in the carrying amount of assets, including goodwill, or liabilities are recognised.

**Julius Bär Wealth Management AG/Julius Bär Nomura Wealth Management Ltd. (2018)**
On 27 September 2018, the Group announced to dispose of 40% non-controlling interests in its wholly owned Japanese-market-focused subsidiary Julius Bär Wealth Management AG (JBWM) to Nomura. This new equity investment by Nomura represents a significant step forward for both firms' strategic ambition for the Japanese market and will provide the Group access to Nomura's high net worth franchise. Upon completion of the transaction, JBWM's name has been changed to Julius Bär Nomura Wealth Management Ltd.

The Group recognises non-controlling interests (NCI) in its financial statements in the amount of the proportionate equity of JBWM sold. The difference between the portion of JBWM's equity sold (CHF 2.0 million at the time of disposal) and the selling price (CHF 7.0 million) is recognised in the Group's equity (retained earnings), as it is a transaction with equity holders in their capacity as equity holders (meaning that no profit can be recognised in the income statement from such transactions). The carrying amount of JBWM's assets, including goodwill, or liabilities are not adjusted in the Group's consolidated financial statements.

## NOTE 33 ASSETS UNDER MANAGEMENT

Assets under management include all bankable assets managed by or deposited with the Group for investment purposes. Assets included are portfolios of wealth management clients for which the Group provides discretionary or advisory asset management services. Assets deposited with the Group held for transactional or safekeeping/custody purposes, and for which the Group does not offer advice on how the assets should be invested, are excluded from assets under management. In general, transactional or safekeeping/custody assets belong to banks, brokers, securities traders, custodians, or certain institutional investors. Non-bankable assets (e.g. art collections, real estate), asset flows driven more by liquidity requirements than investment purposes or assets primarily used for cash management, funding or trading purposes are also not considered assets under management.

Assets with discretionary mandate are defined as assets for which the investment decisions are made by the Group, and cover assets deposited with Group companies as well as assets deposited at third-party institutions. Other assets under management are defined as assets for which the investment decision is made by the client himself. Both assets with discretionary mandate and other assets under management take into account client deposits as well as market values of securities, precious metals, and fiduciary investments placed at third-party institutions.

When assets under management are subject to more than one level of asset management services, double counting arises within the total assets under management. Each such separate discretionary or advisory service provides additional benefits to the respective client and generates additional revenue to the Group.

Net new money consists of new client acquisitions, client departures and in- or outflows attributable to existing clients. It is calculated through the direct method, which is based on individual client transactions. New or repaid loans and related interest expenses result in net new money flows. Interest and dividend income from assets under management, market or currency movements as well as fees and commissions are not included in the net new money result. Effects resulting from any acquisition or divestment of a Group subsidiary or business are stated separately. Generally reclassifications between assets under management and assets held for transactional or safekeeping/custody purposes result in corresponding net new money in- or outflows.

Assets under management which are managed by or deposited with associates of the Group are not considered assets managed by or deposited with the Group and are therefore not included in the respective numbers.

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

**Assets under management**

| | **2019** *CHF m* | 2018 *CHF m* | Change *%* |
|---|---|---|---|
| Assets with discretionary mandate | **66,128** | 59,579 | 11.0 |
| Other assets under management | **356,260** | 316,648 | 12.5 |
| Assets in collective investment schemes managed by the Group[1] | **3,672** | 5,847 | -37.2 |
| **Total assets under management (including double counting)** | **426,060** | 382,074 | 11.5 |
| *of which double counting* | ***10,963*** | *9,283* | *18.1* |
| Change through net new money | **10,598** | 17,413 | |
| Change through market and currency impacts | **38,784** | -26,762 | |
| Change through acquisition | **3,015**[2] | 4,502[3] | |
| Change through divestment | **-4,713**[4] | -1,380[4] | |
| Change through other effects | **-3,698**[5] | -121[5] | |
| Client assets | **499,047** | 443,860 | 12.4 |

1 Collective investment schemes are related to GPS Investimentos Financeiros e Participações S.A., São Paulo, and to Kairos Investment Management S.p.A., Milan.
2 In March 2019, the Group acquired NSC Asesores, Mexico.
3 In June 2018, the Group acquired Reliance Capital Participações (Reliance Group), São Paulo.
4 Assets under management were affected by the Group's decision to discontinue its offering to clients from a number of selected countries and completion of sale of Julius Baer (Netherlands) B.V.
5 Includes assets which have been reclassified following the completed roll-out of the new client advisory models in Switzerland and continental Europe.

Client assets are defined as all bankable assets managed by or deposited with the Group companies for investment purposes and only those deposited assets held for transactional, safekeeping/custody or administrative purposes for which additional services, for example analysis and reporting or securities lending and borrowing, are provided. Non-bankable assets (e.g. art collections, real estate), asset flows driven more by liquidity requirements than investment purposes, assets primarily used for cash management, funding or trading purposes or deposited assets held purely for transactional or safekeeping/custody purposes are excluded from client assets.

## Breakdown of assets under management

| | 2019<br>% | 2018<br>% |
|---|---|---|
| **By types of investment** | | |
| Equities | **28** | 26 |
| Bonds (including convertible bonds) | **19** | 20 |
| Investment funds | **26** | 25 |
| Money market instruments | **4** | 4 |
| Client deposits | **17** | 19 |
| Structured products | **5** | 5 |
| Other | **1** | 1 |
| **Total** | **100** | 100 |

| | | |
|---|---|---|
| **By currencies** | | |
| CHF | **10** | 10 |
| EUR | **20** | 22 |
| USD | **47** | 46 |
| GBP | **4** | 4 |
| SGD | **2** | 2 |
| HKD | **3** | 3 |
| RUB | **1** | 1 |
| CAD | **1** | 1 |
| Other | **12** | 11 |
| **Total** | **100** | 100 |

## NOTE 34 REQUIREMENTS OF SWISS BANKING LAW

The Group is subject to supervision by the Swiss Financial Market Supervisory Authority (FINMA), which requires Switzerland-domiciled banks using International Financial Reporting Standards (IFRS) as their primary accounting standard to provide a narrative explanation of the major differences between IFRS and Swiss GAAP. Swiss GAAP is based on the regulations of the Swiss Code of Obligation, on Swiss Banking Law and the Ordinance thereto, and on the guidelines of the FINMA Circular 2015/1 'Accounting Banks'.

The following main differences exist between IFRS and Swiss GAAP (true and fair view) which are relevant to the Group:

Under IFRS, expected credit losses are recognised at initial recognition of any financial instrument. Subsequently, the amount of the expected credit losses is updated at each reporting date to reflect changes in the credit risk of the respective instrument. Under Swiss GAAP, collective value adjustments are established to account for latent default risks collectively or individually; the allowance is determined on the basis of faithfully estimated default rates or other empirical data.

Under IFRS, all income and expenses are attributed to ordinary business operations. Under Swiss GAAP, income and expenses are classified as extraordinary, if they are from non-operating transactions and are non-recurring.

Under IFRS, goodwill is not amortised but tested for impairment annually, and a write-off is made if the recoverable amount is less than the carrying amount. Under Swiss GAAP, goodwill is amortised over its useful life, generally not exceeding five years (in justified cases up to twenty years), and tested for impairment.

Swiss GAAP allows the application of IAS 19 for the accounting for defined benefit plans. However, the remeasurement of the net defined benefit liability is recognised in the income statement and comprises movements in actuarial gains and losses and return on plan assets (excluding net interest cost). Under IFRS, these components are recognised directly in equity.

## NOTE 35 EVENTS AFTER THE BALANCE SHEET DATE

There are no events to report that had an influence on the balance sheet or the income statement for the 2019 financial year.